Honeycomb
Investment Trust

Annual Report and Audited Financial Statements

For the year ended
31 December 2021

Registered Number:
09899024

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1 Strategic Report

The Company

Honeycomb Investment Trust plc ("the Company" or “Honeycomb”) is a UK-listed investment trust dedicated to providing investors with access to asset backed lending opportunities that Pollen Street Capital Limited ("Pollen Street" or the "Investment Manager") believes have potential to generate high income returns together with strong capital preservation.

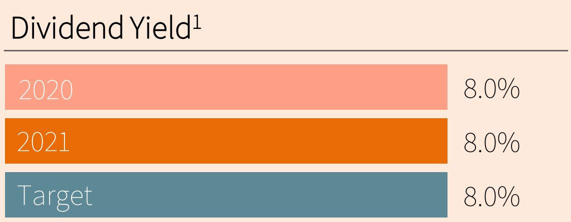
Investment Objective

The Company and its subsidiaries (together, “the Group”) operate an asset backed credit strategy that delivers stable income alongside strong downside protection through providing predominantly senior lending to non-bank lenders secured on their underlying loan portfolios. The investment strategy is supported by the ongoing structural changes in the financial services industry that create a significant opportunity for non-bank lenders to reach customers who are underserved by mainstream banks with bespoke and appropriate products. The strategy is focused on generating positive impact around five key areas where Honeycomb can make a meaningful difference: environmental impact; affordable housing; financial inclusion; regional economic growth and the highest standards of governance.

Investment Manager

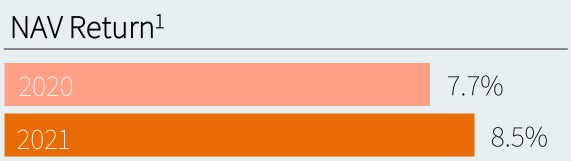
Pollen Street serves as the Company’s investment manager. Pollen Street is an independent, alternative investment management company specialising in the financial and business services sector and has extensive experience investing in both credit and private equity strategies.

Performance Highlights

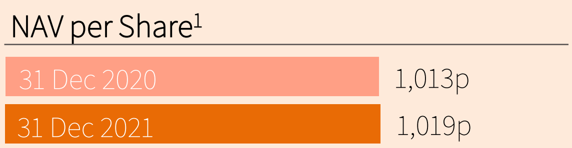


Dividend yield stable at 8.0 percent of IPO issue price - in line with the published target

Note - target dividend is not a profit forecast



Strong NAV return at 8.5 percent with no down months



NAV per share increasing

Dividend Yield: calculated as the total declared dividends for the period divided by IPO issue price. NAV Return: calculated as Net Asset Value (Cum Income) at the end of the year, plus dividends declared during the year, less NAV (Cum Income) at the end of the year, divided by NAV (Cum Income) calculated on a per share basis. NAV per Share: Net Asset Value (Cum Income) at the end of the year, divided by the number of shares. Share Price: closing mid-market share price at month end (excluding dividends reinvested).

[1]See section 5 for reconciliation to Alternative Performance Measures

Investment Characteristics

NON-BANK LENDING

Non-bank lending is now an integral part of the lending landscape, providing financing to millions of consumers and businesses, including those that are underserved by high street banks.

Since the global financial crisis, the role of non-bank lenders has become increasingly an important part of a well-functioning lending market as the large traditional banks fundamentally changed their approach to the lending markets that they were focussed on. Faced with both internal and external pressures, they retrenched from many products and services and focused on only vanilla, commodity markets where scale and cost of funding enable them to remain relevant and competitive.

Specialist players, able to tailor products to meet the needs of target customer groups, often combining strong service standards coupled together with deployment of data and technology to curate highly attractive products in their selected fields provide a critical role in ensuring important parts of the economy continue to be serviced by high quality lending products.

The non-bank lending market is already large at an estimated £330 billion[1] in the UK alone, and these structural changes have been accelerated by Covid-19 disruption.

IMPACT

Impact investments are a key focus, including environmental impact; affordable housing; financial inclusion; regional economic growth and the highest standards of governance.

As traditional banks retrench, they exclude an increasing number of ordinary working people from their service levels. Some reports suggest that 25% of all adults in the UK do not meet the criteria for mainstream banking offerings and therefore there is an important role to play for non-bank lenders to offer tailored products to ensure supportive and appropriate financial inclusion is accelerated across the economy.

As the population becomes more engaged in having a positive impact and seeking to live their lives on a sustainable basis, it is expected that focused lending products such as to finance energy efficient products in the home and transportation, will become more in demand. These products have an important role to play in enabling ordinary people to finance life improvements.

Finally, as a highly respected partner to these lending businesses, the Group, through the Investment Manager, can bring a consistency of governance and ensure that ethical, sustainable and responsible practices are built into all investment processes.

HONEYCOMB PROPOSITION

The Group provides predominantly senior lending secured on diverse portfolios of financial (typically loan portfolios) and hard assets that generate predictable cash flows. This is typically to non-bank lenders but can also encompass other businesses that have large and diverse portfolios of assets (for example, electric vehicle leasing providers).

This approach allows Honeycomb to benefit from the advanced origination and underwriting capabilities of its borrowers but maintaