HONEYCOMB INVESTMENT TRUST PLC

Annual Financial Report for the year ended 31 December 2018

The Directors are pleased to present the Annual Financial Report of Honeycomb Investment Trust plc (the "Company") for the year ended 31 December 2018, a copy of the Company's Annual Report will shortly be available to view and download from the Company's website, http://www.honeycombplc.com. Neither the contents of the Company's website nor the contents of any website accessible from hyperlinks on the Company's website (or any other website) is incorporated into or forms part of this announcement.

The information set out below does not constitute the Company's statutory accounts for the year ended 31 December 2018 but is derived from those accounts. Statutory accounts for the year ended 31 December 2018 will be delivered to the Registrar of Companies in due course. The Auditors have reported on those accounts; their report was (i) unqualified, (ii) did not include a reference to any matters to which the Auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under Section 498 (2) or (3) of the Companies Act 2006. The rest of the Auditors' report can be found in the Company's Annual Report and Accounts at page 49.

Strategic Report

Investment Objective

The investment objective of Honeycomb Investment Trust plc (the "Company") is to provide shareholders with an attractive level of dividend income and capital growth through investing in primarily asset secured loans ("Credit Assets") and selected equity investments that are aligned with the Company's strategy and that present opportunities to enhance the Company's returns from its investments ("Equity Assets").

Financial and Operational Highlights

	31 December 2018	31 December 2017
NET ASSET VALUE		
NET ASSET VALUE (CUM INCOME) (£'000) (1)	400,710	304,759
NET ASSET VALUE (EX INCOME) (£'000) (2) (3)	394,405	300,252
MARKET CAPITALISATION (£'000) (4)	445,784	346,395
PER SHARE METRICS		
SHARE PRICE (AT CLOSE) (5)	1,130.0p	1,157.5p
NAV PER SHARE (CUM INCOME) (1)	1015.7p	1,018.4p
NAV PER SHARE (EX INCOME) (2)	999.8p	1,003.3p
SHARES IN ISSUE	39,449,919	29,926,110
PERFORMANCE INDICATORS AND KEY RATIOS		
PREMIUM / (DISCOUNT) (3) (6)	11.3%	13.7%
ANNUAL NAV PER SHARE RETURN (3) (7)	8.4%	9.1%
ITD TOTAL NAV PER SHARE RETURN (3) (8) (9)	25.1%	17.2%
DEBT TO EQUITY (10)	47.7%	18.9%
REVENUE RETURN (11)	7.8%	7.7%
DIVIDEND RETURN (12)	8.0%	8.4%
ONGOING CHARGES (13)	1.6%	1.4%

(1) NET ASSET VALUE (CUM INCOME): will include all income not yet moved to reserves (both revenue and capital income), less the value of (i) any dividends paid in respect of that income and (ii) any dividends in respect of that income which have been declared and marked ex dividend but not yet paid. NAV per share is calculated by dividing the calculated figure by the total number of shares.

(2) NET ASSET VALUE (EX INCOME): will be the NAV (Cum Income) excluding net income (both revenue and capital income) that is yet to be transferred to reserves as described below. For this purpose net income will comprise all income not yet moved to reserves (both revenue and capital income), less the value of (i) any dividends paid in respect of that income and (ii) any dividends in respect of that income which have been declared and marked ex dividend but not yet paid. Any income in respect of a financial year, which is intended to remain undistributed will be moved to reserves on the first business day of the immediately following year, meaning that each figure for NAV (Ex-Income) reported during a financial year will equate to the NAV (Cum Income) less undistributed income which has not been moved to reserves. NAV per share is calculated by dividing the calculated figure by the total number of shares.

(3) ALTERNATIVE PERFORMANCE MEASURES: Alternative Performance Measures ("APMs") are used to improve the comparability of information between reporting periods, either by adjusting for uncontrollable or one-off factors which impact upon IFRS measures or, by aggregating measures, to aid the user understand the activity taking place. The Strategic Report includes both statutory and adjusted measures, the latter of which, reflects the underlying performance of the business and provides a more meaningful comparison of how the business is managed. APMs are not considered to be a substitute for IFRS measures but provide additional insight on the performance of the business. Reconciliations to amounts appearing in the financial statements can be found in section 5.

(4) MARKET CAPITALISATION: the closing mid-market share price multiplied by the number of shares outstanding at month end.

(5) SHARE PRICE (AT CLOSE): closing mid-market share price at month end (excluding dividends reinvested).

(6) PREMIUM / (DISCOUNT): the amount by which the price per share of an investment trust is either higher (at a premium) or lower (at a discount) than the net asset value per share (cum income), expressed as a percentage of the net asset value per share.

(7) ANNUAL NAV PER SHARE RETURN: is calculated as Net Asset Value (Cum Income) at the end of the year, plus dividends declared during the year, divided by NAV (Cum Income) calculated on a per share basis at the start of the year.

(8) ITD: inception to date – excludes issue costs.

(9) TOTAL NAV PER SHARE RETURN: is calculated as Net Asset Value (Cum Income) at the end of the year, plus dividends declared during the year, divided by NAV (Cum Income) calculated on a per share basis at the start of the year. There was a 1.06 per cent uplift on the inception to date total NAV per share return due to the effect of shares being issued at a premium during May-17 capital raise and 0.73 per cent in relation to the April-18 capital raise.

(10) DEBT TO EQUITY: is calculated as the Company's interest bearing debt divided by the aggregate of called up share capital, share premium and special distributable reserve, expressed as a percentage.

(11) REVENUE RETURN: based on revenue account net income divided by average Net Asset Value during the year.

(12) DIVIDEND RETURN: is calculated as the total declared dividends for the year divided by average Net Asset Value during the year.

(13) ONGOING CHARGES RATIO: The Annualised Ongoing Charge is calculated using the Association of Investment Companies recommended methodology. It is calculated as a percentage of annualised ongoing charge over average reported Net Asset Value. Ongoing charges are those expenses of a type which are likely to recur in the foreseeable future, whether charged to capital or revenue, and which relate to the operation of the investment company as a collective fund, excluding the costs of acquisition/disposal of investments, financing charges and gains/losses arising on investments. Ongoing charges are based on costs incurred in the year as being the best estimate of future costs. The AIC excludes performance fees from the Ongoing Charges calculation.

Investment Characteristics

THE COMPANY IS AN INVESTMENT TRUST FOCUSING ON LENDING

The Company believes that asset secured lending has the potential to provide attractive returns for investors on a risk-adjusted basis. The Company accesses commercial and consumer borrowers who are underserved by traditional banking channels primarily by financing loans generated by its own network of non-bank lenders. The UK specialty lending market opportunity is sizeable, at £330 billion(1) of outstanding principal balance.

MANAGED BY POLLEN STREET CAPITAL, AN EXPERIENCED INVESTOR IN LENDING BUSINESSES

Pollen Street Capital Limited (the "Investment Manager") serves as the Company's investment manager. The Pollen Street team has focussed on the financial services sector since 2008.

LONG-TERM OPPORTUNITY TO DELIVER ATTRACTIVE RETURNS FROM SPECIALTY FINANCE STRATEGY

Mainstream lenders have elected to focus on large markets where they can achieve scale with generic processes. This provides opportunity in sectors which are not well suited to such generic processes.

DIRECT LENDING THROUGH TRUSTED ORIGINATION PARTNERS

The Company's strategy provides access to sectors and lending with the most attractive return characteristics. The Company partners with non-bank lenders who have an ability to integrate technologies and respond quickly to new customer demands. The Company invests in high growth partners to enhance returns for shareholders. These investments are aligned with the Company's strategy to generate attractive lending returns.

ASSET-SECURED LENDING PROVIDES A MORE RESILIENT RETURN PROFILE

The Company's investment approach focuses on delivering attractive risk-adjusted returns, as well as robust downside protection. The average size of the underlying loans is small, which provides higher predictability in cashflows and lower event-driven risk. The majority of loans are amortising and floating rate so there is minimal interest rate and refinancing risk.

8.0% PER ORDINARY SHARE PER ANNUM TARGET DIVIDEND, PAYABLE QUARTERLY

Once the Company has incurred borrowings in line with its borrowing policy, the Company targets the payment of dividends which equate to a yield of 8.0 per cent per ordinary share per annum on the issue price for the Company's IPO placing, payable in quarterly instalments (the "Target Dividend") based upon the average number of shares in issue during a given period. Investors should note that the Target Dividend, including its declaration and payment dates, is a target only and not a profit forecast.

(1) Bank of England, E&Y, Financing & Leasing Association and PSC Internal estimates

How the Business Works

The Investment Manager, on behalf of the Company, actively identifies sub-segments of the large consumer, property and SME lending market that it believes delivers attractive net returns. It then targets channels, origination partners and loan portfolio vendors through which it can access Credit Assets while diversifying the Company's investment opportunities.

Each lending opportunity is underwritten by the Investment Manager or Honeycomb Finance Limited (the "Origination Partner") to assess whether the risk of the borrower is acceptable. There are various processes undertaken to underwrite each opportunity to ensure a consistent approach to risk-based pricing to ensure the weighted risk adjusted return provides an attractive level of dividend income with an acceptable risk profile for shareholders of the Company.

The Company, directly or via the Origination Partner, has arrangements with a number of referral partners, including the referenced Platforms below, through which the Company acquires Credit Assets, either individually; as portfolios; or via structured facilities. These facilities are secured on a granular pool of performing loans and structured such that the Origination Platform and or borrower bears the first loss risk, and the Company finances the senior risk.

The Directors believe that the Company has attractive access to diverse investment opportunities across its market segments of consumer, property and SME lending, each with different borrower profiles and different risk return characteristics. Through relationships with multiple referral partners and other counterparties, the Company will reduce its dependence on any one single source of opportunities to acquire Credit Assets and expects to gain strong access to high quality assets.

The Company believes it is important to provide best-in-class loan servicing to ensure that Credit Assets within the portfolio are managed efficiently throughout their lifecycle. As such, the Company optimises its collection strategy across the different asset classes by appointing servicers best placed to service the respective investment assets, as well as utilising the Investment Manager's industry experts for high value-add activities.

The Company may invest in Equity Assets that are aligned with its strategy and that present opportunities to enhance the Company's returns. The Company expects, that most of its investments in Equity Assets will take the form of minority interests in referral partners, in alignment with the Company's investment policy.

Chairman's Statement

I am delighted to present the Annual Report for Honeycomb Investment Trust plc (the "Company") which covers the year ended 31 December 2018. This is the first annual report since the Company adopted IFRS 9 "Financial Instruments" on 1 January 2018.

The Board is pleased with another successful year and the continued progress made by the Company as it delivered growth. Investment asset growth has been achieved while continuing to maintain a stable target return. At the start of the year we had raised a total of £305 million of gross proceeds. In April 2018 we successfully raised a further £100 million excluding issue costs. These gross proceeds were deployed by the end of June 2018, with further investment asset growth driven by the utilisation and extension of the Company's debt facility.

PERFORMANCE

The Company has performed well in the year driven by the consistent application of our business model which has provided a strong base of investments made in the past along with the ability to carefully select assets with attractive risk-adjusted returns. A detailed assessment of the progress of the Company follows in the Investment Manager's review. At 31 December 2018, the Company's net assets were £400.7 million (cumulative of income), with market capitalisation at £445.8 million. NAV per share (cumulative of income) was 1,015.7 pence, with the share price (at close) 1,130.0 pence, representing a premium of 11.3 per cent. The shares traded at a premium to NAV for the entire year. The Company has achieved a NAV per share return of 25.1 per cent since inception.

DIVIDEND

The dividend has remained at 20.00 pence per share for each quarter in the year to provide the targeted 8.0 per cent annualised dividend.

GEARING

The Company has £189.0 million drawn debt at 31 December with the existing facility extended to a committed facility of £200 million and the term extended in the first half of 2018.

OUTLOOK

The Company has continued to deploy capital swiftly and effectively without compromising returns. We believe that the retrenchment of mainstream lenders from specialist markets continues to present a structural, not cyclical opportunity, to engage with customers in markets which are underserved by traditional lenders and platforms.

We further believe that through our differentiated approach and by targeting verticals that require specialist understanding, more detailed underwriting, or which pre-select higher quality borrowers, attractive risk-adjusted returns can be delivered with low volatility throughout the cycle.

We have a clear strategy to protect, improve and extend this successful model, and continue to closely monitor the political and economic uncertainty created by Brexit. While UK economic performance remained resilient in the last year its economic growth remained behind its long-term average in 2018, and this current period of uncertainty is likely to continue, reflecting both ongoing Brexit negotiations and wider global events. There remains competition, but our approach remains unchanged and we are well prepared for the uncertainties that Brexit may bring as we focus on maintaining our underwriting standards and supporting our partners. We should also be alive to the opportunities that will undoubtably be created by the current period of economic and political instability.

In addition to the regulatory uncertainties associated with Brexit, there has been growing regulatory focus on consumer borrowing. The Company continues to take a prudent approach to managing its business and its regulatory responsibilities and the continued focus on good customer outcomes, income verification, affordability and forbearance, are all subjects which are at the heart of our business. Developments in these areas have the potential to require changes to the way the industry transacts business, but we welcome oversight which encourages good customer outcomes.

We see the new Corporate Governance Code as an opportunity to further enhance our existing stakeholder engagement, ensuring that the business as a whole can continue to develop constructive and considerate relationships with all those with whom we work. We will include details of this in the Annual Report and Financial Statements 2019.

On 1 January 2018 the Company implemented and transitioned to IFRS 9 “Financial Instruments" with a £2.3 million impact on reserves, equating to 0.57 per cent of year-end NAV. The Company’s financial reporting under this new accounting standard is described in more detail in Note 1 and 11 to the financial statements.

We have had another excellent year and the Board remains confident of the long-term prospects for the Company. The Investment Manager continues to exercise strong discipline in assessing risk adjusted returns and is well positioned to manage a range of different market conditions, and to make the most of any opportunities which may arise. We will continue to monitor closely the uncertainty over Brexit combined with rising consumer debt levels and the potential fiscal and monetary policy levers the Bank of England will pull in the event of an economic downturn.

In February 2019, the Nominations Committee agreed to introduce a policy of Director rotation to enable a managed succession for the Company’s Directors over time. All current Directors have served a first term of 3 years. Ravi Takhar has kindly consented to stand down from the Board at the 2019 AGM to facilitate the introduction of this new policy. A new Director will be appointed after the AGM. I would like to record, on behalf of the Board and the business, our sincere thanks to Ravi for his significant contribution to the growth and success of the business since December 2015 and wish him well for the future.

Robert Sharpe

Chairman
29 April 2019

Investment Manager’s Report

The Company is a UK listed company dedicated to providing investors with access to UK lending opportunities which the Investment Manager believes have potential to provide attractive and consistent risk-adjusted returns throughout the cycle.

The Investment Manager is a member of the Pollen Street Capital Group ("PSC") which has significant experience in specialist lending, providing the Company with both deep insight to high quality underwriting and access to the Investment Manager's established eco-system, enabling broad market access, high-quality origination flow and portfolio acquisition opportunities.

Attractive and consistent risk-adjusted returns are delivered through the Investment Manager's focus on high-quality underwriting of borrowers in markets that are underserved by mainstream finance providers. The Company accesses credit investment opportunities through specialist Origination Platforms, direct origination, and via the acquisition by the Company of interests in portfolios of Credit Assets from third parties.

EQUITY RAISE

At the start of the year we had raised a total of £305 million of gross proceeds. In April 2018 the Company raised further gross proceeds of £100.0 million. This was in conjunction with the Company increasing the size of its debt facility to £200.0 million.

The Company continued to focus on building a strong portfolio of assets in line with our investment mandate and at the end of 2018, had built a total portfolio of gross investment assets of £609(1) million, with a strong pipeline of further opportunities to provide an attractive mix of assets combining both strong yields with low bad debt rates.

(1) Investment asset made up of £599 million of loans at amortised cost (Note 11 to the financial statements) and £10 million of investments at fair value (Note 12 to the financial statements).

IFRS 9

On 1 January 2018 the Company transitioned to IFRS 9 and fully implemented a comprehensive program that focused on the key areas of impact, including financial reporting, data, systems and processes. As part of the implementation the Company has reviewed the classification and measurement of financial instruments under the requirements of IFRS 9, developed and validated a set of IFRS 9 models for calculating expected credit losses ("ECL") on the Company's loan portfolios and implemented appropriate internal governance processes.

As well as developing new models, new definitions to estimate the IFRS 9 provision for each of our portfolios have also been created. The significant increase in credit risk and default definitions have been set based on our processes used to measure and monitor credit risk. Our models take into account both the composition of the loan book and the macroeconomic outlook at a given point in time.

Under IFRS 9, impairment losses are recognised in the Company's financial statements on a forward-looking basis, taking into account both the risk profile of the loan book and the macroeconomic outlook at the balance sheet date. This results in earlier recognition of impairment in the Company's financial statements, and consequently a higher balance of impairment on the balance sheet, compared to the incurred loss approach under IAS 39.

The new classification and measurement, and impairment requirements have been recognised in retained earnings and reserves as at 1 January 2018, the date of initial application. The key initial impact on adoption was a £2.3 million increase in credit losses driven by the introduction of stage 1 expected credit losses, of which £1.7 million related to Consumer lending.

The earlier recognition of expected credit losses under IFRS 9 has resulted in the Company's Statement of Comprehensive Income, principally as loans move between "stages" due to changes in their credit profile or to reflect changes in the macroeconomic outlook. Overall, while IFRS 9 changes the timing of impairment recognition, it is not in itself result in changes to the cash flows or cash losses of the financial assets.

The Company has elected to utilise the exemption allowing it not to restate comparative information for prior periods with respect to financial information. As prior periods have not been restated, changes in impairment of financial assets in the comparative periods remain in accordance with IAS 39 and are therefore not necessarily comparable to ECL recorded for the current period. IFRS 9 has had an initial 0.65 per cent impact on NAV since inception in December 2015. Credit impaired loans (Stage 3) as a proportion of total loans and advances to customers has reduced to 2.72 per cent (1 January 2018: 2.77 per cent) driven by a mix of increased structured lending and the continued performance of pre-existing credit assets. Stage 3 ECL allowance as a percentage of Stage 3 drawn balances has reduced to 59.9 per cent (1 January 2018: 71.6 per cent) driven by the nature of security we have on new assets. Although the Company has seen stage 3 ECL reduce it has incurred an expected overall credit loss charge of £7.5 million.

As part of the annual review of the forward-looking economic expectations the Company introduced revised models that reflect greater economic uncertainty and a more pessimistic view of the near-term potential of the UK economy. Although there is an impact on the NAV return there is no change to the expected cashflows of the portfolio.

2018 HIGHLIGHTS

The Company performed well in the year with underlying investment asset income yield and bad debt performance of 11.6 per cent and 1.6 per cent respectively giving a risk adjusted yield of 10.0 per cent[1] providing the Company with significant coverage of bad debts and a stable and attractive portfolio to contribute to the target return. The Company continued to deliver asset growth while maintaining stable returns. It has delivered strong growth in the year with investment assets increasing from £366 million to £609 million. The Company believes the portfolio is well positioned with over 75 per cent of the credit assets benefiting from either senior secured status or are well-seasoned portfolios.

In Q1 2018, the Company upsized its debt facilities to £150 million as well as reducing the margin and extending the term. The Company also acquired a seasoned portfolio of commercial mortgages and two new structured facilities secured on consumer portfolios.

In Q2 2018, the Company focused on deploying the £100.0 million total gross proceeds from the April 2018 capital raise. The Company deployed the raise by acquiring a small seasoned portfolio of SME loans and new structured facilities in both the SME and consumer sectors.

In Q3 2018, the Company further extended its debt facility allowing it to acquire a well-seasoned portfolio of small balance mixed residential and commercial mortgages, and new structured facilities secured on consumer and property portfolios.

In Q4 2018, the Company approached its target debt to equity ratio of 50 to 75 per cent. With a strong pipeline of partners requiring financing, the Company elected to further grow its holdings of structured facilities, with two new facilities drawn down and increases on existing facilities. In these facilities, the Company gains exposure to the underlying credit assets, with added protection of first loss from the relevant partner. All the structured borrowers have performed well.

The 2018 growth in assets has been funded through the April 2018 capital raise and the increase in committed debt facilities. The impact of leverage on NAV returns was modest in the first three quarters of 2018 as the Company invested the proceeds of the capital raise leading the Company to be below its target debt to equity ratio. The equity proceeds were fully invested by the end of Q3 2018 and all new growth in assets in Q4 2018 has been funded by the debt facilities increasing the debt to equity ratio towards the target. As at 31 December 2018 the debt facility was drawn to £189 million or 47.7 per cent debt to equity. The debt facilities available to the Company are £200 million.

Investment Assets and Debt to Equity Ratio

This strong performance is as a result of the successful implementation of the strategy to focus on specialist markets and loans with either downside protection or seasoning which exhibit stable performance.

In an evolving market and regulatory environment, we remain committed to our established business model. Our ability to build deep and sustainable relationships has helped our partners to continue to develop. Further referral partners have been on-boarded which have supported this growth with the profile of risk and return that is in line with expectations.

1 Investment asset income yield calculated as year to date income lest acquisition costs over average credit assets over the year annualised. Bad debt expense is calculated as year to date impairments excluding IFRS 9 Stage 1 over average credit assets over the year annualised.

PORTFOLIO

The current portfolio overview is as follows:

Consumer loans represent £294 million (48 per cent) of gross credit assets. This segment of the Portfolio comprises approximately 66,000 loans with an average balance of approximately £2,700 (excluding structured facilities). Overall, approximately 57 per cent of the consumer loan exposure is either structured with credit enhancement or comprises purchased, seasoned portfolios with seasoning at point of purchase. The remaining 43 per cent of the consumer portfolio is organically originated through origination partners.

Property loans represent £237 million (39 per cent) of the gross portfolio and consist of relatively small balance residential and commercial mortgages, bridging loans, and second charge residential mortgages. The portfolio benefits from conservative loan to value ("LTV") levels with an average LTV of less than 70 per cent. The majority of the exposure is from acquired loan portfolios which have significant seasoning and where the underlying customers have been making repayments for some time. This segment of the portfolio comprises approximately 9,900 loans on an underlying look through basis with an average balance of approximately £19,300 (excluding structured facilities).

SME loans represent £68 million (11 per cent) of the gross portfolio with the exposure predominately in senior structured facilities with additional originator-provided. The structure of these facilities provides significant protection should the credit performance of the underlying assets deteriorate.

The remaining 2 per cent of the portfolio is made up by equity positions.

FINANCIAL PERFORMANCE

The financial performance of the Company has remained strong. Investment income during 2018 was £50.9 million (2017: £31.8 million), an increase of 60 per cent, which has been driven by balances of net investment assets increasing to £586.5 million at the year-end (2017: £356.8 million). Earnings for the year were £28.2 million (2017: £21.0 million), an increase of 34 per cent which is reflective of low levels of impairments and leverage of the fixed cost base. This translated into basic earnings per share of 77.3 pence (2017: 81.2 pence), and NAV return of 8.43 per cent for the year, which benefited by 0.73 per cent from the issuance of shares at a premium in April 2018 (2017: 9.11 per cent - which benefited by 1.03 per cent from the issuance of shares at a premium in May 2017). This reflects the high levels of deployment and of the underlying assets having performed in line with expectations.

QUARTERLY NAV RETURN

In our initial guidance issued at the time of the Company's initial public offering, we stated that we were targeting a dividend yield of at least 8.0 per cent (based on issue price).

DIVIDEND PER SHARE AND ANNUALISED FULLY DILUTED YIELD (LHS DIVIDEND PER SHARE (PENCE) RHS DIVIDEND YIELD)

After initial listing costs, the Company had a NAV of 982 pence per share at the time of listing, with the NAV per share (cumulative of income) growing to 1,015.7 pence per ordinary share (2017: 1,018.4 pence per ordinary share) at 31 December 2018, which, including dividends declared or paid, is equivalent to a NAV return of 25.1 per cent since inception. Additionally, the share price of the Company at 31 December 2018 was 1,130 pence per share, representing a 11.3 per cent premium to NAV (cumulative of income). We are pleased that the Company is trading ahead of its net asset position, which we believe reflects the strong underlying performance we have seen so far this year. Performance and dividend history can be seen in the table below.

		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	ITD[1]
NAV per share Return[2]	2016	0.04%	0.13%	0.19%	0.92%	0.60%	0.79%	0.68%	0.70%	0.88%	0.89%	0.92%	0.94%	**7.85%**	**7.83%**
NAV per share Return[2]	2017	0.69%	0.69%	0.78%	0.62%	1.80%[3]	0.55%	0.65%	0.62%	0.63%	0.61%	0.61%	0.79%	**9.11%**	**17.24%**
NAV per share Return[2]	2018	0.66%	0.59%	0.72%	1.36%[4]	0.56%	0.60%	0.63%	0.67%	0.67%	0.67%	0.65%	0.60%	**8.43**	**25.12[5]**
Share Price Performance [6]	2016	1.50%	-	-	-	-	-	-	-	-	-	-	0.54%	**2.05%**	**2.05%**
Share Price Performance [6]	2017	3.92%	3.72%	0.45%	1.81%	(0.89%)	4.93%	2.78%	0.42%	(1.24%)	(0.84%)	(0.63%)	(1.49%)	**13.42%**	**15.75%**
Share Price Performance [6]	2018	(1.94%)	-	-	(1.76%)	-	-	0.90%	-	0.89%	(0.44%)	-	-	**(2.38%)**	**13.00%**
Dividend Per Share (Pence) [7]	2016	-	-	-	-	2.11	-	-	-	19.66	-	23.13	-	**44.90**	**44.90**
Dividend Per Share (Pence) [7]	2017	-	-	23.50	-	24.50[8]	-	-	-	20.00	-	-	20.00	**88.00**	**132.90**
Dividend Per Share (Pence) [7]	2018	-	-	20.00	20.00	-	-	-	-	20.00	-	-	20.00	**80.00**	**212.90**

(1) ITD: inception to date – excludes IPO Issue Costs
(2) NAV per share return is an alternative performance measure, please see above.

(3) NAV per share return excluding effect of capital raise and issuance at a premium would have been 0.77%
(4) NAV per share return excluding effect of capital raise and issuance at a premium would have been 0.63%
(5) Inception to date NAV return affected by IFRS 9 initial recognition on 2018 bought forward retained earnings
(6) Based on IPO issue price of 1000p
(7) Recognised in the month when marked ex-dividend date
(8) Based upon the number of shares at the ex-dividend date

OUTLOOK

To date, we have seen minimal direct impact from the UK referendum vote to leave the European Union. However, looking ahead, we continue to position ourselves to address the economic challenges and opportunities that may arise as the long-term effects of Brexit become clearer. We believe that relatively short average remaining term and high proportion of the portfolio that benefits from structural protection or seasoning will provide downside protection and protect the Company from economic shock. We believe that the Company's business model, combined with our approach to risk, sets it in good stead to find suitable pockets of risk adjusted return. We believe that our ability to invest in structured facilities, combined with our focus on underserved specialist markets, will allow us to continue to deploy the Company's funds and deliver strong returns. We continue to view the future with confidence.

Top Ten Holdings

		Country	Asset Type	Sector	Value of holding at year-end (£m)	Percentage of assets (1)
1	Creditfix Limited	United Kingdom	Structured	Consumer	41.1	7.00%
2	D&B Finance Limited	United Kingdom	Structured	Real Estate	27.5	4.69%
3	Madison CF UK Limited	United Kingdom	Structured	Consumer	23.0	3.91%
4	Sancus Loans Limited	United Kingdom	Structured	Real Estate	22.9	3.91%
5	IWOCA Limited	United Kingdom	Structured	SME	19.7	3.25%
6	1st Stop Group Limited(2)	United Kingdom	Structured	Consumer	14.9	2.54%
7	Capital Step Funding Limited	United Kingdom	Structured	SME	10.5	1.78%
8	GDFC Group Limited(3)	United Kingdom	Structured	Consumer	10.3	1.76%
9	Amigo Loans Limited Bond Security	United Kingdom	Bond	Consumer	10.2	1.74%
10	Dynamic Aerospace and Defense Limited	United Kingdom	Structured	SME	9.9	1.69%

(1) Percentage of total investment assets of the Company (investment assets calculated as the carrying balance of all credit assets and related investments).

(2) 1st Stop Group Limited is a portfolio company of funds managed or advised by the Investment Manager.

(3) Value of holding is a combination of structured debt and equity investment, GDFC Group Limited (formerly Hiber Limited and The Green Deal Finance Company Limited).

As at 31 December 2018 the value of the top 10 assets totalled £190.0 million (2017: £68.1 million) which equated to 32.3 per cent (2017: 19.1 per cent) of net assets.

Business Review

The Strategic Report above has been prepared to help shareholders assess how the Company works and how it has performed. The Strategic Report has been prepared in accordance with the requirements of Section 414A to 414D of the Companies Act 2006 (the "Act"). The business review section of the Strategic Report discloses the Company's risks and uncertainties as identified by the Board, the key performance indicators used by the Board to measure the Company's performance, the strategies used to implement the Company's objectives, the Company's environmental, social and ethical policy and the Company's anticipated future developments.

PRINCIPAL ACTIVITY

The Company carries on business as an investment trust and its principal activity is investing in Credit Assets and Equity Assets (each as defined below), with a view to achieving the Company's investment objective. Investment companies are a way for investors to make a single investment that gives a share in a much larger portfolio. A type of collective investment, they allow investors opportunities to spread risk and diversify in investment opportunities which may not otherwise be easily accessible to them. For more information on investment companies, please see: http://www.theaic.co.uk/guide-to-investment-companies.

IMPAIRMENT REVIEW

As prior periods have not been restated, changes in impairment of financial assets in the comparative periods remain in accordance with IAS 39 and are therefore not necessarily comparable to expected credit losses ("ECL") recorded for the current period. On initial recognition IFRS 9 led to a £2.3 million increase in ECL, driven by the introduction of forward looking ECL's for the first time. The key driver behind the increase was the consumer portfolio which made up £1.7 million, while property made up £0.6 million.

As at 31 December 2018 the ECL balance was £22.8 million (1 January 2018: £12.1 million). The consumer portfolio makes up 56 per cent of this total split £12.7 million, property £9.9 million and SME £0.2 million. The key driver for the increase in the ECL is £7.5 million charge in the year, with consumer portfolios contributing £6.3 million, property £1.0 million and SME £0.2 million. Assets moving to Stage 3 were the key driver behind the charge making up 81 per cent of the £7.5 million charge. The remaining increase of £3.2 million was driven from the acquisition of portfolios at a discount whereby individual assets within the portfolio were already credit impaired.

STRATEGIC AND INVESTMENT POLICY

The Company's investment objective is to provide shareholders with an attractive level of dividend income and capital growth through investing in loans where the underlying collateral is either consumer, commercial or property backed ("Credit Assets") together with related investments that are aligned with the Company's strategy and that present opportunities to enhance the Company's returns from its investments ("Equity Assets").

Once the Company has incurred borrowings in line with its borrowing policy, the Company will target the payment of dividends which equate to a yield of at least 8.0 per cent per ordinary share per annum on the issue price for the IPO placing, based upon the average number of shares in issue for the period, payable in quarterly instalments (the ''Target Dividend''). Investors should note that the Target Dividend, including its declaration and payment dates, is a target only and not a profit forecast.

The Company believes that certain sub-segments of the speciality finance market have the potential to provide attractive returns for investors on a risk-adjusted basis, and that changes in the focus of mainstream lenders, together with the implementation of new models that make the best use of data, analytics and technology, provide an opportunity to deliver attractive products to borrowers while generating attractive returns for the Company.

The Company has entered into an origination agreement with Honeycomb Finance Limited (the "Origination Partner") whereby the Origination Partner has agreed to provide the Company with opportunities to acquire Credit Assets originated or acquired by it which meet specified underwriting criteria relating to the underlying borrower and the corresponding terms of credit (which may be modified from time to time at the discretion of the Investment Manager). Similar arrangements are entered into from time to time with additional origination partners. The Origination Partner has also entered into agreements with several referral partners to source such lending opportunities. The Company and the Investment Manager will also actively seek opportunities to acquire portfolios from third parties and make investments in loans to specialist lenders.

Asset allocation and risk diversification

Credit Assets invested in by the Company consist of financing loans, within a range of sub-sectors selected based on their risk/return characteristics. These sub-categories may include, but are not limited to, personal loans, point of sale financing, home improvement loans and loans to small businesses.

The Company's investment in Credit Assets encompasses the following investment models:

1. Senior Secured Loans. The Company identifies top performing non-bank lenders that provide finance to a tightly defined target audience. We provide senior financing with security over real assets;

2. Secondary Portfolios. These opportunities are sourced from established relationships and networks; and

3. Direct loan acquisitions. The Company sets criteria for loan origination with speciality platforms. A significant component of economic returns to the speciality platform partners are subordinated to the credit asset returns, creating strong alignment of interests between the Company and the partner, as well as providing additional downside protection.

The Company may undertake such investments directly, or via subsidiaries or special purpose vehicles ("SPVs"). It is also possible that the Company may seek to use alternative investment structures which achieve comparable commercial results to the investments described above (such as, without limitation, sub-participations in loans, credit-linked securities or fund structures), but which offer enhanced returns for the Company or other efficiencies (such as, without limitation, efficiencies as to origination, funding, servicing or administration of the relevant Credit Assets).

The Company also invests in Equity Assets. The Company shall invest no more than 10 per cent of the aggregate net proceeds of any issue of shares in Equity Assets, calculated, in each case, at the time of acquisition of any relevant Equity Assets based on the consideration payable for those Equity Assets and the aggregate consideration paid for all previous investments in Equity Assets which form part of the portfolio. This restriction shall not apply to any consideration paid by the Company for the issue to it of any Equity Assets that are convertible securities. However, it will apply to any consideration payable by the Company at the time of exercise of any such convertible securities or any warrants issued. The Company may invest in Equity Assets indirectly via other investment funds (including those managed by the Investment Manager or its affiliates).

INVESTMENT RESTRICTIONS

The Company will invest in Credit Assets originated across various sectors and across credit risk bands to ensure diversification and to seek to mitigate concentration risks. The following investment limits and restrictions apply to the Company to ensure that the diversification of the portfolio is maintained, that concentration risk is limited and that limits are placed on risk associated with borrowings.

The Company will not invest, in aggregate, more than 10 per cent of the aggregate value of total assets of the Company ("Gross Assets"), at the time of investment, in other investment funds that invest in Credit Assets.

The Company will not invest, in aggregate, more than 50 per cent of Gross Assets, at the time of investment, in Credit Assets comprising investments in loans alongside or in conjunction with Shawbrook Bank ("Shawbrook") or referred to the Origination Partner by Shawbrook.

The following restrictions apply, in each case at the time of the investment by the Company:

- No single Credit Asset comprising a consumer credit asset shall exceed 0.15 per cent of Gross Assets;
- No single SME or corporate loan, or trade receivable, shall exceed 5.0 per cent of Gross Assets; and
- No single facility, security or other interest backed by a portfolio of loans, assets or receivables (excluding any borrowing ring-fenced within any SPV which would be without recourse to the Company) shall exceed 20 per cent of Gross Assets. For the avoidance of doubt, this restriction shall not prevent the Company from directly acquiring portfolios of Credit Assets which comply with the other investment restrictions described in this section.

The Company will not invest in Equity Assets to the extent that such investment would, at the time of investment, result in the Company controlling more than 35 per cent of the issued and voting share capital of the issuer of such Equity Assets.

Other restrictions

The Company may invest in cash, cash equivalents, money market instruments, money market funds, bonds, commercial paper or other debt obligations with banks or other counterparties having single-A (or equivalent) or higher credit rating as determined by an internationally recognised agency or systemically important bank, or any ''governmental and public securities'' (as defined for the purposes of the Financial Conduct Authority's Handbook of rules and guidance) for cash management purposes and with a view to enhancing returns to shareholders or mitigating credit exposure.

The Company will not invest in Collateralised Loan Obligations ("CLO") or Collateralised Debt Obligations ("CDO"). CLO's are a form of securitisation whereby payments from multiple loans are pooled together and passed on to different classes of owners in various tranches. CDO's are pooled debt obligations where pooled assets serve as collateral.

BORROWING

Borrowings may be employed at the level of the Company and/or at the level of any investee entity (including any SPV that may be established by the Company in connection with incurring borrowings against any of its assets). The Company may borrow (through bank or other facilities on an unsecured or secured basis), whether directly or indirectly through a subsidiary or an SPV, up to a maximum of 100 per cent of Net Asset Value in aggregate (calculated at the time of draw down under any facility that the Company has entered into). The maximum borrowing limit includes investments made by the Company on a subordinated basis. The Company targets borrowings in the range of 50 per cent to 75 per cent of Net Asset Value.

The Company may seek to securitise all or parts of its Credit Assets and may establish one or more SPVs in connection with any such securitisation. To the extent that the Company establishes any SPV in connection with incurring borrowings against any of its assets or in connection with the securitisation of its Credit Assets, it is likely that any such vehicles will be wholly-owned subsidiaries of the Company. The Company may use SPVs for these purposes to seek to protect the securitised portfolio from Company level bankruptcy or financing risks. The Company may also, in connection with seeking such borrowings or securitising its Credit Assets, seek to assign or transfer existing assets to one or more SPVs and/or seek to acquire Credit Assets using an SPV (to the extent permitted by applicable law and regulation).

HEDGING

Fluctuations in interest rates are influenced by factors outside the Company's control and can adversely affect the Company's results, operations and profitability in a number of ways. The Company invests in Credit Assets which may be subject to a fixed rate of interest, or a floating rate of interest (which may be linked to base rates or LIBOR). The Company expects that its borrowings will be subject to a floating rate of interest. Any mismatches the Company has between the income generated by its Credit Assets, on the one hand, and the liabilities in respect of its borrowings, on the other hand, may be managed, in part, by matching any floating rate borrowings with investments in Credit Assets that are also subject to a floating rate of interest. The Company may use derivative instruments, including interest rate swaps, to reduce its exposure to fluctuations in interest rates.

To the extent that the Company does rely on derivative instruments to hedge interest rate risk, it will be subject to counterparty risk. Any failure by a hedging counterparty of the Company to discharge its obligations could have a material adverse effect on the Company's results, operations and/or and financial condition.

CASH MANAGEMENT

Whilst it is intended that the Company will be close to fully invested in normal market conditions, the Company may invest surplus capital in cash deposits, cash equivalent instruments and fixed income instruments. There is no restriction on the amount of cash or cash equivalent instruments that the Company may hold and there may be times when it is appropriate for the Company to have a significant cash position instead of being fully or near fully invested. As at 31 December 2018 the Company held £5.6 million of its assets in cash.

BUSINESS MODEL

The management of the Company's assets and the Company's administration has been outsourced to third-party service providers. The Board has oversight of the key elements of the Company's strategy, including the following:

- The Company's level of gearing. The Company has a maximum limit of 100 per cent of Net Asset Value in aggregate (calculated at the time of draw down under any facility that the Company has entered into) as detailed in the Company's prospectuses dated 18 December 2015, 25 May 2017 and 21 December 2018 (the "Prospectus");
- The Company's investment policy which determines the diversity of the Company's portfolio. The Board sets limits and restrictions with the aim of reducing risk and maximising returns;
- The appointment, amendment or removal of the Company's third-party service providers;
- An effective system of oversight over the Company's risk management and corporate governance; and
- Premium/discount control mechanism. The Board compares the Company's share price against its then prevailing Net Asset Value.

In order to effectively undertake its duties, the Board may seek expert legal advice. It can also call upon the advice of the company secretary. In 2015 the Board appointed Slaughter and May to provide ongoing legal services to the Company.

The Board have acted in a way that they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its shareholders as a whole, and in doing so have regard (amongst other matters) to:

- The likely consequences of any decision in the long-term;
- The impact of the Company's operations on the community and the environment;
- The desirability of the Company maintaining a reputation for high standards of business conduct; and
- The need to act fairly to avoid conflicts between the interests of the Directors and those of the Company.

FUTURE DEVELOPMENTS

The Company's anticipated future developments and outlook are discussed in more detail in the Chairman's Statement above and the Investment Manager's Report above.

PREMIUM/DISCOUNT MANAGEMENT

The Board closely monitors the premium or discount at which the Company's ordinary shares trade in relation to the Company's underlying Net Asset Value and takes action accordingly. During the year under review the Company's ordinary shares traded at a premium to its underlying Net Asset Value throughout the year. The Board is of the view that an increase of the Company's ordinary shares in issue provides benefits to shareholders, including a reduction in the Company's administrative expenses on a per share basis and increased liquidity in the Company's shares. In order to satisfy natural demand in the market during the year the Board authorised the issue of 9,523,809 shares.

The Board has been authorised to allot 23,149,973 ordinary shares, such authority lasting until the conclusion of the 2019 Annual General Meeting ("AGM") of the Company (or, if earlier, until close of business on 31 August 2019). Of this, up to 23,144,983 ordinary shares may be allotted on a non-pre-emptive basis, provided that the issue price is no lower than the latest published NAV per ordinary share. To date, no ordinary shares have been issued by the Company pursuant to this authority.

In addition, the Directors have been authorised to issue and allot up to 25,000,000 C shares on a non-pre-emptive basis, such authority to expire at the conclusion of the 2020 AGM of the Company.

Shareholders' pre-emption rights over this unissued share capital have been partially disapplied so that the Board will not be obliged to offer any newly issued shares to shareholders pro rata to their existing holdings. The reason for this is to retain flexibility to issue new shares to investors. Notwithstanding this authority, no ordinary shares will be issued (whether on a pre-emptive basis to existing shareholders or otherwise) under this authority at a gross price which is less than the Net Asset Value per existing ordinary share at the time of their issue.

The Board believes that it is in the shareholders' best interests to prevent the Company's shares trading at a discount to Net Asset Value because shareholders will be unable to realise the full value of their investments.

As a means of addressing the discount to Net Asset Value at which the Company's shares may, from time to time, trade, shareholders have authorised the Company to buy back ordinary shares. The Directors have the authority to purchase in the market up to 5,913,543 ordinary shares, such authority expiring at the conclusion of the 2019 annual general meeting of the Company (or, if earlier, until close of business on 31 August 2019). As the Company's shares traded at a premium to Net Asset Value throughout the year under review, no repurchases were made. At the forthcoming AGM the Board will seek to renew the Company's powers to buy back ordinary shares.

The full text of the proposed resolutions authorising the Company to buy back shares or allot shares can be found in the Notice of the Company's forthcoming AGM.

CORPORATE AND OPERATIONAL STRUCTURE

Corporate Structure

On 20 December 2017 the Company acquired certain interests of Commercial First DAC Limited which gave it accounting control of Business Mortgage Finance 3 plc ("BMF 3"), a special purpose vehicle ("SPV") holding commercial mortgages. As a result, the financial statements for the year ended 31 December 2017 were prepared on a consolidated basis.

On 15 January 2018 the Company gave notice to call the external note holders of BMF 3 one month prior to the quarterly interest payment date. Subsequently, on 15 February 2018, the Company redeemed all external note holders and as a consequence purchased the residual loan values and released the security over the loans. The effect of this is the underlying assets have been purchased by the Company and bought onto the Company's Statement of Financial Position. BMF 3 will no longer be consolidated as the Company will no longer have control of BMF 3.

Operational and portfolio management

The Company has outsourced its operations and portfolio management to various service providers as detailed below:

- Pollen Street Capital Limited has been appointed as the Company's investment manager and Alternative Investment Fund Manager ("AIFM") for the purposes of the Alternative Investment Fund Managers Directive ("AIFMD");
- Apex Fund Services (UK) Limited has been appointed to act as the Company's Administrator (the "Administrator");
- Link Company Matters Limited has been appointed to act as the Company's Company Secretary (the "Secretary");
- Indos Financial Limited has been appointed to act as the Company's Depositary (the "Depositary");
- Sparkasse Bank Malta plc has been appointed to act as the Company's Custodian (the "Custodian");
- Computershare Investor Services plc has been appointed as the Company's Registrar (the "Registrar"); and
- Liberum Capital Limited has been appointed to act as the Company's corporate broker and financial adviser.

In addition to the above, the Company has been provided with legal advice for the work undertaken in respect of share placings and in respect of various of its unquoted investments.

Alternative Investment Fund Managers Directive ("AIFMD")

In accordance with the AIFMD, the Company has appointed Pollen Street Capital Limited to act as the Company's AIFM for the purposes of the AIFMD. The AIFM ensures that the Company's assets are valued appropriately in accordance with the relevant regulations and guidance. The Company has appointed Indos Financial Limited as depositary. In addition, the Company entered into an amended Depository Agreement enabling it to delegate certain custody functions as required by the AIFMD to Sparkasse Bank Malta plc (the "Custodian") on 17 November 2017.

Anti-bribery and corruption policy

The Company has no employees or operations but uses the anti-bribery and corruption policy of the Investment Manager, ensuring compliance with all applicable anti-bribery and corruption laws and regulations, including the UK Bribery Act 2010.

Environment, human rights, employee, social and community issues

The Company is required by law to provide details of environmental matters (including the impact of the Company's business on the environment), employee, human rights, social and community issues (including information about any policies it has in relation to these matters and the effectiveness of those policies). The Company does not have any employees and the Board is composed of independent non-executive Directors. As an investment trust, the Company does not have any direct impact on the environment. The Company aims to minimise any detrimental effect that its actions may have by adhering to applicable social legislation, and as a result does not maintain specific policies in relation to these matters.

The Company has no internal operations and therefore no greenhouse gas emissions to report nor does it have responsibility for any other emissions producing sources under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013, including those within its underlying investment portfolio. However, the Company believes that high standards of corporate social responsibility such as the recycling of paper waste will support its strategy and make good business sense.

In carrying out its investment activities and in relationships with suppliers, the Company aims to conduct itself responsibly, ethically and fairly.

Modern Slavery Act

The Board gives due regard to human rights considerations, as defined under the European Convention on Human Rights and the UK Human Rights Act 1998.

We are aware of our responsibilities and obligations under the Modern Slavery Act and other relevant legislation relating to the detection and prevention of modern slavery and human trafficking. The Board is committed to implementing and enforcing effective systems and controls that seek to ensure that modern slavery is not taking place anywhere in its business or in its supply chains.

Further details of our compliance with the Modern Slavery Act can be found on our website.

BOARD DIVERSITY

The Board places great emphasis on ensuring that its membership reflects diversity in its broadest sense. A combination of demographics, skills, experience, race, age, gender, educational and professional background and other relevant personal attributes on the Board is important in providing a range of perspectives, insights and challenge needed to support good decision making.

New appointments are made on merit, taking account of the specific skills and experience, independence and knowledge needed to ensure a rounded Board and the diversity benefits each candidate can bring to the overall Board composition.

During the year to 31 December 2018 the Board of Directors consists of three non-executive Directors, none of whom are female. The Board seeks to appoint new Directors on the basis of merit as a primary consideration, with the aim of bringing an appropriate range of skills and experience together.

Principal Risks and Uncertainties

The Company is exposed to a number of potential risks and uncertainties. These risks could have a material impact on financial performance and position and could cause actual results to differ materially from expected and historical results.

The Company faces a number of risks in the normal course of business and as a result the management of the risks we face is central to everything we do. The Board has carried out a robust assessment of its risks and controls and in doing so, has established a robust process to identify and monitor the risks faced by the Company. The process involves the maintenance of a risk register, which identifies the risks facing the Company and assesses each risk on a scale, classifying the probability of the risk and the potential impact that an occurrence of the risk could have on the Company. The risk register was last reviewed by the Board on 26 April 2019. The day-to-day risk management functions of the Company have been delegated to the Investment Manager, which reports to the Audit and Risk Committee.

OPERATIONAL RISKS

Third Party Service Providers

The Company has no employees and the Directors have all been appointed on an independent non-executive basis. Whilst the Company has taken all reasonable steps to establish and maintain adequate procedures, systems and controls to enable it to comply with its obligations, the Company is reliant upon the performance of third-party service providers for its executive function. In particular, the Investment Manager, Depositary, Custodian, Administrator, Registrar and servicers, amongst others, will be performing services which are integral to the day-to-day operation of the Company.

As part of this, the operations of the third-party service providers are highly dependent on IT systems. Any critical system failure, prolonged loss of service availability or material breach of data security could cause serious damage to the third-party's ability to provide services to the Company, which could result in significant compensation costs or regulatory sanctions or a breach of applicable regulations. In particular, failures or breaches resulting in the loss or publication of confidential customer data could cause long-term damage to reputation and could affect regulatory approvals and competitive position which could undermine their ability to attract and retain customers.

The termination of service provision by any service provider, or failure by any service provider to carry out its obligations either by fraud or error to the Company, or to carry out its obligations to the Company in accordance with the terms of its appointment, could have a material adverse effect on the Company's operations and its ability to meet its investment objective.

Mitigation

The Company has appointed third party service providers who are experienced in their field and have a reputation for high standards of business conduct. Further, day-to-day oversight of third-party service providers is exercised by the Investment Manager and reported to the Board on a quarterly basis. As appropriate to the function being undertaken, each of the service providers is subject to regular performance and compliance monitoring. The performance of the Investment Manager in its duties to the Company is subject to ongoing review by the Board on a quarterly basis as well as formal annual review by the Company's Management Engagement Committee.

The appointment of each service provider is governed by agreements which contain the ability to terminate each of these counterparties with limited notice should they continually or materially breach any of their obligations to the Company.

Reliance on key individuals

The Company will rely on key individuals at the Investment Manager to identify and select investment opportunities and to manage the day-to-day affairs of the Company. There can be no assurance as to the continued service of these key individuals at the Investment Manager. The departure of key individuals from the Investment Manager without adequate replacement may have a material adverse effect on the Company's business prospects and results of operations. Accordingly, the ability of the Company to achieve its investment objective depends heavily on the experience of the Investment Manager's team, and more generally on the ability of the Investment Manager to attract and retain suitable staff.

Mitigation

The interests of the Investment Manager are closely aligned with the performance of the Company through the management and performance fee structures in place and direct investment by certain key individuals of the Investment Manager. Furthermore, investment decisions are made by a team of professionals, mitigating the impact loss of any single key professional within the Investment Manager's organisation. The performance of the Investment Manager in its duties to the Company is subject to ongoing review by the Board on a quarterly basis as well as formal annual review by the Company's Management Engagement Committee.

Fluctuations in the market price of the Company's shares

The market price of the Company's shares may fluctuate widely in response to different factors and there can be no assurance that the Company's shares will be repurchased by the Company even if they trade materially below their Net Asset Value. Similarly, the shares may trade at a premium to Net Asset Value whereby the shares can trade on the open market at a price that is higher than the value of the underlying assets. There can be no assurance, express or implied, that shareholders will receive back the amount of their investment in the Company's shares.

Mitigation

The Investment Manager and the Board closely monitor the level of discount or premium at which the Company's shares trade on the open market. The Company may purchase the shares in the market with the intention of enhancing the Net Asset Value per ordinary share. However, there can be no assurance that any repurchases will take place or that any repurchases will have the effect of narrowing any discount to Net Asset Value at which the ordinary shares may trade. When the Company's shares trade at a premium the Company may issue shares to reduce the premium at which shares trade. As at 31 December 2018 the Company's shares were trading at a premium to Net Asset Value.

INVESTMENTS

Achievement of the Investment Objective

There can be no assurance that the Investment Manager will continue to be successful in implementing the Company's investment objective.

Mitigation

The Company's investment decisions are delegated to the Investment Manager. Performance of the Company against its investment objectives is closely monitored on an ongoing basis by the Investment Manager and the Board and is reviewed in detail at each Board meeting. The Board has set investment restrictions and guidelines which the Investment Manager monitors and reports on quarterly to the Board. In the event it is required, any action required to mitigate underperformance is taken as deemed appropriate by the Investment Manager.

Borrowing

The Company may use borrowings in connection with its investment activities including, where the Investment Manager believes that it is in the interests of shareholders to do so, for the purposes of seeking to enhance investment returns. Such borrowings may subject the Company to interest rate risk and additional losses if the value of its investments fall. Whilst the use of borrowings should enhance the Net Asset Value of the Company's issued shares when the value of the Company's underlying assets is rising, it will have the opposite effect where the underlying asset value is falling. In addition, in the event that the Company's income falls for whatever reason, the use of borrowings will increase the impact of such a fall on the Company's return and accordingly will have an adverse effect on the Company's ability to pay dividends to shareholders.

Mitigation

The Investment Manager and the Board closely monitors the level of gearing of the Company. The Company has a maximum limitation on borrowings of 100 per cent of Net Asset Value (calculated at the time of draw down) which the Investment Manager may affect at its discretion. As at the date of this report, the Company had a target leverage ratio of 50 to 75 per cent of Net Asset Value and had £189 million drawn representing 47.7 per cent of Net Asset Value.

Exposure to Credit Risk

As a lender to small businesses and individuals, the Company is exposed to credit losses if customers or counterparties are unable to repay loans and outstanding interest and fees or through fraud. The Company is expected to invest a significant proportion of its assets in Credit Assets which, by their nature, are exposed to credit risk and may be impacted by adverse economic and market conditions, including through higher impairment charges, increased capital losses and reduced opportunities for the Company to invest in Credit Assets. Additionally, competition could serve to reduce yields and lower the volume of loans generated by the Company. The Origination Partner has not guaranteed to provide a minimum number of Credit Assets.

Mitigation

The Company will invest in a granular portfolio of assets, diversified by the number of borrowers, the type, and the credit risk (ranked A–E) of each borrower. Each loan is subject to, amongst other restrictions, a maximum single loan exposure limit. Additionally, the Company has made assumptions around loss and arrears rates within the portfolio in its financial projections. Further, the Investment Manager has established stringent underwriting criteria which includes credit referencing, income verification and affordability testing, identity verification and various forward-looking indicators of a borrower's likely financial strength. The Company also provides structured lending facilities to Corporate entities which can be larger value loans. Please see Note 14 to the financial statements for more details on Credit Risk.

Origination rates and performance of the underlying assets of the Company are closely monitored on an ongoing basis by the Investment Manager and the Board and are reviewed in detail at each Board meeting. The Company has entered agreements with a number of referral partners to provide a diversified range of sources from which to select attractive assets. The Company looks to add additional referral partners on an ongoing basis in order to further diversify its origination sources. For structured lending facilities the Company undertakes a robust process. Facilities are secured and typically structured with minimum asset coverage ratios and covenants to provide early warning of credit deterioration and adequate asset cover in the event of stress. The Company operates within the Investment policy guidelines and lends on a secured basis against identifiable and accessible assets.

Interest Rate Risk

The Company intends to invest in Credit Assets which may be subject to a fixed rate of interest, or a floating rate of interest (which may be linked to base rates or LIBOR) and expects that its borrowings will be subject to a floating rate of interest. Any mismatches the Company has between the income generated by its Credit Assets, on the one hand, and the liabilities in respect of its borrowings, on the other hand, may subject the Company to interest rate risk.

Mitigation

Interest rate risk exposures may be managed, in part, by matching any floating rate borrowings with investments in Credit Assets that are also subject to a floating rate of interest. The Company may use derivative instruments, including interest rate swaps, to reduce its exposure to fluctuations in interest rates, however some unmatched risk may remain.

Following the recommendations of the Financial Stability Board, a fundamental review and reform of the major interest rates benchmarks, including Interbank offered rate (“Ibors”), are underway across the world’s largest financial markets. In some cases, the reform will include replacing interest rate benchmarks with alternative risk-free rates (‘RFRs’). This replacement process is at different stages, and is progressing at different speeds, across several major currencies. There is therefore uncertainty as to the basis, method and timing of transition and their implications on the participants in the financial markets. Until there is market acceptance on the form of alternative RFRs for different products, the legal mechanisms to effect transition cannot be confirmed, and the impact cannot be determined nor any associated costs accounted for. Going forward the Company needs to assess the potential effects of these ‘Libor replacement’ and has the intention of minimising disruption through appropriate mitigating actions.

Liquidity of Investments

The Company may invest in Equity Assets that are aligned with the Company’s strategy and that present opportunities to enhance the Company’s return on its investments. Such Equity Assets are likely to be predominantly in the form of unquoted equity securities. Investments in unquoted equity securities, by their nature, involve a higher degree of valuation and performance uncertainties and liquidity risks than investments in listed securities and therefore may be more difficult to realise.

Mitigation

The Company has established investment restrictions on the extent to which it can invest in Equity Assets, such that no more than 10 per cent of the net proceeds of any placing are invested in Equity Assets. Compliance with these restrictions is monitored by the Investment Manager on an ongoing basis and by the Board quarterly.

REGULATIONS

The Company is subject to extensive laws, regulations, corporate governance practice and disclosure requirements, administrative actions and policies in each jurisdiction in which it operates. Many of these have been introduced or amended recently and are subject to further material changes, which may increase compliance and conduct risks. The Company expects government and regulatory intervention in the financial services industry to remain high for the foreseeable future.

Tax

Any changes in the Company’s tax status or in taxation legislation could affect the value of investments held by the Company, affect the Company’s ability to provide returns to shareholders and affect the tax treatment for shareholders of their investments in the Company.

Mitigation

The Company intends at all times to conduct its affairs so as to enable it to qualify as an investment trust for the purposes of Section 1158 of the Corporation Tax Act 2010. Both the Board and the Investment Manager are aware of the requirements which are to be fulfilled in any accounting period for the Company to maintain its investment trust status. The conditions required to satisfy the investment trust criteria are monitored by the Administrator and performance of the same shall be reported to the Board on a quarterly basis.

Breach of applicable legislative obligations

The Company and its third-party service providers are subject to various legislative and regulatory regimes, including, but not limited to, the Consumer Credit Act General Data Protection Regulation and the Data Protection Act 2018. Any breach of applicable legislative and/or regulatory obligations could have a negative impact on the Company and impact returns to shareholders.

Mitigation

The Company engages only with third party service providers which hold the appropriate regulatory approvals for the function they are to perform and can demonstrate that they can adhere to the regulatory standards required of them. Each appointment is governed by agreements which contain the ability for the Company to terminate the arrangements with each of these counterparties with limited notice should such counterparty continually or materially breach any of their legislative obligations, or their obligations to the Company more broadly. Additionally, each of the counterparties is subject to regular performance and compliance monitoring by the Investment Manager, as appropriate to their function, to ensure that they are acting in accordance with applicable regulations and are aware of any upcoming regulatory changes which may affect the Company. Performance of third-party service providers is reported to the Board on a quarterly basis, whilst the performance of the Investment Manager in its duties to the Company is subject to ongoing review by the Board on a quarterly basis as well as formal annual review by the Company’s Management Engagement Committee.

Key Performance Indicators (KPIs)

The Board monitors success in implementing the Company’s strategy against a range of key performance indicators (KPIs), which are viewed as significant measures of success over the longer term. Although performance relative to the KPIs is also monitored over shorter periods, it is success over the long-term that is viewed as more important, given the inherent volatility of short-term investment returns. The principal KPIs are set out below:

- The movement in Net Asset Value per ordinary share;
- Dividend per share and dividends as a proportion of average equity;
- The premium/discount (after deducting borrowings at fair value);
- The movement in the share price;
- Ongoing charges ratio; and
- Revenue return.

APPROVAL

The Strategic Report was approved by the Board of Directors on 29 April 2019 and signed on its behalf by:

Robert Sharpe
Chairman

Directors’ Report

BOARD OF DIRECTORS

ROBERT SHARPE [1]

Chairman of the Board, Remuneration and Nomination and the Management Engagement Committees and a member of the Audit Committee.

Robert has over 35 years' experience in retail banking. He is currently chairman at Hampshire Trust Bank plc and Bank of Ireland UK plc. He has had an extensive number of appointments both in the UK and the Middle East including Chairman at Al Rayan Bank plc, Non-Executive Director ("NED") at Aldermore Bank plc, George Wimpy plc, Barclays Bank UK Retirement Fund, Vaultex Limited, LSL Properties plc and several independent NED roles at banks in the UAE, Oman and Turkey. Robert was previously Chief Executive Officer at West Bromwich Building Society, a role he took to chart and implement its rescue plan. Prior to this, he was Chief Executive Officer at Portman Building Society and Bank of Ireland in the UK.

JIM COYLE [1]

Chairman of the Audit Committee, and member of the Remuneration and Nomination and Management Engagement Committees.

Jim is a non-executive Director, chair of the Audit committee and member of the Risk committee at HSBC UK Bank plc, chairman of HSBC Trust Company (UK) Ltd and Marks & Spencer Unit Trust Management Limited. He is also a non-executive Director and Chairman of the Audit and Risk Committee at Scottish Water, non-executive Director, Chairman of the Audit and Risk Committee at Worldfirst and non-executive Director at Marks & Spencer Bank plc and HSBC Private Bank (UK) Limited and an independent non-executive member of Deloitte UK Oversight Board. He was previously a non-executive Director at the Scottish Building Society, non-executive director and Chairman of the Audit Committee of Vocalink plc, and Group Financial Controller at Lloyds Banking Group, having earlier held a role as Divisional Finance Director, Group Operations. Prior to this, Jim was Group Chief Accountant for the Bank of Scotland, having joined the bank in 1991. He qualified as a Chartered Accountant with KPMG before spending 10 years in the oil industry, holding senior positions with BP. Jim is a Fellow of the Chartered Institute of Bankers in Scotland, a former member of the Council of the Institute of Chartered Accountants of Scotland and the Financial Reporting Council Committees.

RAVI TAKHAR [1]

Member of the Audit, Remuneration and Nomination and Management Engagement Committees.

Ravi has more than 20 years' experience in the financial services sector as a lawyer, investment banker and entrepreneur. He is currently Chief Executive Officer of London-listed Orchard Funding Group, which he founded in 2002; the business specialises in insurance premium finance and the professional fee funding market. Ravi's previous roles were as Head of Financial Services Investment at Nikko, Chairman of Mortgages PLC and Head of Mortgage Principal Finance at Investec Bank.

[1] Appointed 14 December 2015

Statutory Information

The Directors of Honeycomb Investment Trust plc (Registered: 09899024) present their report and audited financial statements of the Company for the year ended 31 December 2018. The shares are listed on the Specialist Fund Segment of the London Stock Exchange.

BOARD MEMBERS, AND DIRECTORS' AND OFFICERS' INSURANCE

The names and biographical details of the Board members who served on the Board as at the year-end can be found above.

During the year under review the Company maintained directors' and officers' liability insurance for its Directors and officers as permitted by section 233 of the Companies Act 2006. The Company acquired specific Public Offering and Securities Insurance which commenced on 24 February 2015 with a five-year run-off period.

STATUS OF THE COMPANY

The Company is an investment company within the meaning of section 833 of the Companies Act 2006.

The Company operates as an investment trust in accordance with Section 1158 of the Corporation Tax Act 2010 and the Investment Trust (Approved Company) (Tax) Regulations 2011. HM Revenue & Customs approved the Company as an investment trust upon its listing on 23 December 2015. In the opinion of the Directors, the Company has conducted its affairs so that it is able to maintain its status as an investment trust.

The Company is an externally managed closed-ended investment company with an unlimited life and has no employees (2017: no employees).

The Company was incorporated in England and Wales on 2 December 2015 and started trading on 23 December 2015, immediately upon the Company's listing.

INTERNAL CONTROLS AND RISK MANAGEMENT

The Board has established an ongoing process for identifying, evaluating and managing risk on behalf of the Company. Further details of the Company's principal risks and uncertainties can be found in the Strategic Report on above and details of the Company's internal controls can be found below. Details of the Company's hedging policies are set out in the Strategic Report above.

SHARE CAPITAL – VOTING AND DIVIDEND

As at 31 December 2018, the Company had 39,449,919 ordinary shares in issue. There are no other classes of shares in issue and no shares are held in Treasury.

On 8 June 2018, at the Company's last Annual General Meeting ("AGM"), the Board was granted authority to allot the Company's ordinary shares or grant rights to subscribe for, or convert any security into ordinary shares in the Company up to a maximum nominal amount of £231,499.73 representing 23,149,973 ordinary shares. The authority will expire (unless previously renewed, varied or revoked) on the conclusion of the 2019 annual general meeting of the Company (or, if earlier, at the close of business on 31 August 2019). During the year under review a total of 9,523,809 ordinary shares with a nominal value of £95,238 and a total consideration of £100,000,000 were issued as detailed below:

	Shares issued	Price paid per share (pence)	Premium to net asset value (%) (1)
25 April 2018	9,523,809	1,050.0	14.5%

(1) Last published NAV at time of issue

The ordinary shares carry the right to receive dividends and have one voting right per ordinary share. There are no shares which carry specific rights with regard to the control of the Company. The shares are freely transferable. There are no restrictions or agreements between shareholders on the voting rights of any of the ordinary shares or the transfer of shares.

The Company does not have a fixed life, however, pursuant to the articles of association, an ordinary resolution for the continuation of the Company will be proposed at the AGM of the Company to be held in 2021 and if passed, every five years thereafter. Upon any resolution not being passed, proposals will be put forward to the effect that the Company be wound up, liquidated, reconstructed or delisted.

At the AGM held on 8 June 2018, the Directors were granted the authority to purchase in the market up to 5,913,543 ordinary shares, such authority expiring at the conclusion of the 2019 AGM of the Company (or, if earlier, until close of business on 31 August 2019). During the year the Company has not bought back any shares but intends to seek approval from the shareholders, by special resolution, to renew this authority at the next AGM.

In addition, where in a financial period of the Company ending on or after 31 December 2016 the ordinary shares have traded, on average over that financial period, at a discount in excess of 10 per cent to Net Asset Value per ordinary share, the Company will be required to propose a special resolution at the next AGM for the discontinuation of the business of the Company in its present form. If such a discontinuation resolution is passed, proposals will be put forward by the Directors to shareholders within four months to address the trading discount to Net Asset Value per ordinary share (which may include proposals for the reorganisation, reconstruction or winding up of the Company).

On a winding up or a return of capital by the Company, the ordinary shareholders are entitled to the capital of the Company.

No final dividend is being recommended. The Company's policy is to pay dividends on a quarterly basis, as set out in the Company's prospectuses dated 18 December 2015, 25 May 2017 and 21 December 2018 (the "Prospectus"). The dividends paid or payable in respect of the year ended 31 December 2018 are set out Note 9 to the financial statements. A reconciliation of movements in reserves is presented in the Statement of Changes in Shareholders' Funds below. The Company may make distributions from the Revenue Reserve, the Special Distributable Reserve or from realised capital gains. There were no unrealised gains in the year.

SUBSTANTIAL SHARE INTERESTS

As at 31 December 2018, the Company had been notified in accordance with Disclosure Guidance and Transparency Rule 5 of the following interests in the voting rights attaching to the Company's issued share capital.

Holder	Ordinary shares	Percentage of total voting rights
Invesco Ltd	14,267,283	36.17%
Merian Global Investors (UK) Ltd	9,700,156	24.59%
Woodford Investment Management LLP	8,614,396	21.84%
M&G Investment Management Ltd	1,793,095	4.55%

INDEPENDENT AUDITORS

The Company's independent auditors, PricewaterhouseCoopers LLP ("PwC"), were re-appointed at the Company's second AGM and have expressed willingness to continue to act as the Company's auditors for the forthcoming financial year. The Audit Committee has carefully considered the auditors' appointment, as required in accordance with its Terms of Reference, and, having regard to its effectiveness and the services it has provided the Company during the year under review, has recommended to the Board that the independent auditors be appointed at the forthcoming 2019 AGM. At the 2019 AGM resolutions are therefore to be proposed for the appointment of the independent auditors and to authorise the Directors to agree its remuneration for the forthcoming financial year. In reaching its decision, the Audit Committee considered the points detailed below in the Audit Committee's report.

AUDIT INFORMATION

As required by 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 of which the Company's auditor are unaware and each Director has taken all the steps required of a Director to make themselves aware of any relevant audit information and to establish that the Company's auditor are aware of that information.

ARTICLES OF ASSOCIATION

Any amendments to the Company's Articles of Association must be made by special resolution.

GOING CONCERN

The Directors have reviewed the financial projections of the Company from the date of this report, which shows that the Company will be able to generate sufficient cash flows in order to meet its liabilities as they fall due. Accordingly, the Directors are satisfied that the going concern basis remains appropriate for the preparation of the financial statements. The Company also has detailed policies and processes for managing the risk, set out in the Strategic Report above.

VIABILITY STATEMENT

In accordance with provision C.2.2 of the UK Corporate Governance Code, published by the Financial Reporting Council in April 2016 (the "Code"), the Directors have assessed the prospects of the Company over the three-year period to the AGM in 2022. Although they will be required by the Articles of Association to put a proposal for the continuation of the Company at the 2021 AGM, based on the current position, performance and prospects of the Company they have no reason to believe that shareholders will vote against continuation. This is, however, a key assumption. The Directors also note that, even if there was to be a vote against continuation at the 2021 AGM, the Company would be likely to continue to operate for at least a year thereafter, due to the Company's investments not comprising readily realisable securities. The Board believes this period to be appropriate taking into account the current trading position and the potential impact of the principal risks that could affect the viability of the Company. At the year-end, the Company had cash balances of £5.6 million, and has £3.2 million excess of current receivables over current liabilities. The Company also has £397.5 million excess of non-current assets to non-current liabilities. There are therefore limited risks to the viability of the Company.

To prepare the viability statement the Board have considered the prospects of the Company in light of its current position and have considered each of the Company's principal risks and uncertainties and mitigating factors are detailed above. Taking the current performance as a base, the projection considers the Company's' income, underlying Net Asset Value and the cash flows over the three-year period selected. The projection is not a business plan in itself, but rather is a prudent view of how the Company may evolve, based principally upon its growth to date, in order to demonstrate its viability. Analysis to assess viability has focused on the risks in delivery of the growth of the business and a series of projections have been considered changing funding levels, origination volumes and the performance of the assets acquired.

The analysis indicates that due to the stability and cash generating nature of the portfolios and structured agreements, as well as the debt facilities in place, the Company would be able to withstand the impact of the risks identified. Based on the robust assessment of the principal risks, prospects and viability of the Company, the Board confirms that they have reasonable expectation that the Company will be able to continue operation and meet its liabilities as they fall due over the three-year period to the AGM in 2022. The Board also continuously monitors the financial performance of the Company against key financial ratios ensuring a strict discipline in the financial management of the business.

MANAGEMENT AND ADMINISTRATION

Administrator

The Company's Administrator is Apex Fund Services (UK) Ltd (the "Administrator"), a company authorised and regulated by the Financial Conduct Authority ("FCA"). The Administrator provides the day-to-day administration of the Company. The Administrator is responsible for the Company's general administrative functions, such as the calculation of the Net Asset Value and maintenance of the Company's accounting records and ensures that the Company complies with its continuing obligations as an investment trust.

Under the terms of the administration agreement, the Administrator charges a fee for its fund administration services equal to the greater of: (i) £5,305 per month (increased by 3 per cent on 1 January in each year); and (ii) an amount equal to the sum of 1/12 of 0.06 per cent of the portion of Net Asset Value up to £150 million, and 1/12 of 0.05 per cent of the excess of Net Asset Value above £150 million. The monthly fee is then reduced by £2,083.33 to reflect the fact that the Administrator no longer provides company secretarial services to the Company. The Administrator is also entitled to reimbursement of all reasonable out of pocket expenses incurred by it in connection with the performance of its duties. The administration agreement can be terminated by either party by providing 90 days' written notice.

Company Secretary

Company Secretary Link Company Matters Limited (the "Company Secretary") has been appointed as the company secretary of the Company. The Company Secretary was appointed in September 2018. The Company Secretary undertakes the general secretarial functions required by the Companies Act and is responsible for the maintenance of specified statutory registers of the Company. The Company Secretary received an initial engagement fee in respect of its onboarding activities of £10,000, and is entitled to a general annual fee of £52,500 and an annual fee for additional services of £1,500 (all fees excluding VAT). The Company Secretary shall also be entitled to reimbursement of reasonable out of pocket expenses incurred in connection with its appointment (without prior consent of the Company, but such expenses are subject to limits).

Registrar

Computershare Investor Services plc has been appointed as the Company's registrar to provide share registration services. Under the terms of the Registrar Agreement, the Registrar is entitled to an annual register maintenance fee from the Company equal to £1.30 per Shareholder per annum or part thereof, subject to a minimum of £3,800 per annum and a potential annual fee increase capped by inflation.

Other activity beyond the agreed services will be charged for in accordance with the Registrar's normal tariff as published from time to time.

Investment Manager

The Investment Manager, a UK-based company authorised and regulated by the FCA, has been appointed the Company's investment manager and Alternative Investment Fund Manager ("AIFM") for the purposes of the Alternative Investment Fund Managers Directive ("AIFMD"). The Investment Manager is responsible for the discretionary management of the Company's assets and ensures that these are valued appropriately in accordance with the relevant regulations and guidance.

Under the terms of the management agreement, the Investment Manager is entitled to a management fee and a performance fee together with reimbursement of reasonable expenses incurred by it in the performance of its duties. From the period from first admission, the management fee payable was based on 1.0 per cent of the Gross Asset Value (which includes only value attributable to credit assets and equity assets held by the Company for investment purposes). Once more than 80.0 per cent of the listing proceeds of any placing are invested the management fee payable is based on 1.0 per cent of the Gross Assets. Further details on the management fee and the performance fee can be found in Note 6 to the financial statements. The management agreement can be terminated by either party providing twelve months' written notice.

For as long as the Origination Partner is part of the same group as the Investment Manager the fees payable to the Origination Partner, which are calculated as a percentage of the purchase price for each Credit Asset acquired by the Company from the Origination Partner, shall be deducted from the management fee payable to the Investment Manager. There was £nil payable to the Origination Partner at 31 December 2018 and 2017.

Depositary

The Company's depositary is Indos Financial Limited (the "Depositary"), a company authorised and regulated by the FCA. Under the terms of the depositary services agreement the Depositary is entitled to a periodic fee calculated as follows:

(A) Where NAV is less than or equal to £200 million, 0.02 per cent of NAV per annum, subject to a minimum monthly fee of £2,500; and
(B) Where NAV is greater than £200 million, 0.02 per cent of NAV per annum in respect of the first £200 million of NAV and:
  i. 0.0175 per cent per annum of that part of NAV which is in excess of £200 million but less than or equal to £400 million; plus
  ii. 0.015 per cent per annum of that part of NAV which is in excess of £400 million.

The Depositary invoices the Company monthly in arrears in respect of the periodic fee (together, if applicable, with any VAT thereon), which shall be payable by the Company within 30 days of the relevant invoice.

The Depositary is entitled to charge an additional fee where the Company undergoes a lifecycle event (e.g. a reorganisation or a distribution) which entails additional work for the Depositary. Such a fee is agreed with the Company on a case by case basis.

All charges may be subject to change from time to time, with the agreement of the Depositary and the Company. All charges are exclusive of VAT, if applicable.

The Depositary is entitled to be reimbursed for certain expenses properly incurred in performing or arranging for the performance of functions conferred upon it under the agreement.

The Company may terminate the depositary services agreement for convenience on nine months' written notice. If the Depositary wishes to retire and stop providing the services under the agreement, it must give the Company not less than nine months' written notice of its wish to do so. To the extent that the Company is required to have a depositary under applicable law, the Depositary may not retire until a successor is appointed. The depositary agreement may be terminated immediately by either the Company or the Depositary on the occurrence of certain events, including: (i) if the other party has committed a material and continuing breach of the terms of the agreement; or (ii) in the case of the other's insolvency.

Custodian

The Depositary has delegated its obligations in respect of the safe keeping of the Company's financial instruments to Sparkasse Bank Malta plc. The Depositary is primarily liable to the Company and investors for losses of financial instruments held by the by the Custodian, however, the Company and Investment Manager have permitted the transfer of that obligation to the Custodian in compliance with Articles 21(13) or 21(14) of the AIFMD. The Depositary has transferred such obligation and therefore the Custodian, and not the Depositary, will be liable to the Company for a loss of financial instruments held in custody, but the Depositary must take reasonable steps to pursue and enforce any associated claim on behalf of the Company. No amount is payable by the Company to the Custodian.

Corporate broker and financial adviser

Liberum Capital Limited ("Liberum"), a company authorised and regulated in the United Kingdom by the FCA, has been appointed as the Company's corporate broker and financial adviser. Liberum is entitled to a retainer fee of £1 per annum (exclusive of VAT and out of pocket expenses). Liberum was also appointed as the placing agent for the Company's initial public offering and subsequent share issues. The broker agreement between Liberum and the Company can be terminated by either party providing three months' written notice.

CHANGE OF CONTROL

There are no agreements to which the Company is party that might be affected by a change of control of the Company except for the agreement in relation to the Company's debt facility. Pursuant to the terms of that agreement, on a change of control of the Company, the Company shall promptly notify the lender. The lender is not obliged to fund an utilisation except in relation to a rollover loan and if negotiations to continue the facility are not concluded within 30 days, the liability may be repayable.

SUBSEQUENT EVENTS

Save as noted below, there have been no events to disclose since the year end under review.

On 29 March 2019, a dividend of 20.0 pence per ordinary share was paid.

DONATIONS

The Company made no political or charitable donations during the year under review to organisations either within or outside the EU (2017: None).

GREENHOUSE GAS EMISSIONS

The Group has no greenhouse gas emissions to report from its operations, nor does it have responsibility for any other emissions producing sources under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013, including those within its underlying investment portfolio.

FUTURE DEVELOPMENTS

Indications of likely future developments in the business of the Company are set out in the Strategic Report above.

REGULATORY DISCLOSURES

The disclosures below are made in compliance with the requirements of Listing Rule 9.8.4.

Listing Rule	
9.8.4 (1) – capitalised interest	The Company has not capitalised any interest in the year under review.

9.8.4(2) – unaudited financial information	The Company publishes a monthly NAV statement. The Company published a supplementary prospectus approved by the UK Listing Authority on 8 March 2018. The Company also published its third base prospectus on 21 December 2018. The publication of the Supplementary Prospectus and third Base Prospectus is a regulatory requirement under the Prospectus Rules. These did not constitute a profit forecast or profit estimate in accordance with listing rule 9.2.18. The Company also published its interim report and unaudited financial statements for the period from 1 January 2018 to 30 June 2018.
9.8.4 (4) – incentive schemes	The Company has no incentive schemes in operation.
9.8.4 (5) and (6) - waiver	No Director of the Company has waived or agreed to waive any current or future emoluments from the Company.
9.8.4 (7), (8) and (9)	During the year under review, the Company issued a total of 9,523,809 ordinary shares with a nominal value of £95,238 and an average price of 1,050.0 pence per share for a total consideration of £100,000,000. Further details can be found in Note 19 to the financial statements.
9.8.4 (8) and 9.8.4 (9) – relate to companies that are part of a group of companies	These Listing Rules do not apply to the Company.
9.8.4 (10) – contract of significance	During the year under review, there were no contracts of significance subsisting to which the Company is a party and in which a Director of the Company is or was materially interested or between the Company and a controlling shareholder.
9.8.4 (11)	The Company is not party to any contracts for the provision of services to the Company by a controlling shareholder.
9.8.4 (12) and (13) – waiving dividends	During the year under review, there were no arrangements under which a shareholder has waived or agreed to waive any dividends or future dividends.
9.8.4 (14)	As set out in the Prospectus, the Company has not voluntarily adopted Listing Rule 9.8.4(14).

Corporate Governance Statement

The corporate governance statement explains how the Board has sought to protect shareholders' interests by protecting and enhancing shareholder value. Since the Company's listing, the Financial Reporting Council's UK Corporate Governance Code (the "Code") has been voluntarily followed by the Company. The Directors are ultimately responsible for the stewardship of the Company and this section explains how they have fulfilled their corporate governance responsibilities. This corporate governance statement forms part of the Directors' report.

As the Company's shares are not admitted to the UK Listing Authority's Official List, the UK Listing Rules applicable to closed-ended investment companies which are listed on the premium listing segment of the UK Listing Authority do not apply to the Company. However, as set out in the Prospectus, the Company has voluntarily adopted certain key provisions of the UK Listing Rules. Pursuant to the Listing Rules as voluntarily adopted by the Company, the Company must "comply or explain" against each of the provisions of the Code. The Board is committed to high standards of corporate governance. The Listing Rules and the Disclosure Guidance and Transparency Rules ("DTR") require the Board to disclose how it has applied the principles of the UK Code, published by the Financial Reporting Council ("FRC") on 17 June 2016. A copy of the Code is available from the website of the Financial Reporting Council at www.frc.org.uk. The Association of Investment Companies ("AIC") has published its own Code on Corporate Governance (the "AIC Code"), by reference to the AIC Corporate Governance Guide for Investment Companies (the "AIC Guide"), in July 2016. The AIC Code provides a comprehensive guide to best practice in certain areas of governance where the specific characteristics of investment trusts suggest alternative approaches to those set out in the Code. The Company is not a member of the AIC but has voluntarily adopted reporting against the AIC Code and follows the AIC Guide to meet its obligations in relation to the Code and the associated disclosure requirements of the DTR. Both the AIC Code and AIC Guide are available from the AIC's website at www.theaic.co.uk.

The Board has considered the principles and recommendations of the AIC Code by reference to the AIC Guide. The AIC Code, as explained by the AIC Guide, addresses all the principles set out in the Code, as well as setting out additional principles and recommendations on issues that are of specific relevance to the Company.

The Board considers that voluntarily reporting against the principles and recommendations of the AIC Code, and by reference to the AIC Guide (which incorporates the Code), will provide better information to shareholders.

STATEMENT OF COMPLIANCE

The Company has complied with the recommendations of the AIC Code and the relevant provisions of the UK Code, except as set out below.

The Code includes provisions relating to:

- The role of the Chief Executive;
- Executive Directors' remuneration;
- The Senior Independent Director;
- The need for an internal audit function;
- The Chairman's position as Chairman of the Remuneration Committee; and
- The requirement for a separate Nomination Committee.

For the reasons set out in the AIC Guide, and as explained in the Code, the Board considers the role of the chief executive, Executive Director's remuneration and the need for a Senior Independent Director as being not relevant to the Company, being a small board with only three members and an externally managed investment company. In particular, all of the Company's day-to-day management and administrative functions are outsourced to third parties. As a result, the Company has no executive Directors, employees or internal operations. The Company has therefore not reported further in respect of these provisions.

The Board has decided that the systems and procedures employed by the Investment Manager and the other third-party providers in relation to the Company give sufficient assurance that a sound system of internal control, which safeguards the Company's assets, is maintained, without the need for an internal audit function. An internal audit function specific to the Company is therefore considered unnecessary. Although updates on the Investment Manager's outsourced internal audit function are bought to the Board on a quarterly basis.

The Board does not, at present, consider that separate Nomination Committee would be appropriate at this stage in the Company's life and given the Board's size, being three members in total. Currently, decisions concerning the Board's nomination and Board appraisals are undertaken by the Remuneration and Nomination Committee.

The Company has not followed the recommendation of the AIC Code that the Chairman of the Board should not chair the Remuneration Committee. It was considered that Robert Sharpe was most suited to the role of Chairman of the Committee due to the dual responsibility of the Committee in remuneration and nomination matters and his independence was not compromised as a result. However, the committee composition, the need for a separate Nomination Committee and an internal audit function will be considered on an annual basis.

THE BOARD OF DIRECTORS

The Board consists of three Directors, all of whom are independent non-executive Directors. Biographies of the Directors are shown above and demonstrate the wide range of skills and experience that they bring to the Board. The Directors possess business and financial expertise relevant to the direction of the Company and consider themselves to be committing sufficient time to the Company's affairs.

External search consultancy services were used to aid recruitment of Board members prior to the Company's listing. The Board may consider using an external search consultancy to aid in the recruitment of future Board members.

None of the Directors has a service contract with the Company, nor are any such contracts proposed. Each Director has been appointed pursuant to a letter of appointment entered into with the Company in accordance with the Company's articles of association. The Directors' appointment can be terminated in accordance with the Company's articles of association and without compensation. There are no agreements between the Company and any Director which provide for compensation for loss of office in the event that there is a change of control of the Company.

Copies of the letters of appointment are available on request from the Company Secretary and will be available at the Company's 2019 AGM.

The Chairman, Robert Sharpe, is independent and considers himself to have sufficient time to commit to the Company's affairs. The Chairman's other commitments are detailed in his biography above.

The Directors have determined that the size of the Company's Board does not warrant the appointment of a senior independent Director at this time. All of the Directors are available to address shareholder queries or engage in consultation as required.

THE OPERATION OF THE BOARD

The Board of Directors meets at least four times a year and more often if required.

The table below sets out the Directors' attendance at Board and Committee meetings during the year under review, against the number of meetings each Board or Committee member was eligible to attend during the year under review.

Director	Board	Audit Committee	Remuneration and Nomination Committee
Robert Sharpe	5/5	4/4	1/1
Jim Coyle	5/5	4/4	1/1
Ravi Takhar	5/5	3/4	1/1

There was also a Management Engagement Committee which all Directors attended.

There was no new appointment or resignation of Directors during the year under review.

No individuals other than the Committee or Board members are entitled to attend the relevant meetings unless they have been invited to attend by the Board or relevant Committee.

Directors are provided with a comprehensive set of papers for each Board or Committee meeting, which equips them with sufficient information to prepare for the meetings.

The Board has a formal schedule of matters specifically reserved to it for decision to ensure effective control of strategic, financial, operational and compliance issues, which includes:

- The Company's structure including share issues and setting a discount/premium management programme;
- Risk management;
- Appointing the Investment Manager and other service providers and setting their fees;
- Reviewing and approving Board changes;
- Considering and authorising Board conflicts of interest;
- Reviewing and approving the Company's audited annual financial statements and half yearly financial statements including accounting policies;
- Reviewing Investment Manager's conflicts of interest and whistleblowing policies;
- Reviewing and approving the Company's level of gearing;
- The review and approval of terms of reference and membership of Board Committees; and
- Reviewing and approving liability insurance.

There is a procedure in place for the Directors to take independent professional advice at the expense of the Company. Professional advice has been taken by the Directors during the year under review in relation to the Power of Attorney granted to the Investment Manager. This did not amend the scope of what the Investment Manager was already set out to be able to do, in line with the powers delegated by the Board to the Investment Manager under the Investment Management Agreement.

The Company has taken out directors' and officers' liability insurance, such cover to be maintained for the full term of each Director's appointment.

Independence of Directors

Each of the Directors was considered, on appointment, to be independent of the Investment Manager and free from any business or other relationship that could materially interfere with the exercise of his independent judgement and remained so throughout the year. There are no relationships or circumstances relating to the Company that are likely to affect the judgement of any of the Directors.

Care will be taken at all times to ensure that the Board is composed of members who, as a whole, have the required knowledge, abilities and experience to properly fulfil their role and are sufficiently independent.

Directors' interests

No Director holds shares in the Company.

Board evaluation

The performance of the Board, its committees and Directors and the independence of the Directors was reviewed by the Remuneration and Nomination Committee in February 2019. Any training needs identified as part of the Board evaluation process will be added to the agenda of the next Board meeting. Board training and induction.

The Company Secretary, the Board or the Investment Manager upon request of the Board or any Director individually, will offer induction training to new Directors about the Company, its key service providers, the Directors' duties and obligations and other matters as may be relevant from time to time.

The Board members are encouraged to keep up to date and attend training courses on matters which are directly relevant to their involvement with the Company.

Board appointment, election and tenure

The rules concerning the appointment and replacement of Directors are contained in the Company's articles of association and the Companies Act 2006.

None of the Directors consider length of service as an impediment to independence or good judgement but, if they felt that this had become the case, the relevant Director would stand down.

The Chairman of the Company acts as Chairman of the Management Engagement Committee. The Terms of Reference of all committees are available from the Company Secretary's office and the Company's website at www.honeycombplc.com.

The Board considers that all of the current Directors contribute effectively to the operation of the Board and the strategy of the Company. The Board has considered each Board member's independence from the Company and Investment Manager. As such the Board believes that it is in the best interests of shareholders that each of the Directors be re-elected at the forthcoming AGM. The next AGM will be held in June 2019.

MANAGEMENT AGREEMENT AND CONTINUING APPOINTMENT

Details of the Investment Manager's agreement and fees are set out in Note 6 to the financial statements.

The Board keeps the performance of the Investment Manager under continual review. The Company's Management Engagement Committee undertook its annual appraisal of the Investment Manager during the year under review on 21 February 2019. The Management Engagement Committee recommended to the Board that the appointments of all the Company's third-party service providers continue. It was felt that their appointment was in the best interests of the shareholders as the Investment Manager had performed in line with expectations and the Board is of the opinion that the continuing appointment of the Investment Manager on the terms agreed is in the interests of the Company's shareholders as a whole.

CONFLICTS OF INTEREST

The Company's articles of association provide that the Directors may authorise any actual or potential conflict of interest that a Director may have, with or without imposing any conditions that they consider appropriate on the Director in question. Directors are not able to vote in respect of any contract, arrangement or transaction in which they have a material interest, and, in such circumstances, they are not counted in the quorum at the relevant Board meeting. A process has been developed to identify any of the Directors' potential or actual conflicts of interest. This includes declaring any potential new conflicts before the start of each Board meeting. A schedule is maintained of each Director's potential conflicts of interest.

Audit Committee

The Board has delegated certain responsibilities to its Audit Committee. As there are only three members of the Board, including the Chairman of the Board it is felt appropriate that all Directors are members of the Audit Committee. The Board has established formal terms of reference for the Audit Committee which are available on the Company's website www.honeycombplc.com or from the Company Secretary upon request. An outline of the remit of the Audit Committee and its activities during the year are set out below.

The Audit Committee is chaired by Jim Coyle and meets at least twice a year. It is responsible for ensuring that the financial performance of the Company is properly reported and monitored and provides a forum through which the Company's external auditors may report to the Board. The Audit Committee reviews and recommends to the Board the annual and half-yearly reports and financial statements, financial announcements, internal control systems, risk metrics, decisions requiring a significant element of judgement and procedures and accounting policies of the Company.

Further details on the work of the Audit Committee can be found in the report of the Audit Committee below.

Management Engagement Committee

The Management Engagement Committee meets once a year. Its principle duties are to formally review the actions and judgements of the Investment Manager and the terms of the Investment Management Agreement. The Committee reports to the Board on its proceedings after each meeting.

COMPANY SECRETARY

The Board has direct access to the advice and services of the Company Secretary, which is responsible for ensuring that the Board and Committee procedures are followed, and that applicable rules and regulations are complied with. The Company Secretary is also responsible for ensuring good information flows between all parties.

REVIEW OF SHAREHOLDER PROFILE

The Board reviews reports provided by qualified independent industry consultants and the Company's broker on the Company's shareholder base and its underlying beneficial owners. The Investment Manager and brokers disclose any concerns raised by shareholders to the Board.

RELATIONS WITH SHAREHOLDERS

All shareholders have the opportunity to attend and vote, in person or by proxy, at the AGM and any general meetings of shareholders.

The notice of the AGM, which is sent out at least 21 days in advance of the AGM, sets out the business of the meeting and any item not of an entirely routine nature is explained in the Directors' report. Separate resolutions are proposed in respect of each substantive issue.

Shareholders are encouraged to attend the AGM and to participate in proceedings. The Chairman of the Board and the Directors, together with representatives of the Investment Manager, will be available to answer shareholders' questions at the AGM. Proxy voting figures are available to shareholders at the AGM.

The Investment Manager holds regular discussions with major shareholders, the feedback from which is provided to and greatly valued by the Board. The Directors are available to enter into dialogue and correspondence with shareholders regarding the progress and performance of the Company. Further information about the Company can be found on the Company's website www.honeycombplc.com.

INTERNAL CONTROL REVIEW

The Board has elected not to have an internal audit function as the Company delegates its operations to third-party service providers and does not employ any staff. Instead it has been agreed that the Company will rely on the internal controls which exist within its third-party providers.

The Administrator, Depositary and Investment Manager have established internal control frameworks to provide reasonable assurance on the effectiveness of the internal controls operated on behalf of their clients. The Investment Manager, the Administrator, the Depositary and the Company Secretary will report on any breaches of law or regulation, if and when they arise, periodically in scheduled Board reports. The Audit Committee considers annually whether there is any need for an internal audit function, and it has agreed that it is appropriate for the Company to rely on the internal audit controls which exist within its third-party providers. Updates on the Investment Manager's outsourced internal audit function are bought to the Board on a quarterly basis.

The Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company and for reviewing the effectiveness of the Company's system of internal controls including financial, operational, compliance and risk management. The Board has in place a robust process to assess and monitor the risks of the Company. The Board has reviewed the effectiveness of the Administrator and the Investment Manager's systems of internal control and risk management. During the year under review, the Board has not identified any significant failings or weaknesses in the internal control systems of its service providers.

The Company has established a risk matrix, consisting of the key risks and controls in place to mitigate those risks. The Board confirms that there is an ongoing process for identifying, evaluating and managing the principal risks faced by the Company. Details of the Company's risks can be found above in the Directors' Report, together with an explanation of the controls that have been established to mitigate each risk. The risk matrix provides a basis for the Audit Committee and the Board to regularly monitor the effective operation of the controls and to update the matrix when new risks are identified.

The system of internal control and risk management is designed to meet the Company's particular needs and the risks to which it is exposed. The Board recognises that these control systems can only be designed to manage, rather than eliminate, the risk of failure to achieve business objectives and to provide reasonable, but not absolute, assurance against material misstatement or loss.

ALTERNATIVE INVESTMENT FUND MANAGEMENT DIRECTIVE DISCLOSURE

Quantitative remuneration disclosure

In accordance with 3.3.5 (5) of the FCA's Investment Funds Sourcebook ("FUND") and in accordance with FCA Finalised guidance – General guidance on the AIFM Remuneration Code (SYSC 19B) ("the Guidelines"), dated January 2014, the total remuneration paid by Group companies which include the AIFM during the year was £19.3 million, split £11.0 million in variable and £8.3 million in fixed remuneration. During the year, the average number of beneficiaries at the Group which includes the AIFM were 60 and the aggregate amount of remuneration paid in relation to the Senior Management of the firm was £6.3 million. Fixed remuneration is amounts paid as salaries. Variable remuneration is amounts paid under bonus arrangements and distributions. The AIFM does not consider that any individual member of staff of the AIFM has the ability to materially impact the risk profile of the Company.

Other disclosures

The AIFMD requires that the AIFM ensures that certain other matters are actioned and or reported to investors. Each of these is set out below.

- Provision and content of an Annual Report (FUND 3.3.2 and 3.3.5). The publication of the Annual Report and Financial Statements of the Company satisfies these requirements.
- Material changes of information. The AIFMD requires certain information to be made available to investors in the Company before they invest and requires that material changes to this information be disclosed in the Annual Report.

Periodic disclosure (FUND 3.2.5 and 3.2.6)

There are no assets subject to special arrangements due to their illiquid nature and no new arrangements for the managing of the liquidity of the Company.

There is no change to the arrangements, as set out in the Prospectus, for managing the Company's liquidity.

The current risk profile of the Company is set out in the Strategic Report: Principal Risks and Uncertainties on pages 22 to 25 and in Note 13 to the financial statements, Financial Risk Management.

The Company is permitted to be leveraged and has borrowing restrictions in place. In accordance with the Company's prospectuses dated 18 December 2015, 25 May 2017 and 21 December 2018 (the "Prospectus"), the Company has a maximum limit of 100 per cent of NAV, the actual leverage employed by the Company as a percentage of NAV was 47.2 per cent. There have been no breaches of the permitted leverage limits within the year and no changes to maximum level of leverage employed by the Company.

The table below sets out the current maximum permitted and actual leverage under the gross and commitment method in accordance with Annex IV Article 8 of the AIFMD. This differs from the Company's borrowing restriction, which is an absolute measure. The gross and commitment method are ratios between the Company's gross assets and NAV. The gross method represents the sum of the Company's positions (total assets) after deducting cash balances. The commitment method represents the sum of the Company's positions without deducting cash balances. The Company is required to state its maximum and actual leverage levels, calculated as prescribed by the AIFMD as at 31 December 2018, and are as follows:

As a percentage of net asset value	Gross method	Commitment method
Maximum level of leverage	200%	200%
Leverage as at 31 December 2018	148%	102%

Other matters

The Investment Manager can confirm that the required reporting to the FCA has been undertaken in accordance with FUND 3.4.

APPROVAL

This Directors' Report was approved by the Board of Directors on 29 April 2019.

On behalf of the Board
Robert Sharpe
Chairman
29 April 2019

Report of the Audit Committee

As Chairman of the Audit Committee I am pleased to present the Audit Committee report for the year ended 31 December 2018.

MEMBERSHIP OF THE AUDIT COMMITTEE

The Audit Committee comprises all Directors and is chaired by Jim Coyle. Please see above for the members' biographies. All members of the Committee have recent and relevant financial experience, as a result of their involvement in financial services and other industries.

As Chairman of the Audit Committee, I can confirm that I am a Chartered Accountant and I maintain my membership of the Institute of Chartered Accountants of Scotland. As such, I have relevant financial experience. The Corporate Governance Code stipulates that the Chairman of the Company should not be a member of the Audit Committee. However, given the size of the Board and Mr. Sharpe's relevant financial experience gained through his involvement with other businesses during his career and given our opinion that the Chairman is independent, it is considered appropriate that he is a member of the Audit Committee.

THE ROLE OF THE AUDIT COMMITTEE

The role of the Audit Committee is defined in its terms of reference, which can be found on the Company's website at www.honeycombplc.com. In summary, the role includes the following:

- To monitor the financial reporting process;
- To review and monitor the integrity of the half-year and annual financial statements and review and challenge where necessary the accounting policies and judgements of the Investment Manager and Administrator;
- To review the adequacy and effectiveness of the Company's internal financial and internal control and risk management systems;
- To make recommendations to the Board on the re-appointment or removal of the external auditors and to approve its remuneration and terms of engagement;
- To review and monitor the external auditors' independence and objectivity; and
- To review and consider on an annual basis the need for an internal audit function.

Matters considered during the year

The Audit Committee has met four times during the year under review (please see above for member's attendance) and considered the following items:

- The Company's Audited Annual Report and Financial Statements for the year ended 31 December 2018 and advised the Board accordingly;
- The Company's half-year financial statements for the period ended 30 June 2018 and advised the Board accordingly;
- The audit plan for the Company's annual audit shared by the external auditors;
- The policy on non-audit services;
- Monitored the Investment Manager's implementation for the revised impairment approach required by IFRS 9;
- In order to support the Board's approval of the viability statement above as to the longer-term viability of the Company, the Committee reviewed papers from the Investment Manager supporting the viability statement;
- The Company's dividend policy; and
- The Investment Manager's whistleblowing policy.

The Audit Committee also reviewed the following items:

- Whether there was a requirement for an internal audit function;
- The Company's risk matrix and the internal controls implemented to manage those risks; and
- The appropriateness of the Company's accounting policies and whether appropriate estimates and judgements have been made.

UK non-audit services

In relation to non-audit services, the Audit Committee has reviewed and implemented a policy on the engagement of the auditors to supply non-audit services and this is reviewed on an annual basis. All requests or applications for other services to be provided by the auditors over a threshold are submitted to the Audit Committee and will include a description of the services to be rendered and an anticipated cost. The Company's policy follows the requirements of the Financial Reporting Council's Ethical Standard for Auditors published in September 2015 and which implemented the European Union's revised Statutory Audit Directive (the revised Ethical Standard became effective for periods commencing on or after 17 June 2016). The policy specifies a number of prohibited services which it is not permitted for the auditors to provide under the revised Ethical Standard.

During the year, the auditors provided reporting accountant services on the prospectus dated 21 December 2018 in relation to the Company's subsequent further issuance of ordinary shares. These non-audit fees amounted to £62,266 (2017: £54,915).

The Audit Committee reviewed the level of non-audit services and were satisfied that the auditors maintained their independence.

SIGNIFICANT ACCOUNTING MATTERS

The Audit Committee met on 26 April 2019 to review the report and financial statements for the year ended 31 December 2018. The Audit Committee considered the following significant issues, including principal risks and uncertainties in light of the Company's activities and issues communicated by the Auditors during their audit, all of which were satisfactorily addressed:

Issue considered	How the issue was addressed
Risk of misappropriation of assets and ownership of investments	The Audit Committee reviews reports from its service providers on key controls over the assets of the Company. Any significant issues are reported to the Board by the Investment Manager or the Company's Depositary. The Investment Manager has put in place procedures to ensure that investments can only be made to the extent that the appropriate contractual and legal arrangements are in place to protect the Company's assets. The Company's Depositary issues a quarterly report on the status of the assets to the Directors for review.
The risk that income is overstated, incomplete or inaccurate through failure to recognise proper income entitlements or to apply the appropriate accounting treatment for recognition of income	The Board regularly reviews income statements from the Investment Manager, noting the consistency of approach with prior years. The Investment Manager reviews income performance against budget on a monthly basis and reviews its recognition policies for appropriateness and accuracy on a regular basis to ensure they meet the accounting policy set out in Note 2 to the financial statements.
The risk of material misstatement of expected credit losses under IFRS 9 Financial instruments	The Committee views credit provisioning as the key accounting estimate area for the Company. As in previous years, it received presentations from the Investment Manager explaining key judgement areas, such as, consistency of approach and the Company's business mix. After challenging the Investment Manager, the Committee concluded that the provisioning approach and key judgements were reasonable. The Investment Manager also reviews impairment performance on a monthly basis and reviews its impairment policy for appropriateness and accuracy on a regular basis to ensure they meet the accounting policy set out in Note 2 to the financial statements. The roll out of the IFRS 9 implementation programme was a key focus of the Committee. As the Company enters the 2019 financial year, the Committee will continue to monitor progress closely. Further disclosure around the progress is outlined in Note 1 to the financial statements.
Going concern and viability statement	The Committee reviewed a paper from the Investment Manager in support of the going concern basis and the longer-term viability of the Company. The Committee noted the stability of the Company's business model, its successful track record, the Company's three-year business plan and the results of internal stress testing and concluded this provided sufficient evidence to support the Board's viability statement set out above.
Fair, balanced and understandable	On behalf of the Board, the Committee reviewed the financial statements as a whole in order to assess whether they were fair, balanced and understandable. The Committee discussed and challenged the balance and fairness of the overall report. The Committee was satisfied that the Annual Report could be regarded as fair, balanced and understandable and proposed that the Board approve the Annual Report in that respect.
Retention of Investment Trust Status	The Audit Committee receives a report from the Company's administrators and Investment Manager confirming if the Company has remained compliant with the requirements to maintain its Investment Trust status. HMRC approved the investment status of the Company. The Directors regularly review the investments and their mix to ensure they remain diversified, its retained income levels to ensure sufficient distributions are made and the Company's shareholdings to determine if the Company has become a close company.

External auditors

The Company's external auditors, PricewaterhouseCoopers LLP ("PwC"), were appointed on 16 May 2016 and last re-appointed on 8 June 2018 at the Company's AGM. Under the Financial Reporting Council's transitional arrangements, the Company is required to re-tender, at the latest, by 2025. The Audit Committee intends to re-tender within the timeframe set by the Financial Reporting Council.

The individual at PwC who acts as the Company's appointed audit partner is Mr. Richard McGuire. In accordance with UK legislation, the audit partner must rotate at least every five years. As this is Mr. McGuire's third year as audit partner, he will be due to rotate out of this role during 2021 at the latest.

The audit and non-audit fees for the year under review can be found in Note 7 to the financial statements.

The Audit Committee monitors the auditors' objectivity and independence on an ongoing basis. In determining PwC's independence, the Audit Committee has assessed all relationships with PwC and received confirmation from PwC that it is independent and that no issues of conflicts arose during the year. The Audit Committee is therefore satisfied that PwC is independent.

The Audit Committee monitors and reviews the effectiveness of the external audit process on an annual basis and makes recommendations to the Board on its re-appointment, remuneration and terms of engagement of the auditors. The Audit Committee has met with the audit partner and assessed PwC's performance to date. I have met with Mr. McGuire separately to discuss the Company's audit and other matters concerning the Company. I can confirm that Mr. McGuire did not raise any issues of concern during our meeting. The review has involved an examination of the auditors' remuneration, the quality of its work including the quality of the audit report, the quality of the audit partner and audit team, the expertise of the audit firm and the resources available to it, the identification of audit risk, the planning and execution of the audit and the terms of engagement. Accordingly, the Audit Committee has recommended to the Board that it proposes to shareholders via an ordinary resolution that PwC be re-appointed as auditors at the AGM. PwC has confirmed its willingness to continue in office.

The Audit Committee has direct access to the Company's auditors and provides a forum through which the auditor's report to the Board. Representatives of PwC attend the Audit Committee meetings at least twice annually.

Internal audit

The Audit Committee believes that the Company does not require an internal audit function, principally because the Company delegates its day-to-day operations to third parties, which are monitored by the Audit Committee, and which provide control reports on their operations at least annually. Updates on the Investment Manager's outsourced internal audit function are bought to the Board on a quarterly basis.

APPROVAL

This Report was approved by the Audit Committee on 29 April 2019.

Jim Coyle
Chairman of the Audit Committee
29 April 2019

Directors' Remuneration Report

STATEMENT FROM THE CHAIRMAN

The Remuneration and Nomination Committee (the "Committee") comprises all Directors and is chaired by Robert Sharpe. Please see above for the members biography's, and for members attendance.

I am pleased to present the Directors' remuneration report for the year ended 31 December 2018, prepared in accordance with The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 and the Companies Act 2006. The Company's auditors are required to verify certain information within this report subject to statutory audit by the Companies Act 2006. Where information set out below has been audited it is indicated as such.

We are required to seek shareholder approval of the Directors' remuneration policy at least every third year and the remuneration report annually. Any changes to the Directors' remuneration policy will require shareholder approval. An ordinary resolution was passed to approve the Directors' remuneration policy at the Company's first AGM held on 2 June 2017. This policy was adopted at that meeting with effect from the date of the AGM and remained in force for the year ended 31 December 2017 and will remain in force for the two subsequent years. An ordinary resolution to approve the Directors' remuneration policy will be put to shareholders at least once every three years. At the 2019 AGM, shareholders will also be asked to consider an advisory resolution on the contents of the Directors' remuneration report.

As at 31 December 2018, the Board comprised three non-executive Directors, all of whom are independent of the Investment Manager.

Given the size of the Board, and as the Company has no employees, it is not considered appropriate for the Company to establish a separate Nomination Committee.

It is the responsibility of the Remuneration Committee to consider and approve Directors' remuneration, review the structure, size and composition of the Board, plan for adequate Board succession and evaluate the balance of experience and diversity of the Board. At the start of 2018 the Directors remuneration was set at a rate of £40,000 per annum for the Chairman and £33,000 per annum for the other Directors. A further £5,000 per annum will be paid to the Chairman of the Audit Committee. The Remuneration Committee met on 20 February 2018 and considered the continued time commitment required to carry out their duties as the Company has grown following additional placings and approved an increase of the Board's fees by £5,000 per member from 1 January 2018. The Directors remuneration was set at a rate of £45,000 per annum for the Chairman and £38,000 per annum for the other Directors. A further £5,000 per annum will be paid to the Chairman of the Audit Committee. The Committee met on 21 February 2019 and considered the continued time commitment required to carry out their duties and approved an increase of the Board's fees by £3,000 for the Chairman and £2,000 for all other member from 1 March 2019. The Directors remuneration was set at a rate of £48,000 per annum for the Chairman and £40,000 per annum for the other Directors. A further £5,000 per annum will be paid to the Chairman of the Audit Committee. Many parts of The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 do not apply to the Company as the Board is comprised entirely of non-executive Directors and the Company has no employees. The Board has considered and approved a formal policy for the approval of Directors' expenses.

DIRECTORS' REMUNERATION POLICY

The fees for the Board as a whole are limited to £250,000 per annum in accordance with the Prospectus, divided between the Directors as they may determine. Subject to this limit, the Board's policy is that remuneration of non-executive Directors should reflect the experience of each Board member and the time commitment required by Board members to carry out their duties and is determined with reference to the appointment of Directors of similar investment companies. The level of remuneration has been set with the aim of promoting the future success of the Company. With this in mind the Board considers remuneration in order to attract individuals of a calibre appropriate to promote the long-term success of the Company and to reflect the specific circumstances of the Company and its field of investment, the duties and responsibilities of the Directors and the value and amount of time commitment required of Directors to the Company's affairs.

Due regard is taken of the Board's requirement to attract and retain individuals with suitable knowledge and experience and the role that individual Directors fulfil. There are no specific performance-related conditions attached to the remuneration of the Board and the Board members are not eligible for bonuses, pension benefits, share options, long-term incentive schemes or other non-cash benefits or taxable expenses. No other payments are made to Directors other than reasonable out-of-pocket expenses which have been incurred as a result of attending to the affairs of the Company.

In addition to the Board's remuneration, Board members are entitled to such fees as they may determine in respect of any extra or special services performed by them, having been called upon to do so. Such fees would only be incurred in exceptional circumstances. An example of such a circumstance would be if the Company was to undertake a corporate action, which would require the Board to dedicate additional time to review associated documents and to attend additional meetings. Such fees would be determined at the Board's absolute discretion and would be set at a similar rate to other comparable investment companies who have undertaken equivalent activities. The fees would be set with the Company's long-term success in mind and the interests of the Company's members as a whole would be considered prior to the setting of such fees.

The Directors are entitled to be paid all expenses properly incurred by them in attending meetings with shareholders or other Directors or otherwise in connection with the discharge of their duties as Directors.

Shareholders have the opportunity to express their views in respect of Directors' remuneration at the Company's AGM. The Company has not sought shareholder views on its remuneration policy. Any comment volunteered by shareholders on the remuneration policy will be carefully considered and appropriate action taken. No communications have been received from shareholders on the Company's remuneration policy.

The Company's remuneration policy and its implementation are reviewed by the Board as a whole on an annual basis. Reviews are based on third parties' information on the fees of other similar investment trusts.

None of the Directors has a service contract with the Company, nor are any such contracts proposed. Instead, Directors are appointed pursuant to a letter of appointment entered into with the Company. There is no notice period specified in the letters of appointment or Articles of Association for the removal of Directors. Directors are not appointed for a specific term. Copies of the Directors' letters of appointment are available at each of the Company's AGMs and can be obtained from the Company's registered office.

The Directors are not entitled to exit payments and are not provided with any compensation for loss of office.

As with most investment trusts there is no Chief Executive Officer and no employees. The Company's remuneration policy will apply to new Board members, who will be paid the equivalent amount of fees as current Board members holding similar roles.

This policy has been followed since the Company's incorporation on 2 December 2015.

VOTING AT ANNUAL GENERAL MEETING

The Directors' Remuneration Report for the year ended 31 December 2017 and the Directors' Remuneration Policy were approved by shareholders at the Annual General Meetings held on 8 June 2018 and 2 June 2017 respectively. The votes cast by proxy were as follows:

	Directors' Remuneration Report		Directors' Remuneration Policy	
	Number of Votes	% of votes cast	Number of Votes	% of votes cast
For	34,924,637	100.00	17,226,166	100.00
Against	-	-	-	-
Total votes cast	34,924,637	100.00	17,226,166	100.00
Number of votes withheld	-	-	-	-

The Directors' remuneration report, including the implementation of the Directors' remuneration policy, is subject to an annual advisory vote via an ordinary resolution. An advisory vote is a non-binding 'advisory' resolution. In the event that shareholders vote against the 'advisory' resolution, the Board will be required to put its remuneration policy to shareholders for approval at the next AGM, regardless of whether the remuneration policy was approved by shareholders. The votes cast at the 2019 AGM on the advisory resolutions will be disclosed in the remuneration report for the year to 31 December 2019.

KEY EXTERNAL DEVELOPMENTS

The Committee is mindful of the forthcoming changes to the Corporate Governance Code, which will become effective for the Company from January 2019.

The responsibilities and roles undertaken by the Committee already encompass much of the revised Code; however, during the course of the last year the Committee has undertaken a review of what additional steps need to be taken, with particular focus on how we effectively maintain and, where appropriate, extend engagement with all colleagues and across all other stakeholders.

DIRECTORS' FEES (AUDITED)

Single total aggregate Directors' remuneration for the year under review was £126,000 (2017: £103,250). The Directors who served during the year under review received the following emoluments:

Director	Fees paid during the year under review [1]	Taxable benefits	Non-taxable benefits	31 December 2018	31 December 2017
Robert Sharpe (Chair)	£45,000	-	-	£45,000	£37,500
Jim Coyle	£43,000	-	-	£43,000	£34,750
Ravi Takhar	£38,000	-	-	£38,000	£31,000
Total	£126,000	-	-	£126,000	£103,250

[1] Fees paid to the Directors during the year under review does not include any employment taxes or valid business expenses.

No payments were made to past Directors for loss of office. In the absence of further major increases in the workload and responsibility involved, the Board does not expect fees to increase significantly over the next three years. The overall remuneration of each Director will continue to be monitored by the Board, taking into account those matters referred to in the annual statement above. The Company did not pay any other benefits including bonuses, pension benefits, share options, long-term incentive schemes or other non-cash benefits or taxable benefits.

The Company has not made any loans to the Directors, nor has it ever provided any guarantees for the benefit of any Director or the Directors collectively nor does it intend to.

Company Performance

The Board is responsible for the Company's investment strategy and performance, although day-to-day management of the Company's affairs, including the management of the Company's portfolio, has been delegated to third-party service providers. An explanation of the performance of the Company is given in the Chairman's statement and Investment Manager's review above.

EXPENDITURE BY THE COMPANY ON DIRECTORS' REMUNERATION COMPARED WITH DISTRIBUTIONS TO SHAREHOLDERS

The following table is provided in accordance with The Small and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 which sets out the relative importance of spend on pay in respect of the year ended 31 December 2018. The table shows the remuneration paid to Directors for the year under review, compared to the distribution payments to shareholders.

	31 December 2018 £'000	31 December 2017 £'000
Total remuneration paid to Directors	126	103
Shareholder distributions – dividends or share buybacks	27,750	21,535

DIRECTORS' INTERESTS (AUDITED)

The Company does not have any requirement for any Director to own shares in the Company.

As at 31 December 2018, the Directors do not hold shares in the Company.

There have been no changes to any holdings between 31 December 2018 and the date of this report.

APPROVAL OF THE ANNUAL REPORT ON REMUNERATION AND THE DIRECTORS' REMUNERATION POLICY

The Annual Report on remuneration was approved by the Board on 29 April 2019 and signed on behalf of the Board by:

Robert Sharpe
Chairman of the Remuneration and Nomination Committee
29 April 2019

Statement of Directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 Company and of the profit or loss of the Company for that period. In preparing the financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- State whether applicable IFRSs as adopted by the European Union have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements;
- Make judgements and accounting estimates that are reasonable and prudent; and
- 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 and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Company financial statements, Article 4 of the IAS Regulation.

The Directors 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.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors consider that the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

Each of the Directors, whose names and functions are listed in Directors' Report confirm that, to the best of their knowledge:

- The Company financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the company; and
- The Strategic Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

In the case of each Director in office at the date the Directors' Report is approved:

- So far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- They have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Signed on behalf of the Board by

Robert Sharpe
Chairman
29 April 2019

Financial Statements

Statement of Comprehensive Income

For the year ended 31 December 2018

	Notes	For the year ended 31 December 2018 Revenue £'000	Capital £'000	Total £'000	For the year ended 31 December 2017 Revenue £'000	Capital £'000	Total £'000
Income							
Investment interest	5	50,921	-	50,921	31,771	-	31,771
Other income	5	1	-	1	2	-	2
		50,922	-	50,922	31,773	-	31,773
Expenses							
Management fee	6	(4,907)	(90)	(4,997)	(2,841)	(81)	(2,922)
Performance fee	6	(2,873)	-	(2,873)	(2,329)	-	(2,329)
Changes in estimated credit losses	11	(7,467)	-	(7,467)	(2,783)	-	(2,783)
Other expenses	7	(1,209)	-	(1,209)	(1,046)	-	(1,046)
		(16,456)	(90)	(16,546)	(8,999)	(81)	(9,080)
Ot Other net changes in investments held at fair value through profit and loss	12	-	(750)	(750)	-	-	-
Profit / (loss) before finance costs and taxation		34,466	(840)	33,626	22,774	(81)	22,693
Finance costs	18	(5,429)	-	(5,429)	(1,732)	-	(1,732)
Profit / (loss) before taxation		29,037	(840)	28,197	21,042	(81)	20,961
Taxation on ordinary activities	8	-	-	-	-	-	-
Profit / (loss) after taxation		29,037	(840)	28,197	21,042	(81)	20,961
Earnings per share (basic and diluted)	10	79.6p	(2.3)p	77.3p	81.5p	(0.3)p	81.2p

The total column of this statement represents the Statement of comprehensive income prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. The supplementary revenue return and capital return columns are both prepared under guidance issued by the Association of Investment Companies ("AIC"). All items in the above statement derive from continuing operations.

No operations were discontinued during the year.

The Company does not have any income or expense that is not included in net profit for the year. Accordingly, the net profit for the year is also the Total Comprehensive Income for the year, as defined in IAS1 (revised). There is no other comprehensive income for the year.

The notes below form an integral part of the financial statements.

Statement of Financial Position

As at 31 December 2018

	Notes	31 December 2018 £'000	31 December 2017 £'000
Non-current assets			
Investments at amortised cost	11	576,530	345,566

	Note		
Investments held at fair value through profit or loss	12	9,980	11,227
Fixed assets	15	217	342
		586,727	357,135
Current assets			
Receivables	16	3,375	3,477
Cash and cash equivalents		5,559	5,730
		8,934	9,207
Total assets		595,661	366,342
Current liabilities			
Management fee payable		(985)	(592)
Performance fee payable		(2,873)	(2,329)
Other payables	17	(1,830)	(1,875)
		(5,688)	(4,796)
Total assets less current liabilities		589,973	361,546
Interest bearing borrowings	18	(189,263)	(56,787)
Net assets		400,710	304,759
Shareholders' funds			
Ordinary share capital	19	394	299
Share premium		299,599	201,852
Revenue reserves		4,934	5,133
Capital reserves		(965)	(125)
Special distributable reserves	20	96,748	97,600
Total shareholders' funds		400,710	304,759
Net asset value per share	24	1,015.7p	1,018.4p

The notes below form an integral part of the financial statements.

The financial statements below were approved by the Board of Directors of Honeycomb Investment Trust plc (a public limited company incorporated in England and Wales with company number 09899024) and authorised for issue on 29 April 2019. They were signed on its behalf by:

Robert Sharpe, Chairman

Statement of Changes in Shareholders' Funds

For the year ended 31 December 2018

	Ordinary Share Capital £'000	Share Premium £'000	Revenue Reserves £'000	Capital Reserves £'000	Special Distributable Reserves £'000	Total Equity £'000
Shareholders' funds at 1 January 2018	299	201,852	5,133	(125)	97,600	304,759
Changes on initial application of IFRS 9	-	-	(2,338)	-	-	(2,338)
Updated balance at 1 January 2018	299	201,852	2,795	(125)	97,600	302,421
Ordinary shares issued	95	99,905	-	-	-	100,000
Ordinary shares issue costs	-	(2,158)	-	-	-	(2,158)
Profit / (loss) after taxation	-	-	29,037	(840)	-	28,197
Dividends paid in the year	-	-	(26,898)	-	(852)	(27,750)
Shareholders' funds at 31 December 2018	394	299,599	4,934	(965)	96,748	400,710

As at 31 December 2018 the Company had distributable reserves of £100.72 million for the payment of future dividends. The distributable reserves are the net of the revenue reserves (£4.93 million), realised capital reserves (-£0.97 million) and the special distributable reserves (£96.75 million).

For the year ended 31 December 2017

	Ordinary Share Capital £'000	Share Premium £'000	Revenue Reserves £'000	Capital Reserves £'000	Special Distributable Reserves £'000	Total Equity £'000
Shareholders' funds at 1 January 2017	199	98,670	5,126	(44)	98,100	202,051
Ordinary shares issued	100	104,900	-	-	-	105,000
Ordinary shares issue costs	-	(1,718)	-	-	-	(1,718)
Profit / (loss) after taxation	-	-	21,042	(81)	-	20,961
Dividends paid in the year	-	-	(21,035)	-	(500)	(21,535)
Shareholders' funds at 31 December 2017	299	201,852	5,133	(125)	97,600	304,759

As at 31 December 2017 the Company had distributable reserves of £102.61 million for the payment of future dividends. The distributable reserves are the net of the revenue reserves (£5.13 million), realised capital reserves (-£0.13 million) and the special distributable reserves (£97.60 million).

The notes below form an integral part of the financial statements.

Statement of Cash Flows

For the year ended 31 December 2018

	Notes	31 December 2018 £'000	31 December 2017 £'000
Cash flows from operating activities:			
Profit after taxation		28,197	20,961
Adjustments for:			
Changes on initial application of IFRS 9	1	(2,338)	-
Change in expected credit loss	11	7,467	2,783
Net change in unrealised losses/(gains)	12	750	-
Finance costs		5,429	1,732
Amortisation	15	275	240
Decrease in receivables	16	102	246
Increase in payables	17	892	1,316
Net cash inflow from operating activities		40,774	27,278
Cash flows from investing activities:			
Net (Purchase) of Investments at amortised cost		(238,431)	(190,504)
(Purchase) of investments	12	(3,000)	(6,497)
Sale of investments	12	3,497	-
Purchase of fixed assets	15	(150)	(213)
Net cash (outflow) from investing activities		(238,084)	(197,214)
Cash flows from financing activities:			
Proceeds from issue of ordinary shares	19	100,000	105,000
Share issue costs		(2,158)	(1,718)
Interest bearing borrowings	18	366,900	122,500
Repayments of interest-bearing borrowings	18	(234,400)	(66,000)
Interest paid on financing activities		(5,453)	(1,458)
Dividends declared and paid	9	(27,750)	(21,535)
Net cash inflow from financing activities		197,139	136,789

Net change in cash and cash equivalents	(171)	(33,147)
Cash and cash equivalents at the beginning of the year	5,730	38,877
Net cash and cash equivalents	5,559	5,730

The notes below form an integral part of the financial statements.

Notes to the Financial Statements

1. PRINCIPAL ACCOUNTING POLICIES

Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU"). They comprise standards and interpretations approved by the International Accounting Standards Board ("IASB") and International Financial Reporting Committee, including interpretations issued by the IFRS Interpretations Committee and interpretations issued by the International Accounting Standard Committee ("IASC") that remain in effect, to the extent they have been adopted by the EU.

The financial statements have been prepared in accordance with the Companies Act 2006 as applicable to companies using IFRS.

The financial statements have been prepared on a going concern basis and under the historic cost convention modified by the revaluation of financial assets held at fair value through profit and loss as applicable. The Directors consider that the Company has adequate financial resources to enable it to continue operations for a period of no less than 12 months from the reporting date. Accordingly, the Directors believe that it is appropriate to continue to adopt the going concern basis in preparing the financial statements.

The principal accounting policies adopted by the Company are set out below. Where presentational guidance set out in the Statement of Recommended Practice ("SORP") for investment trusts issued by the Association of Investment Companies ("AIC") in July 2018 is consistent with the requirements of IFRS, the Directors have sought to prepare the financial statements on a basis compliant with the recommendations of the SORP.

All values are rounded to the nearest thousand pounds unless otherwise indicated.

Except for new accounting policies introduced by IFRS 9 the accounting policies have been applied consistently year on year.

Changes to Accounting Policies

IFRS 9 Financial Instruments

The Company has adopted IFRS 9 as issued by the IASB in July 2014 with a date of transition of 1 January 2018, which resulted in changes in accounting policies. The Company did not early adopt any of IFRS 9 in previous periods. IFRS 9 replaces IAS 39 and addresses classification, measurement and derecognition of financial assets and liabilities, the impairment of financial assets measured at amortised cost or fair value through other comprehensive income and general hedge accounting.

As permitted by the transitional provisions of IFRS 9, the Company elected not to restate comparative figures on initial application. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings and other reserves of the current period.

Consequently, for notes disclosures, the consequential amendments to IFRS 7 disclosures have also only been applied to the current period. The comparative period notes disclosures repeat those disclosures made in the prior year. The adoption of IFRS 9 has resulted in changes in the Company's accounting policies for recognition, classification and measurement of financial assets and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 'Financial Instruments: Disclosures'.

Set out below are disclosures relating to the impact of the adoption of IFRS 9 on the Company. Further details of the specific IFRS 9 accounting policies applied in the current period (as well as the previous IAS 39 accounting policies applied in the comparative period) are described in more detail below.

IFRS 15 Revenue from Contracts with Customers

The objective of IFRS 15 is to establish the principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. The standard has been applied in the Company's annual report as the standard became effective for any periods beginning on or after 1 January 2018.

The adoption and interpretation of this standard has not had a material impact on the financial statements, given the nature of the Company's business with revenue predominantly from interest and movements in fair value.

(a) Classification and measurement of financial instruments

IFRS 9 includes three principle classification categories for financial assets which must be designated at initial recognition. Financial assets are measured at fair value through profit or loss ("FVTPL"), fair value through other comprehensive income ("FVOCI") or amortised cost based on the nature of the cash flows of the assets and an entity's business model. These categories replace the existing IAS 39 classifications of fair value through profit and loss ("FVTPL"), available for sale ("AFS"), loans and receivables, and held-to-maturity.

The measurement category and the carrying amount of financial assets in accordance with IAS 39 and IFRS 9 at 1 January 2018 are compared below:

	31 December 2017 IAS 39		1 January 2018 IFRS 9	
	Measurement category £'000	Carrying amount £'000	Measurement category £'000	Carrying amount £'000
Financial Assets				
Investments at amortised cost	Amortised cost (Loans and receivables)	335,252	Amortised cost	332,914
Investments at amortised cost	Amortised cost (Held-to-maturity)	10,314	Amortised cost	10,314
Investments held at fair value through profit or loss	FVTPL (Held for trading)	11,227	FVTPL (Mandatory)	11,227
Fixed assets	Amortised cost	342	Amortised cost	342
Receivables	Amortised cost (Loans and receivables)	3,477	Amortised cost	3,477
Cash and cash equivalents	Amortised cost (Loans and receivables)	5,730	Amortised cost	5,730
Total Assets		366,342		364,004

There were no changes in measurement category driven by the introduction of IFRS 9. All movements in carrying amount were due to the introduction of the expected credit loss model. There were no changes to the classification and measurement of financial liabilities.

(b) Reconciliation of statement of financial positional balances from IAS 39 to IFRS 9

The Company performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics. Please refer below for more detailed information regarding the new classification requirements under IFRS 9. The following table reconciles the carrying amounts of financial assets, from their previous measurement category in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on 1 January 2018:

	IAS39 carrying amount £'000	Reclassifications £'000	Remeasurements £'000	IFRS9 carrying amount £'000
Investments at amortised cost				
Opening balance under IAS 39	355,309	-	-	355,309
Reclassification	-	-	-	-
Remeasurement: ECL allowance	(9,743)	-	(2,338)	(12,081)
Closing balance	345,566	-	(2,338)	343,228

There were no changes to any other asset or liability captions due to remeasurement or reclassification on initial adoption of IFRS 9.

The total remeasurement loss of £2.3 million was recognised in opening reserves at 1 January 2018. There were no changes due to reclassification, and the whole re-measurement being a change relating to the changes due to the new expected credit loss model.

(c) Reconciliation of impairment allowance balance from IAS 39 to IFRS 9

The new requirements of IFRS 9 have been applied by adjusting the Statement of Financial Position on 1 January 2018, the date of initial application. The Company has taken advantage of the exemption allowing it not to restate comparative information for prior periods with respect to financial information.

The 'incurred loss model' under IAS 39 is replaced with a new forward looking 'expected credit loss model' under IFRS 9. Impairment provisions are driven by changes in credit risk of instruments, with a provision for lifetime expected credit losses recognised where the risk of default of an instrument has increased significantly since initial recognition. Risk of default and expected credit losses must incorporate forward-looking and macroeconomic information.

The new expected credit loss model applies to the following financial instruments that are not measured at FVTPL:

- Financial assets that are debt instruments; and
- Loan commitments and financial guarantee contracts issues (previously, impairment was measured under IAS 37 Provisions, Contingent Liabilities and Contingent Assets).

Under IFRS 9, no impairment loss is recognised on equity investments. IFRS 9 requires a loss allowance to be recognised at an amount equal to either 12 month expected credit loss ("ECL"), or lifetime ECL. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of the financial instrument, whereas 12-month ECLs are the portion of the ECL that result from default events that are possible within 12 months after the reporting date.

Under IFRS 9, credit loss allowances are to be measured on each reporting date according with a three-stage ECL impairment model:

- Stage 1 – From initial recognition of a financial asset to the date on which the asset has experienced a significant increase in credit risk relative to its initial recognition, a loss allowance is recognised equal to the credit losses expected to result from defaults occurring over the next 12 months.
- Stage 2 – Following a significant increase in credit risk relative to the initial recognition of the financial asset, a loss allowance is recognised equal to the credit losses expected over the remaining lifetime of the asset.
- Stage 3 – When a financial asset is considered to be credit-impaired, a loss allowance equal to full lifetime expected credit losses are recognised. Interest revenue is calculated based on the carrying amount of the asset, net of the loss allowance, rather than on its gross carrying amount.

For the expected credit loss balance at year end for each of the above stages and how these have moved in the year please see Note 11 to the financial statements.

Under IFRS 9, the population of financial assets and corresponding allowances disclosed as Stage 3 will not necessarily correspond to the amounts of financial assets currently disclosed as impaired in accordance with IAS 39. Consistent with IAS 39, loans are written off when there is no realistic probability of recovery.

Given all financial assets within the scope of the IFRS 9 impairment model are assessed for at least 12-months of ECLs, and the population of financial assets to which full lifetime ECLs applies is larger than the population of impaired loans for which there is objective evidence of impairment in accordance with IAS 39, loss allowances are higher than under IFRS 9 relative to IAS 39.

Changes in the required credit loss allowance, including the impact of movements between Stage 1 and Stage 2, are recorded in profit or loss. The impact of moving between 12 month and lifetime ECLs and the application of forward-looking information, means provisions are expected to be more volatile under IFRS 9 than IAS 39 due to the Company's continued origination of new assets.

The following table reconciles the prior period's closing impairment allowance measured in accordance with the IAS 39 incurred loss model to the new ECL allowance measured in accordance with the IFRS 9 expected credit loss model at 1 January 2018:

	Loan loss allowance under IAS 39 £'000	Remeasurement £'000	Loan loss allowance under IFRS 9 £'000
Consumer	4,675	1,741	6,416
Property	5,068	597	5,665
SME	-	-	-
Total	9,743	2,338	12,081

The most significant driver of the increase is the requirement under IFRS 9 to hold an expected credit loss provision for performing loans, which is incremental to the existing incurred loss provision on non-performing loans under IAS 39.

Accounting Policies

Consolidation

Subsidiaries are investees controlled by the Company. The Company controls an investee if it is exposed to, or has the rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Company reassesses whether it has control if there are changes to one or more elements of control. Subsidiaries are valued at fair value. The Company does not consider itself to be an investment entity for the purposes of IFRS 10, as it does not hold substantially all of its investments at fair value. Consequently, it consolidates its subsidiaries rather than holding at fair value through profit or loss.

As at 31 December 2018 the Company did not control a subsidiary. As at 31 December 2017 the Company was deemed to control one subsidiary, Business Mortgage Finance 3 plc ("BMF 3"), a public limited company incorporated under the Laws of England and Wales. The company is registered at Asticus Building 2nd Floor 21 Palmer Street, London, SW1H 0AD.

BMF 3 was a securitisation vehicle for UK commercial mortgages and operates in a pre-determined manner. The Company was considered to control BMF 3 from 20 December 2017 to 15 February 2018 by virtue of having exposure to the variable returns of the vehicle through the holding of a subordinated note issued by it. The rights of the subordinated loan include all monies payable and rights of action and security as well as the rights to the residual revenue.

On 15 January 2018 the Company gave notice to call the external note holders of BMF 3 one month prior to the quarterly interest payment date. Subsequently, on 15 February 2018, the Company redeemed all external note holders and as a consequence purchased the residual loan values and released the security over the loans. The effect of this is the underlying assets have been purchased by the Company and bought onto the Company's Statement of Financial Position. BMF 3 will no longer be consolidated as the Company will no longer have control of BMF 3.

In the prior year consolidated financial statements, intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing consolidated financial statements.

Foreign Currency

The financial statements are prepared in Pounds Sterling because that is the currency of all of the transactions during the year, so has been selected as the presentational currency.

The primary objective of the Company is to generate returns in Pounds Sterling, its capital-raising currency. The liquidity of the Company is managed on a day-to-day basis in Pounds Sterling as the Company's performance is evaluated in that currency. Therefore, the Directors consider Pounds Sterling as the currency that most faithfully represents the economic effects of the underlying transactions, events and conditions and is therefore the functional currency.

During the year under review there were no transactions in foreign currencies. Transactions involving foreign currencies would be converted at the exchange rate ruling at the date of the transaction. Foreign currency monetary assets and liabilities would be translated into Pounds Sterling at the exchange rate ruling on the year-end date. Foreign exchange differences arising on translation would be recognised in the Statement of Comprehensive Income.

Presentation of the Statement of Comprehensive Income

In order to better reflect the activities of an investment trust company and in accordance with guidance issued by the AIC, supplementary information which analyses the Statement of Comprehensive Income between items of a revenue and capital nature has been presented alongside the Statement of Comprehensive Income.

In respect of the analysis between revenue and capital items presented within the Statement of Comprehensive Income, all expenses and finance costs, which are accounted for on an accruals basis, have been presented as revenue items except those items listed below:

- Expenses are allocated to capital where a direct connection with the maintenance or enhancement of the value of the investments can be demonstrated; and
- Expenses which are incidental to the disposal of an investment are deducted from the disposal proceeds of the investment.

The following are presented as capital items:

- Gains and losses on the realisation of investments;
- Increases and decreases in the valuation of investments held at the 31 December 2018;
- Realised and unrealised gains and losses on transactions undertaken to hedge an exposure of a capital nature;
- Realised and unrealised exchange differences of a capital nature; and
- Expenses, together with the related taxation effect, allocated to capital in accordance with the above policies.

Income

Interest from loans are recognised in the Statement of Comprehensive Income for all instruments measured at amortised cost using the effective interest rate method ("EIRM").

The EIRM is a method of calculating the amortised cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate ("EIR") is the rate that exactly discounts estimated future cash flows through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Company takes into account all contractual terms of the financial instrument, for example prepayment options, but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Fees and commissions which are not considered integral to the EIRM and deposit interest income are recognised on an accruals basis when the service has been provided or received.

Dividend income from investments is recognised when the Company's right to receive payment has been established, normally the ex-dividend date.

Expenses

All expenses are accounted for on the accruals basis. In respect of the analysis between revenue and capital items presented within the Statement of Comprehensive Income, all expenses have been presented as revenue items except as follows:

- Transaction costs which are incurred on the purchases or sales of investments designated as fair value through profit or loss are expensed to capital in the Statement of Comprehensive Income; and
- Expenses are split and presented partly as capital items where a connection with the maintenance or enhancement of the value of the investments held can be demonstrated and, accordingly, the management fee for the financial year has been allocated 98.2 per cent to revenue and 1.8 per cent to capital (being the ratio of Credit Assets to Equity Assets at the financial year-end), in order to reflect the Directors' long-term view of the nature of the expected investment returns of the Company.

Finance costs

Finance costs are accrued on the effective interest rate basis. Since these costs are considered to be an indirect cost of maintaining the value of investments they are allocated in full to revenue.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax. The tax currently payable is based on the taxable profit for the year. The taxable profit differs from profit before tax as reported in the Statement of Comprehensive Income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using a blended rate as applicable throughout the year.

In line with the recommendations of the SORP, the allocation method used to calculate tax relief on expenses presented against capital returns in the supplementary information in the Statement of Comprehensive Income is the 'marginal basis'. Under this basis, if taxable income is capable of being entirely offset by expenses in the revenue column of the statement of comprehensive income, then no tax relief is transferred to the capital return column.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the Statement of Financial Position liability method. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled, or the asset is realised. Deferred tax is charged or credited in the revenue return column of the Statement of comprehensive income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Investment trusts which have approval under Section 1158 of the Corporation Tax Act 2010 are not liable for taxation on capital gains. The Company has been approved as an Investment Trust by HMRC.

Irrecoverable withholding tax is recognised on any overseas dividends on an accruals basis using the applicable rate for the country of origin.

Investments at amortised cost

Loans are initially recognised at a carrying value equivalent to the funds advanced to the borrower plus the costs of acquisition such as broker and packaging fees. After initial recognition loans are subsequently measured at amortised cost using the effective EIRM less impairment provisions (see Note 11 to the financial statements).

Investments

All investments held by the Company have been designated at fair value through profit or loss ("FVTPL") but are also described in these financial statements as investments held at fair value and are valued in accordance with the International Private Equity and Venture Capital Valuation Guidelines ("IPEVCV") effective 1 January 2016 as recommended by the British Private Equity and Venture Capital Association.

Purchases and sales of unquoted investments are recognised when the contract for acquisition or sale becomes unconditional.

Fixed assets

Fixed assets are shown at cost less accumulated depreciation. Depreciation is calculated by the Company on a straight-line basis by reference to the original cost, estimated useful life and residual value. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. The period of estimated useful life for this purpose is one to three years. Residual values are assumed to be nil.

Receivables

Receivables do not carry any interest and are short term in nature. They are initially stated at their nominal value and reduced by appropriate allowances for expected credit losses (if any). Given their short-term nature a lifetime ECL is not deemed necessary as expected life is less than a month.

Cash and cash equivalents

Cash and cash equivalents (which are presented as a single class of asset on the Statement of Financial Position) comprise cash at bank and in hand and deposits with an original maturity of three months or less. The carrying value of these assets approximates their fair value.

Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into.

Payables

Payables are non-interest bearing. They are initially stated at their nominal value.

Interest bearing borrowings

Interest bearing borrowings are initially recognised at a carrying value equivalent to the proceeds received net of issue costs associated with the borrowings. After initial recognition, interest bearing borrowings are subsequently measured at amortised cost using the effective interest rate method.

Dividends

Interim dividends to shareholders are recognised in the year of the ex-dividend date.

Associates

Associates are entities over which the Company has significant influence, but does not control, generally accompanied by a shareholding of between 20 per cent and 50 per cent of the voting rights.

No associates are presented on the Statement of Financial Position as the Company elects to hold such investments at fair value through profit and loss. This treatment is permitted by IAS 28 Investment in Associates and Joint Ventures, which permits investments held by entities that are venture capital organisations, mutual funds or similar entities to be excluded from its measurement methodology requirements where those investments are designated, upon initial recognition, as at fair value through profit or loss and accounted for in accordance with IFRS 9. Changes in fair value of associates are recognised in the Statement of Comprehensive Income in the period in which the change occurs.

The disclosures required by Section 409 of the Companies Act 2006 for associated undertakings are included in Note 23 to the financial statements.

Classification and measurement

Financial assets and financial liabilities are recognised in the Statement of Financial Position when the Company becomes a party to the contractual provisions of the instrument. The Company shall offset financial assets and financial liabilities if it has a legally enforceable right to set off the recognised amounts and interests and intends to settle on a net basis. Financial assets and liabilities are derecognised when the Company settles its obligations relating to the instrument.

From 1 January 2018 IFRS 9 contains a new classification and measurement approach for debt instruments that reflects the business model in which assets are managed and their cash flow characteristics. This is a principle-based approach and applies one classification approach for all types of debt instruments. For debt Instruments two criteria are used to determine how financial assets should be classified and measured:

- The entity's business model (i.e. how an entity manages its debt Instruments in order to generate cash flows by collecting contractual cash flows, selling financial assets or both); and
- The contractual cash flow characteristics of the financial asset (i.e. whether the contractual cash flows are solely payments of principal and interest).

A debt instrument is measured at amortised cost if it meets both of the following conditions and is not designated as at fair value through profit and loss ("FVTPL"): (a) it is held within a business model whose objective is to hold assets to collect contractual cash flows; and (b) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at fair value through other comprehensive income ("FVOCI") if it meets both of the following conditions and is not designated as at FVTPL:

(a) it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

(b) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Movements in the carrying amount are taken through the Other Comprehensive Income ("OCI"), except for the recognition of expected credit losses, interest revenue and foreign exchange gains and losses on the investments at amortised cost which is recognised in the Consolidated Statement of Comprehensive Income. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to the Consolidated Statement of Comprehensive Income and recognised in 'Income'. Interest income from these financial assets in included in 'Income' using the EIRM.

Equity instruments are measured at FVTPL, unless they are not held for trading purposes, in which case an irrevocable election can be made on initial recognition to measure them at FVOCI with no subsequent reclassification to profit or loss. This election is made on an investment by investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. All equity positions are measured at FVTPL. Financial assets measured at FVTPL are recognised in the balance sheet at their fair value. Fair value gains and losses together with interest coupons and dividend income are recognised in the income statement within net trading income in the period in which they occur. The fair values of assets and liabilities traded in active markets are based on current bid and offer prices respectively. If the market is not active the Company establishes a fair value by using valuation techniques. In addition, on initial recognition the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

The Company assesses the objective of the business model in which a financial asset is held at a portfolio level in order to generate cash flows because this best reflects the way the business is managed, and information is provided to the Investment Manager. That is, whether the Company's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these are applicable, then the financial assets are classified as part of the other business model and measured at FVTPL.

The information that is considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice, including whether the strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of assets;
- Past experience on how the cash flows for these assets were collected;
- How the performance of the portfolio is evaluated and reported to the Investment Manager;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed; and
- The frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Investment Manager's stated objective for managing the financial assets is achieved and how cashflows are realised.

Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a reasonable profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the contractual terms of the instrument are considered. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment the following features are considered:

- Contingent events that would change the amount and timing of cash flows;
- Leverage features;
- Prepayment and extension terms;
- Terms that limit the Company's claim to cash flows from specified assets, e.g. non-recourse asset arrangements; and
- Features that modify consideration for the time value of money, e.g. periodic reset of interest rates.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

The Company subsequently measures all equity investments at FVTPL Gains and losses on equity investments at FVTPL are included in the 'Income' line in the Statement of Comprehensive Income.

Comparative financial year ended 31 December 2017

For the comparative financial year ended 31 December 2017 financial assets have been classified Under IAS 39. Under IAS 39 the Company can classify its financial assets into the following measurement categories: (i) financial assets held at fair value through profit or loss ("FVTPL"); (ii) loans and receivables; (iii) held-to-maturity; and (iv) available for sale. Financial liabilities can be classified as either held at fair value through profit or loss, or at amortised cost using the EIRM.

Financial assets and liabilities are classified at initial recognition.

Financial assets and liabilities held at fair value through profit or loss.

This category has two sub-categories: Financial assets and liabilities held for trading, and those designated at fair value through profit or loss at inception.

A financial asset or liability is classified as trading if acquired principally for the purpose of selling in the short-term, this does not apply to the Company.

Financial assets and liabilities may be designated at fair value through profit or loss when:

- The designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities on a different basis;
- A group of financial assets and/or liabilities is managed, and its performance evaluated on a fair value basis; or
- The assets or liabilities include embedded derivatives and such derivatives are required to be recognised separately.

Financial assets and liabilities held at fair value through profit or loss are subsequently carried at fair value, with gains and losses arising from changes in fair value taken directly to the consolidated income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and it is expected that substantially all of the initial investment will be recovered, other than because of credit deterioration. Loans and receivables are subsequently carried at amortised cost using the EIRM and recorded net of provisions for impairment losses.

Held-to-maturity

Held-to-maturity assets are those assets purchased with the intention of holding to the investment maturity. This is reported at amortised cost using the EIRM. All bonds held by the Company are currently held-to-maturity.

Available for sale

Available for sale assets are those non-derivative financial assets intended to be held for an indefinite period of time, which may be sold in response to liquidity requirements or changes in interest rates, exchange rates or equity prices. Available for sale financial assets are subsequently carried at fair value, with gains and losses arising from changes in fair value taken to a separate component of equity until the asset is sold, or is impaired, when the cumulative gain or loss is transferred to the consolidated statement of comprehensive income. The Company has no AFS.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Company has transferred substantially all risks and rewards of ownership. If substantially all the risks and rewards have been neither retained nor transferred and the Company has retained control, the assets continue to be recognised to the extent of the Company's continuing involvement. Financial liabilities are derecognised when they are extinguished.

Expected Credit loss allowance for financial assets measured at amortised cost

The impairment charge in the income statement includes the change in expected credit losses which are recognised for loans and advances to customers, other financial assets held at amortised cost and certain loan commitments.

IFRS 9 applies a single impairment model to all financial instruments subject to impairment testing while IAS 39 had different models for different financial instruments. Impairment losses are recognised on initial recognition, and at each subsequent reporting period, even if the loss has not yet been incurred. In addition to past events and current conditions, reasonable and supportable forecasts affecting collectability are also considered when determining the amount of impairment in accordance with IFRS 9. The impairment requirements under IFRS 9 are significantly different from those under IAS 39. The following highlights the key differences between the two standards.

The IAS 39 incurred loss model delays the recognition of credit losses until there is objective evidence of impairment. Impairment is based on only past trigger events, and current conditions are considered when determining the amount of impairment (i.e., the effects of future credit loss events cannot be considered, even when they are expected). It also uses different impairment models for different financial instruments subject to impairment testing. Under IFRS 9 expected credit loss model expected credit losses are recognised at each reporting period, even if no actual loss events have taken place. In addition to past events and current conditions, reasonable and supportable forward-looking information that is available without undue cost or effort is considered in determining impairment, with the model applied to all financial instruments subject to impairment testing.

At initial recognition, allowance is made for expected credit losses resulting from default events that are possible within the next 12 months (12-month expected credit losses). In the event of a significant increase in credit risk, allowance (or provision) is made for expected credit losses resulting from all possible default events over the expected life of the financial instrument (lifetime expected credit losses). Financial assets where 12-month expected credit losses are recognised are considered to be Stage 1; financial assets which are considered to have experienced a significant increase in credit risk are in Stage 2; and financial assets which have defaulted or are otherwise considered to be credit impaired are allocated to Stage 3.

The measurement of ECLs is primarily based on the product of the instrument's probability of default ("PD"), loss given default ("LGD"), and exposure at default ("EAD"), taking into account the value of any collateral held or other mitigants of loss and including the impact of discounting using the effective interest rate.

- The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months ("12M PD"), or over the remaining lifetime ("Lifetime PD") of the obligation.
- EAD is based on the amounts the Company expects to be owed at the time of default, over the next 12 months ("12M EAD") or over the remaining lifetime ("Lifetime EAD"). For example, for a revolving commitment, the Company includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur. The EAD is discounted back to the reporting date using the effective interest rate ("EIR") determined at initial recognition.
- LGD represents the Company's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

The ECL is determined by projecting the PD, LGD, and EAD for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The Lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. This is supported by historical analysis.

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type.

- For amortising products and bullet repayment loans, this is based on the contractual repayments owed by the borrower over a 12 month or lifetime basis. This is also adjusted for any expected overpayments made by a borrower. Early repayment/refinance assumptions are also incorporated into the calculation.
- For revolving products, the exposure at default is predicted by taking current drawn balance and adding a "credit conversion factor" which allows for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type and current limit utilisation band, based on analysis of the Company's recent default data.

The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default. These vary by product type.

- For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and recovery costs observed.
- For unsecured products, LGD's are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGD's are influenced by collection strategies, including contracted debt sales and price.

The main difference between Stage 1 and Stage 2 is the respective PD horizon. Stage 1 estimates use a maximum of a 12-month PD, while Stage 2 estimates use a lifetime PD. The main difference between Stage 2 and Stage 3 is Stage 3 is effectively the point at which there has been a default event. For financial assets in stage 3, entities continue to recognise lifetime ECL but now recognise interest income on a net basis. This means that interest income is calculated based on the gross carrying amount of the financial asset less ECL. Stage 3 estimates continue to leverage existing processes for estimating losses on impaired loans, however, these processes are updated to reflect the requirements of IFRS 9, including the requirement to consider multiple forward-looking scenarios.

Movements between Stage 1 and Stage 2 are based on whether an instrument's credit risk as at the reporting date has increased significantly relative to the date it was initially recognised. Where the credit risk subsequently improves such that it no longer represents a significant increase in credit risk since origination, the asset is transferred back to Stage 1. Where the credit risk subsequently improves such that it no longer represents a significant increase in credit risk since origination, the asset is transferred back to Stage 1.

In assessing whether a borrower has had a significant increase in credit risk the following indicators are considered:

- Consumer
    - Short-term forbearance
    - Extension of terms granted
- Structured/SME/Property
    - Significant increase in credit spread
    - Significant adverse changes in business, financial and/or economic conditions in which the borrower operates
    - Actual or expected forbearance or restructuring
    - Actual or expected significant adverse change in operating results of the borrower
    - Significant change in collateral value (secured facilities only) which is expected to increase the risk of default
    - Early signs of cashflow/liquidity problems such as delay in servicing of trade creditors

However, unless identified at an earlier stage, the credit risk of financial assets is deemed to have increased significantly when more than 30 days past due.

Movements between Stage 2 and Stage 3 are based on whether financial assets are credit-impaired as at the reporting date. IFRS 9 contains a rebuttable presumption that default occurs no later than when a payment is 90 days past due. The Company uses this 90-day backstop for all its assets except for UK second mortgages, the Company has assumed a backstop of 180 days past due as mortgage exposures more than 90 days past due, but less than 180 days, typically show high cure rates and this aligns to the Company's risk management practices. The determination of credit-impairment under IFRS 9 is similar to the individual assessment of financial assets for objective evidence of impairment under IAS 39. Assets can move in both directions through the stages of the impairment model.

In assessing whether a borrower is credit impaired the following qualitative indicators are considered:

- Consumer
    - Long-term forbearance
    - Borrower deceased
    - Borrower insolvent

- Structured/SME/Property
    - Borrower in breach of financial covenants
    - Concessions have been made by the lender relating to the borrower's financial difficulty
    - Significant adverse changes in business, financial or economic conditions on which the borrower operates
    - Long term forbearance or restructuring.

The following quantitative indicators are also considered

- The remaining lifetime PD at the reporting date has increased, compared to the residual lifetime PD expected at the reporting date when the exposure was first recognised; and
- Based on data developed internally and obtained from external sources.

The criteria above have been applied to all financial instruments held by the Company and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the PD, EAD and LGD throughout the Company's expected credit loss calculations.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Under IFRS 9, when determining whether the credit risk (i.e. the risk of default) on a financial instrument has increased significantly since initial recognition, reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis based on historical experience, credit assessment and forward-looking information.

The measurement of expected credit losses for each stage and the assessment of significant increases in credit risk considers information about past events and current conditions as well as reasonable and supportable forward-looking information. A 'Base case' view of the future direction of relevant economic variables and a representative range of other possible forecasts scenarios have been developed. The process has involved developing two additional economic scenarios and considering the relative probabilities of each outcome.

The base case represents a most likely outcome and is aligned with information used for other purposes, such as strategic planning and budgeting. The number of scenarios and their attributes are reassessed at each reporting date. At 31 December 2018, all the portfolios of the Company use one positive, more optimistic and one downside, more pessimistic outcomes. The scenario weightings are determined by a combination of statistical analysis and expert credit judgement, taking account of the range of possible outcomes each chosen scenario is representative of.

The estimation and application of forward-looking information requires significant judgement. PD, LGD and EAD inputs used to estimate Stage 1 and Stage 2 credit loss allowances, are modelled based on the macroeconomic variables (or changes in macroeconomic variables) that are most closely correlated with credit losses in the relevant portfolio. The Company has utilised macroeconomic scenarios prepared and provided by Oxford Economics ("Oxford").

Oxford combines two decades of forecast errors with the quantitative assessment of the current risks facing the global and domestic economy to produce robust forward-looking distributions for the economy. Oxford construct 3 alternative scenarios at specific percentile points in the distribution. In any distribution, the probability of a given discrete scenario is close to zero. Therefore, scenario probabilities represent the probability of that scenario or similar scenarios occurring. In effect, a given scenario represents the average of a broader bucket of similar severity scenarios and the probability reflects the width of that bucket. Given that it is known where the IFRS 9 scenarios sit in the distribution (the percentiles), their probability (the width of the bucket of similar scenarios) depends on how many scenarios are chosen. Scenario probabilities must add up to 100 per cent so the more scenarios chosen, the smaller the section of the distribution, or bucket, each scenario represents and therefore the smaller the probability. This allows the probabilities to be calculated according to whichever subset of scenarios chosen to use in the ECL calculation. The scenarios are generated at the year-end and are only updated during the year if economic conditions change significantly. The Base case is given a 40 per cent weighting and the downside and upside a 30 per cent weighting each. These weightings specifically relate to the period 1 January 2018 to 31 December 2018.

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Company considers these forecasts to represent its best estimate of the possible outcomes and has analysed the non-linearities and asymmetries within the Company's different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

Other forward-looking considerations not otherwise incorporated within the above scenarios, such as the impact of any regulatory, legislative or political changes, have also been considered, but are not deemed to have a material impact and therefore no adjustment has been made to the ECL for such factors. This is reviewed and monitored for appropriateness on an annual basis.

Given the economic uncertainty created by Brexit and the challenges facing economic forecasters in this environment, there is a concern that this distribution did not adequately represent downside risks for the UK. The high level of economic uncertainty that prevailed at the end of 2018, including the lack of progress in agreeing a clear plan for an exit from the EU and the uncertain performance of the UK economy after an exit, a fourth scenario was also run at the balance sheet date called the 'Brexit' scenario. This was not included within the final scenario weightings over the 'Downside' case as it was less severe than this given the 'Brexit' scenario only focused on a UK downturn whereas the 'Downside' scenario includes a wider more severe global recession.

Collateral and other credit enhancements

The Company employs a range of policies to mitigate credit risk. The most common of these is accepting collateral for funds advanced. The Company has internal policies of the acceptability of specific classes of collateral or credit risk mitigation.

The Company prepares a valuation of the collateral obtained as part of the loan origination process. This assessment is reviewed periodically. The principal collateral types for loans and advances are:

- Mortgages over residential properties;
- Margin agreement for derivatives, for which the Company has also entered into master netting agreements;
- Charges over business assets such as premises, inventory and accounts receivable; and
- Charges over financial instruments such as debt securities and equities.

Longer-term finance and lending to corporate entities are generally secured; revolving individual credit facilities are generally unsecured.

Collateral held as security for financial assets other than loans and advances depends on the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured, with the exception of asset-backed securities and similar instruments, which are secured by portfolios of financial instruments. Derivatives are also collateralised.

The Company's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Company since the prior period.

The Company closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the Company will take possession of collateral to mitigate potential credit losses.

Modification of financial assets

The Company sometimes modifies the terms or loans provided to customers due to commercial renegotiations, or for distressed loans, with a view to maximising recovery.

Such restructuring activities include extended payment term arrangements, payment holidays and payment forgiveness. Restructuring policies and practice are based on indicators or criteria which, in the judgement of management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans.

The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in derecognition of the original assets. The Company monitors the subsequent performance of modified assets. The Company may determine that the credit risk has significantly improved after restructuring, so that the assets are moved from Stage 3 or Stage 2.

Modification of loans

The Company sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Company assesses whether or not the new terms are substantially different to the original terms. The Company does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay;

- Whether any substantial new terms are introduced, such as a profit share/equity-based return that substantially affects the risk profile of the loan;
- Significant extension of the loan term when the borrower is not in financial difficulty;
- Significant change in the interest rate;
- Change in the currency the loan is denominated in; and
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Company derecognises the original financial asset and recognises a 'New' asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Company also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amounts are also recognised in the Consolidated Statement of Comprehensive Income as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Company recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in the Consolidated Statement of Comprehensive Income. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

Derecognition other than a modification

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Company transfers substantially all the risks and rewards of ownership, or (ii) the Company neither transfers nor retains substantially all the risks and rewards of ownership and the Company has not retained control.

The Company enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as 'pass through' transfers that result in derecognition if the Company:

- Has no obligation to make payments unless it collects equivalent amounts from the assets;
- Is prohibited from selling or pledging the assets; and
- Has an obligation to remit any cash it collects from the assets without material delay.

Collateral (shares and bonds) furnished by the Company under standard repurchased agreements and securities lending and borrowing transactions are not derecognised because the Company retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met. This also applies to certain securitisation transactions in which the Company retains a subordinated residual interest.

Financial liabilities

Classification and subsequent measurement

In both the current period and prior year, financial liabilities are classified and subsequently measured at amortised cost, except for:

- Financial liabilities at fair value through profit or loss: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in the trading booking) and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to change in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in the Consolidated Statement of Comprehensive Income;

- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition, whereby a financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Company recognises any expense incurred on the financial liability; and
- Financial guarantee contracts and loan commitments

Derecognition

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

Different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Comparative financial year ended 31 December 2017

The allowance for impairment losses on loans and receivables is the Company's best estimate of losses incurred in the portfolio at the reporting date. In determining the required level of impairment provisions, the Company uses the outputs from the analysis of historical data. Judgement is required to assess the robustness of the outputs from this analysis and, where necessary, make appropriate adjustments. Impairment allowances are made up of two components, those determined collectively ("Collective Impairment") and those determined individually ("Individual Impairment"). Both components are applied to Consumer Loans, whilst only individual impairment provisions are calculated for structured loans.

Collective Impairment

Collective Impairment allowances are applied to Consumer Loans with their smaller balances and homogenous product. This impairment provision is established where it is believed that a loan is impaired, but this is not evidenced by way of a default on contractual terms. Analysis takes into account factors such as the type of asset, collateral type, past due status and other relevant factors. These characteristics are relevant to the estimation of future cash flows for groups of such assets as they are indicative of the borrower's ability to pay all amounts due according to the contractual terms of the assets being evaluated. Generally, the impairment trigger used within the impairment calculation for a loan, or group of loans, is when they reach a pre-defined level of delinquency or where the customer is bankrupt. Loans where the Company provides arrangements that forgive a portion of interest or principal are also deemed to be impaired.

In addition, the collective provision also includes provision for inherent losses, that is losses that have been incurred but have not been separately identified at the reporting date. The loans that are not currently recognised as impaired are grouped into homogenous portfolios by product type. An assessment is made of the likelihood of assets being impaired at the balance sheet date and being identified subsequently; the length of time taken to identify that an impairment event has occurred is known as the loss emergence period. The loss emergence period is determined by the Investment Manager for each portfolio which are dependent upon the characteristics of the portfolio. Loss emergence periods are reviewed regularly and updated when appropriate. In general, the period used is 3 months based on historical experience. This provision is sensitive to changes in the loss emergence period. Management use a significant level of judgement when determining the collective unidentified impairment provision, including the assessment of the level of overall risk existing within particular sectors and the impact of the low interest rate environment on loss emergence periods.

The collective impairment allowance is also subject to estimation uncertainty and in particular is sensitive to changes in economic and credit conditions, including the interdependency of house prices, unemployment rates, interest rates, borrowers' behaviour, and consumer bankruptcy trends. It is, however, inherently difficult to estimate how changes in one or more of these factors might impact the collective impairment allowance.

Individual Impairment

Individual Impairment provisions are considered against the assets based on pools of assets of a similar nature.

Consumer - The Company calculates specific impairment provisions based on the Probability of Default ("PD") multiplied by the Exposure at Default ("EAD") multiplied by the Loss Given Default ("LGD"):

- The PD is based on the probability, dependent on stage of arrears, that the loan will not recover to perform in line with contractual payment terms; the assessment of the PD uses historical experience of cohorts of similar products. Future cash flows are estimated on the basis of the contractual cash flows of the assets in the cohort and historical loss experience for similar assets. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Investment Manager to reduce any differences between loss estimates and actual loss experience.
- The EAD is an estimate of the remaining exposure once a loan defaults taking into account expected further repayments and is dependent on stage of arrears.
- The LGD is based upon the Investment Manager's view of losses, taking into consideration any collateral and the likely recovery of any unsecured portion of the loan. The estimated cash flows are calculated based on historical experience and are dependent on estimates of the expected value of collateral which takes into account house prices, and the net proceeds which might be achieved in the event the property is repossessed and any prior mortgages are repaid. The value of collateral supporting the Company's secured loan portfolio is estimated by applying changes in the house price indices to the original assessed value of the property and periodic updates of the first mortgage balances.

Structured – Structured assets are reviewed on a regular basis and those showing potential or actual vulnerability are placed on a watch list where greater monitoring is undertaken by the Investment Manager and any adverse or potentially adverse impact on ability to repay is used in assessing whether an asset should receive more detailed scrutiny and support.

Specific examples of trigger events that could lead to the initial recognition of impairment allowances against lending to structured borrowers (or the recognition of additional impairment allowances) include (i) trading losses, loss of business or major customer of a borrower; (ii) material breaches of the terms and conditions of a loan facility, including non-payment of interest or principal, or a fall in the value of security such that it is no longer considered adequate; (iii) disappearance of an active market because of financial difficulties; or (iv) restructuring a facility with preferential terms to aid recovery of the lending (such as a debt for equity swap). For such individually identified financial assets, a review is undertaken of the expected future cash flows which requires significant management judgement as to the amount and timing of such cash flows. Where the debt is secured, the assessment reflects the expected cash flows from the realisation of the security, net of costs to realise, whether or not foreclosure or realisation of the collateral is probable. The determination of individual impairment allowances requires the exercise of considerable judgement by management involving matters such as local economic conditions and the resulting trading performance of the customer, and the value of the security held, for which there may not be a readily accessible market. The actual amount of the future cash flows and their timing may differ significantly from the assumptions made for the purposes of determining the impairment allowances and consequently these allowances can be subject to variation as time progresses and the circumstances of the customer become clearer.

Adoption of New and Revised Standards

At the date of authorisation of these financial statements, the following standards and interpretations, which have not been applied in these financial statements, were in issue but were not yet effective (and in some cases, had not been adopted by the European Union):

IFRS 16 Leases

IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. IFRS 16 was issued in January 2016 and applies to annual reporting periods beginning on or after 1 January 2019.

The Directors do not anticipate that the adoption of this standard and interpretations will have a material impact on the financial statements, given the nature of the Company's business as there is no employees and hence no premises.

At the date of authorisation of these financial statements, the following standards and interpretations, which have not been applied in these financial statements, were in issue but were not yet effective:

IFRS 17 Insurance Contract

IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows. IFRS 17 was issued in May 2017 and applies to annual reporting periods beginning on or after 1 January 2021.

The Directors do not anticipate that the adoption of this standard and interpretations will have a material impact on the financial statements, given the nature of the Company's business being that it has no insurance contracts.

IFRS 3 Amendments regarding the definition of a business

The IASB has issued 'Definition of a Business (Amendments to IFRS 3)' aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020.

Other future developments include the IASB undertaking a comprehensive review of existing IFRSs. The Company will consider the financial impact of these new standards as they are finalised.

2. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of financial statements in conformity with IFRS adopted in the EU requires the Company to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. UK company law and IFRS require the Directors, in preparing the Company's financial statements, to select suitable accounting policies, apply them consistently and make judgements and estimates that are reasonable. The Company's estimates and assumptions are based on historical experience and expectations of future events and are reviewed on an ongoing basis. Although these estimates are based on the Directors' best knowledge of the amount, actual results may differ ultimately from those estimates.

The areas requiring a higher degree of judgement or complexity and areas where assumptions and estimates are significant to the financial statements, are in relation to effective interest rate, expected credit losses and the revaluation of investments at fair value through profit or loss. These are detailed below:

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Expected Credit loss allowance for financial assets measured at amortised cost (estimate)

The calculation of the Company's ECL allowances and provisions against loan commitments and guarantees under IFRS 9 is highly complex and involves the use of significant judgement and estimation. Loan impairment provisions represent an estimate of the losses incurred in the loan portfolios at the balance sheet date. Individual impairment losses are determined as the difference between the carrying value and the present value of estimated future cash flows, discounted at the loans' original effective interest rate. To calculate this involves the formulation and incorporation of multiple forward-looking economic conditions into ECL to meet the measurement objective of IFRS 9. Depending on a range of factors such as changes in the economic environment in the UK, there could be a material adjustment to the carrying amounts of assets and liabilities in the next financial year. The most significant factors are set out below.

Definition of default - The Probability of Default ("PD") of an exposure, both over a 12-month period and over its lifetime, is a key input to the measurement of the ECL allowance. Default has occurred when there is evidence that the customer is experiencing significant financial difficulty which is likely to affect the ability to repay amounts due.

The definition of default adopted by the Company is described in expected credit loss allowance for financial assets measured at amortised cost above.

As noted above, the Company has rebutted the presumption in IFRS 9 that default occurs no later than when a payment is 90 days past due. The impact on the Company's ECL allowance of assuming a backstop of 180 days past due for mortgages is not material.

The lifetime of an exposure - To derive the PDs necessary to calculate the ECL allowance it is necessary to estimate the expected life of each financial instrument. A range of approaches has been adopted across different product groupings including the full contractual life and taking into account behavioural factors such as early repayments and refinancing. The Company has defined the lifetime for each product by analysing the time taken for all losses to be observed and for a material proportion of the assets to fully resolve through either closure or write-off.

Significant increase in credit risk ("SICR") - Performing assets are classified as either Stage 1 or Stage 2. An ECL allowance equivalent to 12 months expected credit losses is established against assets in Stage 1; assets classified as Stage 2 carry an ECL allowance equivalent to lifetime expected credit losses. Assets are transferred from Stage 1 to Stage 2 when there has been an SICR since initial recognition. The Company uses a quantitative test together with qualitative indicators and a backstop of 30 days past due for determining whether there has been a SICR. The setting of precise trigger points combined with risk indicators requires judgement. The use of different trigger points may have a material impact upon the size of the ECL allowance.

Forward looking information - IFRS 9 requires the incorporation of forward-looking macroeconomic information that is reasonable and supportable, but it provides limited guidance on how this should be performed. The measurement of expected credit losses is required to reflect an unbiased probability-weighted range of possible future outcomes.

In order to do this the Company uses a model to project a number of key variables to generate future economic scenarios. These are ranked according to severity of loss and three economic scenarios have been selected to represent an unbiased and full loss distribution. They represent a 'most likely outcome' (the Base case scenario) and two, less likely, 'outer' scenarios, referred to as the 'Upside' and 'Downside' scenarios. These scenarios are used to produce a weighted average PD for each product grouping which is used to determine stage allocation and calculate the related ECL allowance. This weighting scheme is deemed appropriate for the computation of unbiased ECL. Key scenario assumptions are set using the average of forecasts from external economists, helping to ensure the IFRS 9 scenarios are unbiased and maximise the use of independent information. Using externally available forecast distributions helps ensure independence in scenario construction. While key economic variables are set with reference to external distributional forecasts, we also align the overall narrative of the scenarios to the macroeconomic risks faced by the Company.

The choice of alternative scenarios and probability weighting is a combination of quantitative analysis and judgemental assessments, designed to ensure that the full range of possible outcomes and material non-linearity are captured. Paths for the two outer scenarios are benchmarked to the Base scenario and reflect the economic risk assessment. Scenario probabilities reflect management judgement and are informed by data analysis of past recessions, transitions in and out of recession, and the current economic outlook. The key assumptions made, and the accompanying paths, represent our 'best estimate' of a scenario at a specified probability. Suitable narratives are developed for the Central scenario and the paths of the two outer scenarios. Using three scenarios, maybe insufficient in certain economic environments. Additional analysis may be requested at management's discretion, including the production of extra scenarios. We anticipate there will be only limited instances when the standard approach will not apply.

The Company's UK mild Upside scenario sees UK GDP growth average 3 per cent over the next few years, something that has been achieved since the mid-2000s driven by a relaxation of fiscal austerity combined with a significant shift toward a Brexit, where the UK opts to remain a member of the single market. Consequently, unemployment falls back to around 3 per cent and productivity growth rises. The benign probability of default and loss given default mean that loan losses are likely to remain well below long run averages.

The Company's UK Downside scenario sees the UK enter recession in mid-2019. GDP falls by less than 1 per cent, making it very mild by historical standards. Unemployment rises to 6 per cent by the start of 2021. As a result, wage growth slows and inflation falls quickly back below target. Interest rates remain at 0.25 per cent until the third quarter of 2021, but increased unemployment introduces forced sellers into the property market and house prices fall.

Given the economic uncertainty created by Brexit and the challenges facing economic forecasters in this environment, there is a concern that this distribution did not adequately represent downside risks for the UK. The high level of economic uncertainty that prevailed at the end of 2018, including the lack of progress in agreeing a clear plan for an exit from the EU and the uncertain performance of the UK economy after an exit, a fourth scenario was also run at the balance sheet date called the 'Brexit' scenario. This was not included within the final scenario weightings over the 'Downside' case as it was less severe than this given the 'Brexit' scenario only focused on a UK downturn whereas the 'Downside' scenario includes a wider more severe global recession.

	Base	Upside	Downside	Brexit
UK Real GDP Growth	1.84%	2.54%	1.02%	1.36%
UK unemployment rate	4.02%	3.34%	5.30%	4.27%
UK HPI	2.32%	5.08%	(0.86%)	1.35%
UK Base Rate	1.50%	1.77%	0.61%	0.62%

Effective Interest Rate Model

Within the EIRM there are several areas of estimate that need to be applied which impact the rate at which interest, fees and expenses are recognised. These areas of judgement are required to be updated on a periodic basis to ensure that they accurately reflect management's best estimate of future cash flows. Key areas of judgement within the policy include:

- Estimated cash flow excluding expected credit losses;
- Incurred losses at acquisition; and
- Fees and expenses.

Equity Investments

The valuation of unquoted investments and investments for which there is an inactive market is a key area of estimation and may cause material adjustment to the carrying value of those assets and liabilities. The unquoted equity assets are valued on a periodic basis using techniques including a market approach, costs approach and/or income approach. The valuation process is collaborative, involving the finance and investment functions of the Investment Manager with the final valuations being reviewed by the Investment Manager's Valuation Committee. The techniques used include earnings multiples, discounted cash flow analysis, the value of recent transactions, and, where appropriate, industry rules of thumb. The valuations often reflect a synthesis of a number of different approaches in determining the final fair value estimate. The individual approach for each investment will vary depending on relevant factors that a market participant would take into account in pricing the asset. These might include the specific industry dynamics, the Investee's stage of development, profitability, growth prospects or risk as well as the rights associated with the particular security.

Shareholders should note that increases or decreases in any of the inputs in isolation may result in higher or lower fair value measurements. Changes in fair value of all investments held at fair value are recognised in the Statement of Comprehensive Income as a capital item. On disposal, realised gains and losses are also recognised in the Statement of Comprehensive Income. Transaction costs are included within gains or losses on investments held at fair value, although any related interest income, dividend income and finance costs are disclosed separately in the financial statements.

3. SEGMENTAL REPORTING

The Board and Investment Manager consider investment activity in Credit Assets and selected Equity Assets as the single operating segment of the Company, being the sole purpose for its existence. No other activities are performed.

Whilst visibility over originations, portfolios, structured facilities and equity assets is afforded at an operational level, all are considered 'routes to market' for acquiring interests in credit assets, and thus act merely as indicators of the key drivers of financial performance and position of the Company.

The four routes to market are not determinants of resource allocations, rather each investment opportunity is considered on its own merits. Additionally, there are no segment managers directly accountable for the individual routes to market.

The Directors are of the opinion that the Company is engaged in a single segment of business and operations of the Company are wholly in the United Kingdom.

4. BUSINESS COMBINATION

As at 31 December 2017 the Company was deemed to have gained accounting control of Business Mortgage Finance 3 plc (“BMF 3”). Control was gained by virtue of having exposure to the variable returns of the vehicle through the holding of a junior note issued by it. BMF 3 is consolidated as at 20 December 2017. The Company paid £3.5 million of cash consideration to acquire this interest. The contractual value of loans acquired was £28.6 million.

The fair value of the assets and liabilities of BMF 3 at the date control was gained was as follows:

	20 December 2017 £’000
Assets	
Cash and cash equivalents	11,163
Receivables	11
Loans at amortised cost	23,763
Total Assets	34,937

	20 December 2017 £’000
Liabilities	
Other Payables	(25)
Interest bearing borrowings	(31,415)
Total Liabilities	(31,440)

	20 December 2017 £’000
Net assets	3,497
Fair value of consideration	(3,497)
Goodwill	-

On 15 January 2018 the Company gave notice to call the external note holders of BMF 3 one month prior to the quarterly interest payment date. Subsequently, on 15 February 2018, the Company redeemed all external note holders and as a consequence purchased the residual loan values of £27.0 million and released the security over the loans. The effect of this is the underlying assets have been purchased by the Company and bought onto the Company’s Statement of Financial Position at the purchase price of £23.8 million. BMF 3 will no longer be consolidated as the Company will no longer have control of BMF 3.

5. INCOME

	31 December 2018 £’000	31 December 2017 £’000
Investment income		
Interest income	49,425	31,138
Commitment fee income	534	296
Arrangement fee income	962	337
Total investment income	50,921	31,771
Other income		
Deposit interest	1	2

Total income	50,922	31,773

6. MANAGEMENT AND PERFORMANCE FEE

Management Fee
The management fee is calculated and payable monthly in arrears at a rate equal to 1/12 of 1.0 per cent per month of Gross Asset Value (the ''Management Fee''). The aggregate fee payable on this basis must not exceed 1.0 per cent of the gross assets of the Company and its group in any year. The Management Fee is allocated between the revenue and capital accounts based on the prospective split of the Gross Asset Value between revenue and capital.

In respect of any issue of Ordinary Shares or C Shares, until the date on which 80 per cent of the net proceeds of such issue have been invested or committed to be invested in Credit Assets or Equity Assets, the Net Asset Value attributable to such Ordinary Shares or C Shares shall, for the purposes of the Management Fee, exclude any portion of the issue proceeds in cash, or invested in cash deposits or cash equivalent investments. Where there are C Shares in issue, the Management Fee will be calculated separately on the gross assets attributable to the Ordinary Shares and the C Shares.

For so long as the Origination Partner is part of the same group as the Investment Manager, the amount of all fees payable by the Company to the Origination Partner shall be deducted from the Management Fee.

Performance Fee

The Investment Manager is also entitled to a performance fee, which is calculated in respect of each twelve-month period starting on 1 January and ending on 31 December in each calendar year (”Calculation Period”), and the final Calculation Period shall end on the day on which the management agreement is terminated or, if earlier, the business day immediately preceding the day on which the Company goes into liquidation.

The performance fee will only be payable if the Adjusted Net Asset Value at the end of a Calculation Period exceeds a hurdle threshold, equal to the Adjusted Net Asset Value immediately following admission to trading on the London Stock Exchange, compounded at a rate equal to 5 per cent per annum (the “Hurdle”).

If, on the last day of a Calculation Period (each a “Calculation Date”), the Adjusted Net Asset Value exceeds the Hurdle, the Investment Manager shall be entitled to a performance fee equal to the lower of:

a) the amount by which the Adjusted Net Asset Value exceeds the Hurdle, in each case as at the Calculation Date; and
b) 10 per cent of the amount by which total growth in Adjusted Net Asset Value since first admission (being the aggregate of the growth in Adjusted Net Asset Value in the relevant Calculation Period and in each previous Calculation Period), after adding back any performance fees paid to the Investment Manager, exceeds the aggregate of all performance fees payable to the Investment Manager in respect of all previous Calculation Periods.

‘Adjusted Net Asset Value’ means the Net Asset Value after: (i) excluding any increases or decreases in Net Asset Value attributable to the issue or repurchase of any Ordinary Shares; (ii) adding back the aggregate amount of any dividends paid or distributions made in respect of any Ordinary Shares; (iii) excluding the aggregate amount of any dividends or distributions accrued but unpaid in respect of any Ordinary Shares; and (iv) excluding the amount of any Performance Fees accrued but unpaid, in each case without double counting.

In the event that C Shares are in issue, the Investment Manager shall be entitled to a performance fee in respect of the net assets referable to the C Shares on the same basis as summarised above, except that a Calculation Period shall be deemed to end on the date of the conversion of the relevant tranche of C Shares into Ordinary Shares.

Fee payable to Origination Partner

The Origination Partner is entitled to be paid a fee calculated on the purchase price for each Credit Asset acquired by the Company from the Origination Partner. For so long as the Origination Partner is part of the same group as the Investment Manager, the amount of all fees payable by the Company to the Origination Partner shall be deducted from the Management Fee payable to the Investment Manager.

The Company reimburses the Origination Partner for the fees of referral partners, and Servicers (to the extent paid by the Origination Partner) in connection with Credit Assets in which the Company acquires an interest. The amount of such fees are agreed between the Origination Partner and the relevant counterparties on arm's length commercial terms, taking account of the strength of the relationship between the Origination Partner, the Investment Manager and each relevant counterparty. There was £nil payable to the Origination Partner at 31 December 2018 (2017: nil).

7. OTHER EXPENSES

	31 December 2018 £'000	31 December 2017 £'000
Directors' fees	145	118
Administrator's fees	199	146
Auditors' remuneration	129	110
Amortisation	275	240
Other expenses	461	432
Total other expenses	1,209	1,046

All expenses are inclusive of VAT where applicable. Directors' fees above include £126,000 (2017: £103,250) paid to Directors' and £19,276 (2017: £14,796) of employment taxes and valid business expenses. Further details on Directors' fees can be found in the Directors' remuneration report above.

The auditors' remuneration for the audit of the Company was £128,900 (2017: £110,000). During the year, the auditors provided reporting accountant services on the Company's prospectus in relation to its further issuance of ordinary shares in April 2018 and the release of its third base prospectus in December 2018. These non-audit fees amounted to £62,266 (2017: £54,915). These costs have been deducted from the proceeds from the issuance of ordinary shares in line with IAS 32 where applicable.

8. TAXATION

It is the intention of the Directors to conduct the affairs of the Company so as to satisfy the conditions for approval as an investment trust. As an investment trust the Company is exempt from corporation tax on capital gains. The Company's revenue income from loans is subject to tax, but offset by any interest distribution paid, which has the effect of reducing that corporation tax to nil. This means the interest distribution may be taxable in the hands of the Company's shareholders.

Any change in the Company's tax status or in taxation legislation generally could affect the value of investments held by the Company, affect the Company's ability to provide returns to shareholders, lead the Company to lose its exemption from UK Corporation tax on chargeable gains or alter the post-tax returns to shareholders. It is not possible to guarantee that the Company will remain a non-close company, which is a requirement to maintain status as an investment trust, as the ordinary shares are freely transferable. The Company, in the event that it becomes aware that it is a close company, or otherwise fails to meet the criteria for maintaining investment trust status, will as soon as reasonably practicable, notify shareholders of this fact.

The Company may be subject to taxation under the tax rules of the jurisdictions in which it invests, including by way of withholding of tax from interest and other income receipts. Although the Company will endeavour to minimise any such taxes this may affect the level of returns to shareholders.

The following table presents the tax chargeable for the period ended 31 December 2018.

	Revenue £'000	Capital £'000	Total £'000
Corporation tax	-	-	-
Total current tax charge	-	-	-
Deferred tax movement	-	-	-
Deferred tax movement PYA	-	-	-
Total tax charge in income statement	-	-	-

The following table presents the tax chargeable for the year ended 31 December 2017.

	Revenue £'000	Capital £'000	Total £'000
Corporation tax	-	-	-
Total current tax charge	-	-	-
Deferred tax movement	-	-	-
Deferred tax movement PYA	-	-	-
Total tax charge in income statement	-	-	-

Factors affecting taxation charge for the year

The taxation charge for the year is lower than the standard rate of UK corporation tax of 19.00 per cent (2017: 19.25 per cent). A reconciliation of the 2018 taxation charge based on the standard rate of UK corporation tax to the actual taxation charge is shown below.

	Revenue £'000	Capital £'000	Total £'000
Return on ordinary activities before taxation	29,037	(840)	28,197
Return on ordinary activities before taxation multiplied by the standard rate of UK corporation tax of 19.00%	5,517	(160)	5,357
Effects of:			
Excess management expenses not utilised	162	160	322
Interest distributions paid in respect of the year	(5,679)	-	(5,679)
Total tax charge in income statement	-	-	-

A reconciliation of the 2017 taxation charge based on the standard rate of UK corporation tax to the actual taxation charge is shown below.

	Revenue £'000	Capital £'000	Total £'000
Return on ordinary activities before taxation	21,042	(81)	20,961
Return on ordinary activities before taxation multiplied by the standard rate of UK corporation tax of 19.25%	4,051	(16)	4,035
Effects of:			
Excess management expenses not utilised	164	16	180
Interest distributions paid in respect of the year	(4,215)	-	(4,215)
Total tax charge in income statement	-	-	-

9. ORDINARY DIVIDENDS

	31 December 2018 £'000	31 December 2017 £'000

20.00p Interim dividend for the period to 31 December 2016 (paid on 28 March 2017)	-	4,683
20.00p Interim dividend for the period to 31 March 2017 (paid on 16 June 2017)	-	4,882
20.00p Interim dividend for the period to 30 June 2017 (paid 29 September 2017)	-	5,985
20.00p Interim dividend for the period to 30 September 2017 (paid 29 December 2017)	-	5,985
20.00p Interim dividend for the period ended 31 December 2017 (paid on 29 March 2018)	5,985	-
20.00p Interim dividend for the period to 31 March 2018 (paid on 29 June 2018)	5,985	-
20.00p Interim dividend for the period to 30 June 2018 (paid 28 September 2018)	7,890	-
20.00p Interim dividend for the period to 30 September 2018 (paid 28 December 2018)	7,890	-
Total dividend paid in period	27,750	21,535
20.00p Interim dividend for the period to 31 December 2017 (paid 29 March 2018)	-	5,985
20.00p Interim dividend for the period to 31 December 2018 (paid 29 March 2019)	7,890	-
Total dividend paid in relation to period	35,640	27,520

The 31 December 2018 interim dividend of 20.00 pence was approved on 22 February 2019 and paid on 29 March 2019 before the approval of the financial statements.

10. EARNINGS PER SHARE

	31 December 2018	31 December 2017
Revenue	79.6p	81.5p
Capital	(2.3)p	(0.3)p
Earnings per ordinary share	77.3p	81.2p

The calculation at 31 December 2018 is based on revenue returns of £29.0 million, capital returns of £(0.8) million and total returns of £28.2 million and a weighted average number of ordinary shares of 36,475,359.

The calculation at 31 December 2017 is based on revenue returns of £21.0 million, capital returns of £(0.1) million and total returns of £21.0 million and a weighted average number of ordinary shares of 25,816,521.

11. INVESTMENTS AT AMORTISED COST

(a) Investments at amortised cost

The disclosure below presents the gross carrying value of financial instruments to which the impairment requirements in IFRS 9 are applied and the associated allowance for ECL. Under the expected credit loss model introduced by IFRS 9 the incurred loss model under IAS 39 is replaced. Due to the forward-looking nature of IFRS 9, the scope of financial instruments on which ECL are recognised is greater than the scope of IAS 39.

The following table analyses loans by industry sector and represent the concentration of exposures on which credit risk is managed. Please see Note 1 to the financial statements for more detail on the allowance for ECL.

31 December 2018	1 January 2018

	Gross Carrying Amount £'000	Allowance for ECL £'000	Net Carrying Amount £'000	Gross Carrying Amount £'000	Allowance for ECL £'000	Net Carrying Amount £'000
Investments at amortised cost						
Consumer	294,467	(12,724)	281,743	233,644	(6,416)	227,228
Property	237,310	(9,880)	227,430	106,926	(5,665)	101,261
SME	67,536	(179)	67,357	14,739	-	14,739
Total Assets	599,313	(22,783)	576,530	355,309	(12,081)	343,228

Selected 2017 Investments at amortised cost disclosures

The disclosures below were included in our 2017 reports and do not reflect the adoption of IFRS 9. As these tables are not directly comparable to the current 2018 investments at amortised cost tables, which are disclosed on an IFRS 9 basis, these 2017 disclosures have been shown below and not adjacent to 2018 tables.

Investments at amortised cost	31 December 2017 £'000
Held-to-maturity bond investments	10,314
Amortised cost before impairment	344,995
Cumulative Impairment Provision	(9,743)
Carrying Value	345,566

Cumulative impairment includes incurred losses already present on the loan portfolios acquired at a discount to face value in secondary transactions which are brought onto the Statement of Financial Position at an amount that includes impairment losses up to the date of their acquisition.

Investments at amortised cost	31 December 2017 £'000
Loans with no payments past due	1,374
Loans up to 1 payment past due	96
Loans 1–2 payments past due	279
Loans 2–3 payments past due	351
Loans 3–4 payments past due	603
Loans more than 4 payments past due	7,040
Cumulative impairment	9,743

(b) Expected Credit Loss allowance for IFRS 9

Under the Expected credit loss model introduced by IFRS 9 the incurred loss model under IAS 39 is replaced. Impairment provisions are driven by changes in credit risk of instruments, with a provision for lifetime expected credit losses recognised where the risk of default of an instrument has increased significantly since initial recognition. The following table analyses loans by stage and sector:

	Consumer £'000	Property £'000	SME £'000	Total £'000
At 1 January 2018	4,675	5,068	-	9,743

Changes on initial application of IFRS 9	1,741	597	-	2,338
Revised opening balance 1 January 2018	6,416	5,665	-	12,081
Charge for the period – Stage 1	587	(43)	126	670
Charge for the period – Stage 2	469	264	29	762
Charge for the period – Stage 3	5,252	759	24	6,035
Total charge for expected credit losses	6,308	980	179	7,467
Acquired losses on acquisition	-	3,235	-	3,235
Amounts written off during the period	-	-	-	-
Amounts recovered during the period	-	-	-	-
Carrying Value	12,724	9,880	179	22,783

Measurement uncertainty and sensitivity analysis of ECL

The recognition and measurement of expected credit losses ('ECL') is highly complex and involves the use of significant judgement and estimation. This includes the formulation and incorporation of multiple forward-looking economic conditions into ECL to meet the measurement objective of IFRS 9.

For most portfolios, the Company has adopted the use of three economic scenarios, representative of Oxford Economics view of forecast economic conditions, sufficient to calculate unbiased ECL. They represent a 'most likely outcome' (the Base scenario) and two, less likely, 'outer' scenarios, referred to as the 'Upside' and 'Downside' scenarios. The Company has developed a shortlist of the upside and downside economic and political risks most relevant to the Company and the IFRS 9 measurement objective. These include economic and political risks which together affect economies that materially matter to the Company.

The ECL recognised in the financial statements reflect the effect on expected credit losses of a range of possible outcomes, calculated on a probability-weighted basis, based on the economic scenarios described in Note 2 to the financial statement, including management overlays where required. The probability-weighted amount is typically a higher number than would result from using only the Base (most likely) economic scenario. ECLs typically have a non-linear relationship to the many factors which influence credit losses, such that more favourable macroeconomic factors do not reduce defaults as much as less favourable macroeconomic factors increase defaults. The ECL calculated for each of the scenarios represent a range of possible outcomes that have been evaluated to estimate ECL. As a result, the ECL calculated for the Upside and Downside scenarios should not be taken to represent the upper and lower limits of possible actual ECL outcomes. There is a high degree of estimation uncertainty in numbers representing tail risk scenarios when assigned a 100 per cent. A wider range of possible ECL outcomes reflects uncertainty about the distribution of economic conditions and does not necessarily mean that credit risk on the associated loans is higher than for loans where the distribution of possible future economic conditions is narrower.

For stage 3 impaired loans, LGD estimates take into account independent recovery valuations provided by external consultants where available, or internal forecasts corresponding to anticipated economic conditions.

If the weightings used represented a 100 per cent downside scenario the ECL would have been £1.5 million higher as split below:

	Weighted Year end ECL £'000	100% Downside Scenario £'000

Consumer	12,724	13,921
Property	9,880	10,209
SME	179	182
Total	22,783	24,312

Selected 2017 Accumulated allowance for impairment losses on loans and receivables disclosures

The disclosures below were included in our 2017 external reports and do not reflect the adoption of IFRS 9. As these tables are not directly comparable to the current 2018 credit risk tables, which are disclosed on an IFRS 9 basis, these 2017 disclosures have been shown below and not adjacent to 2018 tables.

Under IAS 39 the Company segmented its assets into 2 categories when considering impairment provisions; Consumer and Structured. Impairment provisions were subject to periodic review conducted by the Investment Manager's Valuation Committee, with the underlying assumptions monitored on an on-going basis and revised accordingly based on actual loss experience of the business.

There is no impairment of Structured facilities at the year-end. Structured facilities are a portfolio of higher value, low volume lending with credit quality assessed on an individual loan by loan basis. Loans are continually monitored to determine whether they are performing satisfactorily. In Structured facilities performing loans with elevated levels of credit risk may be placed on watch lists depending on the perceived severity of the credit risk. The table below sets out the movement of the impairment provision during year ended 31 December 2017.

	Total £'000
At 1 January 2017	6,187
Incurred Losses (Portfolio Acquisition)	772
Charge for the year	2,423
Amounts written off during the year	361
Amounts recovered during the year	-
Cumulative impairment	9,743

Write-offs take place where it is deemed the balance is irrecoverable or it is no longer considered economically viable to try and recover the asset or final settlement is reached and the shortfall written off. In the event of write off, the customer balance and any related impairment balance are removed from the balance sheet. Before any balance is written off an extensive set of collections processes will have been completed, or the status of the account reaches a point where policy dictates that forbearance is no longer appropriate.

12. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

(a) Movements in the year

The table below sets out the movement in Investments at fair value through profit or loss for the year ended 31 December 2018.

	2018 £'000
Opening cost	11,227
Opening fair value	11,227
Purchases at cost	3,000
Disposal at cost	(3,497)
Net change in unrealised (losses)/gains	(750)
Closing fair value at 31 December 2018	9,980

Comprising:	
Valued using transaction price	3,000
Valued using an earnings multiple	6,980
Closing fair value as at 31 December 2018	9,980

The table below sets out the movement in Investments at fair value through profit or loss for the Company for the period ended 31 December 2017.

	2017 £'000
Opening cost	4,730
Opening fair value	4,730
Purchases at cost	6,497
Closing fair value at 31 December 2017	11,227
Comprising:	
Closing cost as at 31 December 2017	11,227
Closing fair value as at 31 December 2017	11,227

(b) Fair value of financial instruments

IFRS 13 requires the Company to classify its financial instruments held at fair value using a hierarchy that reflects the significance of the inputs used in the valuation methodologies. These are as follows:

- Level 1 – quoted prices in active markets for identical investments;
- Level 2 – other significant observable inputs (including quoted prices for similar investments, interest rates, prepayments, credit risk, etc.); and
- Level 3 – significant unobservable inputs (including the Company's own assumptions in determining the fair value of investments).

An investment is always categorised as Level 1, 2 or 3 in its entirety. In certain cases, the fair value measurement for an investment may use a number of different inputs that fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The assessment of the significance of a particular input to the fair value measurement requires judgement and is specific to the investment.

The following sets out the classifications in valuing the Company's investments:

	Closing fair value as at 31 Dec 2018 £'000	Closing fair value as at 31 Dec 2017 £'000
Level 1	-	-
Level 2	-	-
Level 3	9,980	11,227
Total	9,980	11,227

The investments in unquoted equities are valued using several different techniques, primarily recent transactions and recent rounds of funding by the investee entities. Quantitative information regarding the unobservable inputs for the Company's Level 3 positions as at 31 December 2018 is given below:

	Closing fair value as at 31 Dec 2018 £'000	Valuation Technique	20% Change in price £'000
3,000		Recent transaction	600
3,000			600

	Closing fair value as at 31 Dec 2018 £'000	Valuation Technique	Earnings multiple increased by 1 £'000
6,980		Earnings Multiple	2,249
6,980			2,249

Earnings multiples range from 2x to 12x.

13. FINANCIAL RISK MANAGEMENT

The Company's investing activities undertaken in pursuit of its investment objective, as set out above, involve certain inherent risks. The main financial risks arising from the Company's financial instruments are market risk, credit risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks as summarised below.

Market risk

The fair value or future cash flows of a financial instrument held by the Company may fluctuate because of changes in market prices. Market risk can be summarised as comprising three types of risk:

- Price risk – the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk);
- Interest rate risk – the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market interest rates; and
- Currency risk – the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in foreign exchange rates.

The Company's exposure, sensitivity to and management of each of these risks is described in further detail below. Management of market risk is fundamental to the Company's investment objective. The investment portfolio is continually monitored to ensure an appropriate balance of risk and reward. The Board has also established a series of investment parameters, which are reviewed annually, designed to limit the risk inherent in managing a portfolio of investments.

(a) Price risk

Price risk arises mainly from uncertainty about future prices of financial instruments used in the Company's business. It represents the potential loss the Company might suffer through holding market positions in the face of price movements (other than those arising from interest rate risk or currency risk).

The Company is exposed to price risk arising from its equity investments.

(b) Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair value of financial instruments.

The Company invests in Credit Assets which may be subject to a fixed rate of interest, or a floating rate of interest (which may be linked to base rates or LIBOR). The Company's borrowings may be subject to a floating rate of interest.

The Company intends to manage the mismatch it has in respect of the income generated by its Credit Assets, on the one hand, with the liabilities in respect of its borrowings, on the other hand, by matching any floating rate borrowings with investments in Credit Assets that are also subject to a floating rate of interest. To the extent that the Company is unable to match its funding in this way, it may use derivative instruments, including interest rate swaps, to reduce its exposure to fluctuations in interest rates, however some unmatched risk may remain. The Company has not used any derivate instruments in the year.

The Company finances its operations mainly through its share capital and reserves, including realised gains on investments. In addition, the Company has a debt facility of £200 million. As at 31 December 2018 the Company had £189.0 million drawn-down under this facility (2017: £56.5 million).

Exposure of the Company's financial assets and liabilities to floating interest rates (giving cash flow interest rate risk when rates are reset) and fixed interest rates (giving fair value risk) as at 31 December 2018 is shown below:

Financial instrument	Floating Rate £'000	Fixed or Administered Rate £'000	Total £'000
Investments at amortised cost	106,387	470,143	576,530
Cash and cash equivalents	5,559	-	5,559
Interest bearing borrowings	(189,000)	-	(189,000)
Total exposure	(77,054)	470,143	393,089

Exposure of the Company's financial assets and liabilities to floating interest rates (giving cash flow interest rate risk when rates are reset) and fixed interest rates (giving fair value risk) as at 31 December 2017 is shown below:

Financial instrument	Floating Rate £'000	Fixed or Administered Rate £'000	Total £'000
Investments at amortised cost	39,706	305,860	345,566
Cash and cash equivalents	5,730	-	5,730
Interest bearing borrowings	(56,500)	-	(56,500)
Total exposure	(11,064)	305,860	294,796

An administered rate is not like a floating rate, movements in which are directly linked to LIBOR. The administered rate can be changed at the discretion of the lender.

A 1 per cent change in interest rates impacts income on the assets with a floating rate by £0.6 million (2017: £0.3 million). A 1 per cent change in interest rates impacts debt expense on the liabilities with a floating rate by £0.5 million (2017: £0.2 million).

(c) Currency risk

Currency risk is the risk that the value of net assets will fluctuate due to changes in foreign exchange rates. None of the Company's assets, liabilities or income are denominated in currencies other than Pounds Sterling (the Company's functional currency, in which it reports its results). Thus, the Company is not exposed to currency risk.

14. CREDIT RISK

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Company's credit risks arise principally through exposures to loans originated or acquired by the Company and cash deposited with banks, both of which are subject to risk of borrower default.

The Investment Manager and the Origination Partner establishes and adheres to stringent underwriting criteria as set out in the appropriate credit policies. For consumer loans, underwriting includes credit referencing, income verification and affordability testing, identity verification and various forward-looking indicators of a borrower's likely financial strength. The Company invests in a granular portfolio of assets, diversified at the underlying borrower level, with each loan being subject to a maximum single loan exposure limit. This helps mitigate credit concentrations in relation to an individual customer, a borrower group or a collection of related borrowers.

The credit quality of loans is assessed through evaluation of various factors, including credit scores, payment data, collateral available from the borrower and other information.

The Company further mitigates its exposure to Credit Risk through structuring facilities whereby the facilities are secured on a granular pool of performing loans and structured so that the Origination Platform and or borrower provides the first loss, and the Company finances the senior risk.

Further risk is mitigated in the property sector as the Company takes collateral in the form of property to mitigate the credit risk arising from residential mortgage lending and commercial real estate.

Set out below is the analysis of the closing balances of the Company's credit assets split by the type of loan and the credit risk band as at 31 December 2018:

Credit Risk Band	Unsecured £'000	Secured £'000	Total £'000
A & B	129,264	429,034	558,298
C	23,896	223	24,119
D & E	16,896	-	16,896
Total	170,056	429,257	599,313

Set out below is the analysis of the closing balances of the Company's credit assets split by the type of loan and the credit risk band as at 31 December 2017:

Credit Risk Band	Unsecured £'000	Secured £'000	Total £'000
A & B	129,845	192,739	322,584
C	17,200	301	17,501
D & E	10,398	-	10,398
Total	157,443	193,040	350,483

Each credit risk band is defined below:

Credit Risk Band	Definition
A	Highest quality with minimal indicators of credit risk
B	High quality, with minor adverse indicators
C	Medium-grade, moderate credit risk, may have some adverse credit risk indicators
D/E	Elevated credit risk, adverse indicators (e.g. lower borrowing ability, credit history, existing debt)

The Company ensures that it only deposits cash balances with institutions with appropriate financial standing or those deemed to be systemically important.

Liquidity risk

Liquidity risk is the risk that the Company will have difficulty in meeting its obligations in respect of financial liabilities as they fall due.

The Company manages its liquid resources to ensure sufficient cash is available to meet its expected contractual commitments. It monitors the level of short-term funding and balances the need for access to short-term funding, with the long-term funding needs of the Company.

Liquidity risk is not viewed as significant as a substantial proportion of the Company's net assets are in loans, whose cash collections could be utilised to meet funding requirements if necessary. The Company has the power, under its Articles of Association, to take out both short and long-term borrowings subject to a maximum value of one times its share capital and reserves.

The Company has a committed debt facility totalling £200.0 million (details of which is disclosed in Note 18 to the financial statements).

Assets and liabilities not carried at fair value but for which fair value is disclosed

For the year ended 31 December 2018:

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets				
Investments at amortised cost	16,589	-	558,338	574,927
Receivables	-	3,375	-	3,375
Cash and cash equivalents	5,559	-	-	5,559
Total assets	22,148	3,375	558,338	583,861
Liabilities				
Management fee payable	-	985	-	985
Performance fee payable	-	2,873	-	2,873
Other payables	-	1,830	-	1,830
Interest bearing borrowings	-	189,263	-	189,263
Total liabilities	-	194,951	-	194,951

For the year ended 31 December 2017:

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets				
Held-to-maturity loans	10,314	-	-	10,314
Investments at amortised cost	-	-	335,252	335,252
Receivables	-	3,477	-	3,477
Cash and cash equivalents	5,730	-	-	5,730
Total assets	16,044	3,477	335,252	354,773
Liabilities				

Management fee payable	-	592	-	592
Performance fee payable	-	2,329	-	2,329
Other payables	-	1,875	-	1,875
Interest bearing borrowings	-	56,787	-	56,787
Total liabilities	-	61,583	-	61,583

Categorisation within the hierarchy has been determined based on the lowest level input that is significant to the fair value measurement of the relevant asset or liability (see Note 12 Investments at Fair Value Through Profit or Loss for details). Further details of the loans at amortised cost held by the Company can be found in Note 11 to the financial statements.

Capital Management

The Company's primary objectives in relation to the management of capital are:

- To ensure its ability to continue as a going concern; and
- To maximise the long-term capital growth for its shareholders through an appropriate balance of equity capital and gearing.

The Company has met these objectives through a successful share offering where the Company raised £100 million excluding issue costs and through increasing the size of the Company debt facility to £200.0 million. The Company's debt to equity ratio was 47.7 per cent at 31 December 2018.

The Company is subject to externally imposed capital requirements:

- The Company's Articles of Association restrict borrowings to the value of its share capital and reserves;
- As a public company, the Company has a minimum share capital of £50,000;
- To be able to pay dividends out of profits available for distribution by way of dividends, the Company must be able to meet one of the two capital restriction tests imposed on investment companies by company law; and
- The Company's borrowings are subject to covenants limiting the total exposure based on interest cover ratios, a minimum total net worth and a cap of borrowings as a percentage of the eligible borrowing base.

The Company has complied with all the above requirements during this financial year.

15. FIXED ASSETS

The tables below set out the movement in Fixed Assets.

Year ended 31 December 2018	IT Development and Software £'000	Total £'000
Opening net book amount	342	342
Additions	150	150
Amortisation charge	(275)	(275)
Closing net book amount	217	217
As at 31 December 2018		
Cost	830	830
Accumulated amortisation	(613)	(613)
Net book amount	217	217

Period ended 31 December 2017	IT Development and Software £'000	Total £'000

Opening net book amount	369	369
Additions	213	213
Amortisation charge	(240)	(240)
Closing net book amount	342	342
As at 31 December 2017		
Cost	680	680
Accumulated amortisation	(338)	(338)
Net book amount	342	342

16. RECEIVABLES

The table below set out a breakdown of the Company receivables.

	31 December 2018 £'000	31 December 2017 £'000
Prepayments	2,145	2,326
Other receivables	1,230	1,151
Total receivables	3,375	3,477

The above receivables do not carry any interest and are short term in nature. The Directors consider that the carrying values of these receivables approximate their fair value.

17. OTHER PAYABLES

The table below set out a breakdown of the payables.

	31 December 2018 £'000	31 December 2017 £'000
Accruals and deferred income	1,830	1,875
Total other payables	1,830	1,875

Withholding Taxation

The Company's revenue income from loans is subject to tax, but offset by the interest distribution paid, which has the effect of reducing that corporation tax to nil. This means the interest distribution may be taxable in the hands of the Company's shareholders. There is no withholding tax payable by the Company at 31 December 2018 due to the changes made in 2017 Finance Act whereby all interest distributions will be paid gross of tax, therefore withholding tax is retained by the Company and paid directly to HMRC.

18. INTEREST BEARING BORROWINGS

The table below set out a breakdown of the Company interest bearing borrowings.

	31 December 2018 £'000	31 December 2017 £'000
Credit facility	189,000	56,500
Interest and commitment fees payable	263	287
Total interest-bearing borrowings	189,263	56,787

On 17 June 2016, the Company entered into a two-year, £37.5 million credit facility for which The Royal Bank of Scotland plc was agent. The credit facility is secured upon the assets of the Company, has a term of two years and interest is charged at one, three- or six-month LIBOR plus a margin. Loans drawn under the credit facility may be repaid and redrawn during its term. The two-year term was reset on 20 June 2017 and the amount under the facility was increased to £80 million. On 20 March 2018, the amount committed under the facility was further increased to £150 million, and the term of the facility was further extended to 20 March 2020. On 31 July 2018, the accordion option under the facility was partially exercised, taking the total amount committed under the facility to £180 million, and on 1 October 2018, the accordion option under the facility was further exercised, taking the total amount committed to £200 million. This facility was £189.0 million drawn at year end (2017: £56.5 million). The credit facility is syndicated, and other lenders may in the future accede to the facility. The size of the facility may, with the agreement of the lenders, increase in the future and the term may be extended and the Company retains the flexibility to refinance the facility.

As at the 31 December 2018 the below related debt costs had been incurred by the Company.

	31 December 2018 £'000	31 December 2017 £'000
Interest and commitment fees payable	3,373	886
Other finance charges	2,056	846
Total finance costs	5,429	1,732

As part of IAS 7, "Statement of cash flows", an entity is required to disclose changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

As at the 31 December 2018 the below changes occurred for the Company:

	Total £'000
At 1 January 2018	56,787
Interest bearing borrowings	366,900
Repayments of interest-bearing borrowing	(234,400)
Finance costs	5,429
Interest paid on financing activities	(5,453)
At 31 December 2018	189,263

As at the 31 December 2017 the below changes occurred for the Company:

	Total £'000
At 1 January 2017	13
Interest bearing borrowings	122,500
Repayments of interest-bearing borrowing	(66,000)
Finance costs	1,732
Interest paid on financing activities	(1,458)
At 31 December 2017	56,787

The below table analyses the Company's financial liabilities into relevant maturity groupings as well as expected future interest costs based on the remaining period at the Statement of Financial Position date to the final scheduled maturity date.

2018 Financial instrument	< 1 year £'000	1 – 5 years £'000	Total £'000

Credit facility	-	189,000	189,000
Interest and commitment fees payable	263	-	263
Total exposure	263	189,000	189,263

2017 Financial instrument	< 1 year £'000	1 – 5 years £'000	Total £'000
Credit facility	-	189,000	189,000
Interest and commitment fees payable	6,745	1,437	8,182
Total exposure	6,745	190,437	197,182

19. ORDINARY SHARE CAPITAL

The table below details the issued share capital of the Company as at the date of the Financial Statements.

	31 December 2018	31 December 2017
No. Issued, allotted and fully paid ordinary shares of £0.01 each	39,449,919	29,926,110
£'000	394	299

On incorporation, the issued share capital of the Company was £50,000.01 represented by one ordinary share of 1p and 50,000 management shares of £1 each, all of which were held by Honeycomb Holdings Limited as subscriber to the Company's memorandum of association. The ordinary share and management shares were fully paid up.

The management shares, which were issued to enable the Company to obtain a certificate of entitlement to conduct business and to borrow under Section 761 of the Companies Act 2006, were redeemed immediately following admission of 23 December 2015 out of the proceeds of the issue.

On 23 December 2015, 10,000,000 ordinary shares of 1p each were issued to shareholders as part of the placing and offer for subscription in accordance with the Company's prospectus dated 18 December 2015.

During 2016 a further 9,926,109 ordinary shares were issued. The price paid per share ranged from 1,000 pence to 1,015 pence and the total paid for the shares during the period amounted to £98.8 million.

On 31 May 2017 the Company announced the successful completion of a placing of a further 10,000,000 ordinary shares. The price paid per share was 1,050p and the total paid for the shares during the year amounted to £103.3 million net of issue costs.

On 25 April 2018 the Company announced the successful completion of a placing of a further 9,523,809 ordinary shares. The price paid per share was 1,050p and the total paid for the shares during the year amounted to £97.8 million net of issue costs.

20. SPECIAL DISTRIBUTABLE RESERVE

At a general meeting of the Company held on 14 December 2015, special resolutions were passed approving the cancellation of the amount standing to the credit of the Company's share premium account as at 23 December 2015.

Following the approval of the Court and the subsequent registration of the Court order with the Registrar of Companies on 21 March 2016, the reduction became effective. Accordingly, £98.1 million, previously held in the share premium account, has been transferred to the special distributable reserve as disclosed in the Statement of Financial Position.

During the year £0.85 million (2017: £0.50 million) of the special distributable reserve was used to pay the Q4 2017 Dividend which was paid on 29 March 2018.

21. STRUCTURED ENTITIES

A structured entity is an entity in which voting or similar rights are not the dominant factor in deciding control. Structured entities are generally created to achieve a narrow and well-defined objective with restrictions around their ongoing activities. Structured entities are consolidated when the substance of the relationship indicates control.

As at the 31 December 2018 the Company has no structured entities assessed for consolidation. However as at 31 December 2017 the following structured entity was consolidated in the financial results:

- Business Mortgage Finance 3 plc (“BMF 3”), a public limited company incorporated under the Laws of England and Wales.

Further details on the activities of this structured entity is set out in Note 1, 4 and 19 of the financial statements.

22. INVESTMENTS IN SUBSIDIARIES

As at the 31 December 2018 the Company has no structured entities assessed for consolidation. As at 31 December 2017 the Company had invested in a structured entity, and by virtue of having accounting control, consolidated this entity. Details of this can be found in Notes 2, 4 and 19 to the financial statements.

The Company was deemed to control Business Mortgage Finance 3 plc (“BMF 3”), a public limited company incorporated under the Laws of England and Wales. BMF 3 was a securitisation vehicle for UK commercial mortgages and operated in a pre-determined manner. The Company was considered to control BMF 3 from 20 December 2017 by virtue of having exposure to the variable returns of the vehicle through the holding of a junior note issued by it.

On 15 January 2018 the Company gave notice to call the external note holders of BMF 3 one month prior to the quarterly interest payment date. Subsequently, on 15 February 2018, the Company redeemed all external note holders and as a consequence purchased the residual loan values of £27.0 million and released the security over the loans. The effect of this is the underlying assets have been purchased by the Company and bought onto the Company’s Statement of Financial Position. BMF 3 will no longer be consolidated as the Company will no longer have control of BMF 3.

23. INVESTMENTS IN ASSOCIATES

As at 31 December 2018, the Company has a single associate, being a 28.57 per cent investment in GDFC Group Limited (formally Hiber Limited and The Green Deal Finance Company Limited). The company number is 10028311 its registered office is Imperial House, 15 – 19 Kingsway, London, WC2B 6UN.

This is a UK platform responsible for setting-up, financing and administering Green Deal Plans in The Green Deal programme. As permitted by IAS 28 ‘Investment in Associates’ and in accordance with the Company’s accounting policy the investment is accounted for at fair value through profit or loss. No dividends were declared during the year in respect of the investment. The Company holds GDFC Group Limited at a fair value of £3 million.

The unaudited net assets / (liabilities) as at 31 December 2018 were (£2.6) million (2017: audited £2.6 million), and the loss after tax was £5.2 million (2017: audited loss £6.6 million).

GDFC Group Limited is incorporated in England and Wales.

The Company has also provided £8.3 million of debt funding to the platform (2017: £5.0 million).

The Company has entered into an agreement which gives it the right to participate in qualifying loans originated by the platform.

There are no significant restrictions on the ability of the associate from repaying loans from, or distributing dividends to, the Company.

24. NET ASSET VALUE PER ORDINARY SHARE

	31 December 2018	31 December 2017
Net asset value per ordinary share pence	1,015.7p	1,018.4p
Net assets attributable £'000	400,710	304,749

The net asset value per ordinary share as at 31 December 2018 is based on net assets at the year-end of £400.7 million and on 39,449,919 ordinary shares in issue at the year-end.

The net asset value per ordinary share as at 31 December 2017 is based on net assets at the year-end of £304.8 million and on 29,926,110 ordinary shares in issue at the year-end.

25. CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

As at 31 December 2018 and 31 December 2017 there were no contingent liabilities or capital commitments for the Company. The Company did have £48.7 million (2017: £39.4 million) of undrawn committed structured credit facilities at 31 December 2018.

26. RELATED PARTY TRANSACTIONS AND TRANSACTIONS WITH THE INVESTMENT MANAGER

IAS 24 'Related party disclosures' requires the disclosure of the details of material transactions between the Company and any related parties. Accordingly, the disclosures required are set out below:

Associates - at 31 December 2018 outstanding loan balance of £8.3 million and accrued interest of £0.3 million with the GDFC Group Limited.

Directors – The remuneration of the Directors is set out in the Directors' Remuneration Report above. There were no contracts subsisting during or at the end of the year in which a Director of the Company is or was interested and which are or were significant in relation to the Company's business. There were no other transactions during the year with the Directors of the Company. The Directors do not hold any ordinary shares of the Company.

At 31 December 2018, there was £nil (2017: £nil) payable to the Directors for fees and expenses.

Investment Manager – Pollen Street Capital Limited (the 'Investment Manager'), a UK-based company authorised and regulated by the FCA, has been appointed the Company's investment manager and AIFM for the purposes of the AIFMD. Details of the services provided by the Investment Manager and the fees paid are given above.

During the year the Company paid £7.87 million (2017: £5.25 million) of fees and at 31 December 2018, there was £3.86 million (2017: £2.92 million) payable to the Investment Manager.

1st Stop Group Limited ("1st Stop") is an English based consumer lender. During the year the Company provided a structured facility to 1st Stop. 1st Stop is owned by a fund that is managed by an affiliate of the Investment Manager. As at 31 December 2018 the facility was £14.9 million drawn.

Origination Partner – Honeycomb Finance Limited (the "Origination Partner"), a UK-based company authorised and regulated by the FCA, has been appointed as one of the Company's origination partners. Honeycomb Finance Limited is a wholly owned subsidiary of Pollen Street Capital Holdings Limited, the parent company of the Investment Manager. Details of the services provided by the Origination Partners are given above.

During the year that the Origination Partner was part of the same group as the Investment Manager, the fees payable to the Origination Partner by the Company were deducted from the management fee payable to the Investment Manager and totalled £92,800 (2017: £64,000), and at 31 December 2018, there was £nil (2017: £nil) payable to the Origination Partner.

27. ULTIMATE CONTROLLING PARTY

It is the opinion of the Directors that there is no ultimate controlling party.

28. SUBSEQUENT EVENTS

Save as noted below, there have been no events to disclose since the year end under review.

On 29 March 2019, a dividend of 20.0 pence per ordinary share was paid.

Shareholders' Information

Directors, Portfolio Manager and Advisers

Directors
Robert Sharpe
Jim Coyle
Ravi Takhar

all at the registered office below

Registered Office
6th Floor
65 Gresham Street
London EC2V 7NQ
England

Investment Manager and AIFM
Pollen Street Capital Limited
11 – 12 Hanover Square
London W1S 1JJ
England

Financial Adviser and Broker
Liberum Capital Limited
Level 12, Ropemaker Place
25 Ropemaker Place
London EC2Y 9LY
England

Custodian
Sparkasse Bank Malta PLC
101 Townsquare
Sliema SLM3112
Malta

Website
http://www.honeycombplc.com/

Share Identifiers
ISIN: GB00BYQDNR86
Sedol: BYZV3G2
Ticker: HONY

Administrator
Apex Fund Services (UK) Ltd
6th Floor
140 London Wall
London EC2Y 5DN
England

Depositary
Indos Financial Limited
5th Floor 54 Fenchurch Street
London EC3M 3JY
England

Registrar
Computershare Investor Services PLC
The Pavilions, Bridgewater Road
Bristol BS99 6ZZ
England

Company Secretary
Link Company Matters Limited
6th Floor
65 Gresham Street
London EC2V 7NQ
England

Independent Auditors
PricewaterhouseCoopers LLP
7 More London Riverside
London SE1 2RT
England

Website

The Company's website can be found at www.honeycombplc.com. The site provides visitors with Company information and literature downloads.

The Company's profile is also available on third-party sites such as www.trustnet.com and www.morningstar.co.uk.

Annual and half-yearly reports

Copies of the annual and half–yearly reports may be obtained from the Company Secretary by calling 0203 697 5368 or by visiting www.honeycombplc.com.

Share prices and Net Asset Value information

The Company's ordinary shares of 1p each are quoted on the London Stock Exchange:

- SEDOL number: BYZV3G2
- ISIN number: GB00BYQDNR86
- EPIC code: HONY

The codes above may be required to access trading information relating to the Company on the internet.

Electronic communications with the Company

The Company's Annual Report & audited financial statements, half-yearly reports and other formal communications are available on the Company's website. To reduce costs the Company's half-yearly financial statements are not posted to shareholders but are instead made available on the Company's website.

Whistleblowing

As the Company has no employees, the Company does not have a whistleblowing policy. The Audit Committee reviews the whistleblowing procedures of the Investment Manager and Administrator to ensure that the concerns of their staff may be raised in a confidential manner.

Warning to shareholders – share fraud scams

Fraudsters use persuasive and high-pressure tactics to lure investors into scams. They may offer to sell shares that turn out to be worthless or non-existent, or to buy shares at an inflated price in return for an upfront payment. While high profits are promised, if you buy or sell shares in this way, you will probably lose your money.

How to avoid share fraud

- Keep in mind that firms authorised by the FCA are unlikely to contact you out of the blue with an offer to buy or sell shares
- Do not get into a conversation, note the name of the person and firm contacting you and then end the call
- Check the Financial Services Register from www.fca.org.uk to see if the person and firm contacting you is authorised by the FCA
- Beware of fraudsters claiming to be from an authorised firm, copying its website or giving you false contact details
- Use the firm's contact details listed on the Register if you want to call it back
- Call the FCA on 0800 111 6768 if the firm does not have contact details on the Register or you are told they are out of date
- Search the list of unauthorised firms to avoid at www.fca.org.uk/scams
- Consider that if you buy or sell shares from an unauthorised firm you will not have access to the Financial Ombudsman Service or Financial Services Compensation Scheme.
- Think about getting independent financial and professional advice before you hand over any money
- Remember: if it sounds too good to be true, it probably is!

5,000 people contact the Financial Conduct Authority about share fraud each year, with victims losing an average of £20,000.

Report a scam

If you are approached by fraudsters, please tell the FCA using the share fraud reporting form at fca.org.uk /scams, where you can find out more about investment scams.

You can also call the FCA Consumer Helpline on 0800 111 6768.

If you have already paid money to share fraudsters, you should contact Action Fraud on 0300 123 2040.

National Storage Mechanism

A copy of the Annual Report and audited financial statements will be submitted shortly to the National Storage Mechanism ("NSM") and will be available for inspection at the NSM, which is situated at: www.morningstar.co.uk/nsm

Definitions and reconciliation to alternative performance measures

Credit Assets	Credit Assets are loans made to consumers and small businesses as well as other counterparties, together with related investments.
Equity Assets	Equity Assets are selected equity investments that are aligned with the Company's strategy and that present opportunities to enhance the Company's returns from its investments.
Net asset value (NAV)	Net asset value represents the total value of the Company's assets less the total value of its liabilities. For valuation purposes, it is common to express the net asset value on a per share basis.
Ongoing charges	Ongoing charges is calculated as a percentage of annualised ongoing charge over average reported Net Asset Value. Ongoing charges are those expenses of a type which are likely to recur in the foreseeable future.
Premium	If the share price of the Company is higher than the net asset value per share, the Company's shares are said to be trading at a premium. The premium is shown as a percentage of the net asset value.
Discount	If the share price of the Company is lower than the net asset value per share, the Company's shares are said to be trading at a discount. The discount is shown as a percentage of the net asset value.
Fair Value	The amount for which an asset could be exchanged, or a liability settled, between willing parties in an arm's length transaction.
Registrar	An entity that manages the Company's shareholder register. The Company's registrar is Computershare Investor Services PLC.
AIF	An Alternative Investment Fund, as defined in the AIFM Directive 2011/61/EU on Alternative Investment Fund Managers
LIBOR (London Inter-Bank Offered Rate)	The interest rate participating banks offer to other banks for loans on the London market.
AIFM	An Alternative Investment Fund Manager, as defined in the AIFM Directive. Pollen Street Capital Limited undertakes this role on behalf of the Company.
Neither past due nor impaired	Loans that are not in arrears and which do not meet the impaired asset definition. This segment can include assets subject to forbearance solutions.
Consumer Loan	An amount of money lent to an individual for personal, family, or household purposes.
Servicers	Comprehensive loan servicing to support the full loan lifecycle, from origination, through account servicing to arrears management.
Hedging	An investment to reduce the risk of adverse price movements in an asset.

RECONCILIATION TO ALTERNATIVE PERFORMANCE MEASURES

NET Asset Value (ex-income)

	31 December 2018 £'000	31 December 2017 £'000
Net asset value	400,710	304,759
Revenue Account	(4,934)	(5,133)
Capital Account	965	125
IFRS 9 Adoption	(2,337)	-
Net Asset Value (ex-income)	394,404	299,751

Premium / (Discount) to NAV per share

	31 December 2018	31 December 2017
NAV per share (Cum income)	1,015.7p	1,018.4p
Share Price at Close	1,130.0p	1,157.5p
Premium / (Discount)	11.3%	13.7%

The premium / (discount) to NAV per share is calculated by taking the difference between the share price at close and the NAV per share (Cum income) and dividing it by the NAV per share.

Annual NAV per Share Return

	31 December 2018	31 December 2017
NAV per share (Cum income) at year end	1,015.7p	1,018.4p
Opening NAV per share (Cum income) *	1,010.6p	1,014.0p
Dividends per share paid in the year	80.0p	88.0p
Annual Nav per Share Return	8.43%	9.11%

*Opening balance adjusted for initial adoption of IFRS 9

The annual NAV per share return is calculated by taking the closing NAV per share (cum income) at year end and adding the dividend per share paid in the year divided by the opening NAV per share (cum income).

Inception to Date ("ITD") NAV per Share Return

	31 December 2018	31 December 2017
NAV per share (Cum income)	1,015.7p	1,018.4p
Opening NAV per share (Cum income) at inception	982.0p	982.0p
Dividends per share paid since inception	212.9p	132.9p
ITD NAV per Share Return	25.12%	17.24%

The ITD NAV per share return is calculated by taking the closing NAV per share (cum income) at year end and adding the dividend per share paid since inception divided by the NAV per share (cum income) at inception.

Debt to Equity

	31 December 2018	31 December 2017
Ordinary share capital	394	299
Share premium (£'000)	299,599	201,852
Special distributable reserves (£'000)	96,748	97,600
Interest Bearing Borrowings (£'000)	189,263	56,787
Debt to Equity ratio	47.7%	18.9%

Debt to equity ratio is calculated as the Company's interest bearing debt divided by the aggregate of called up share capital, share premium and special distributable reserve, expressed as a percentage.

Revenue Return

	31 December 2018	31 December 2017
Profit after taxation (£'000)	29,037	21,042
Average NAV (£'000)	371,858	271,701
Revenue Return	7.8%	7.7%

Revenue return is calculated as profit after taxation from revenue divided by average NAV during the year.

Dividend Return

	31 December 2018	31 December 2017
Dividend declared (£'000)	29,655	22,837
Average NAV (£'000)	371,858	271,701
Dividend Return	8.0%	8.4%

Dividend return is calculated as the total declared dividends for the year divided by average Net Asset Value during the year.

Ongoing Charges

	31 December 2018	31 December 2017
Auditors' remuneration (£'000)	129	110
Administrator's fees (£'000)	199	146
Directors' fees (£'000)	145	118
Management Fee (£'000)	4,997	2,922
Other costs (£'000)	420	394
Average NAV	371,858	271,701
Ongoing Charges	1.6%	1.4%

Ongoing charges ratio: The Annualised Ongoing Charge is calculated using the Association of Investment Companies recommended methodology. It is calculated as a percentage of annualised ongoing charge over average reported Net Asset Value. Ongoing charges are those expenses of a type which are likely to recur in the foreseeable future, whether charged to capital or revenue, and which relate to the operation of the investment company as a collective fund, excluding the costs of acquisition/disposal of investments, financing charges and gains/losses arising on investments. Ongoing charges are based on costs incurred in the year as being the best estimate of future costs. The AIC excludes performance fees from the Ongoing Charges calculation.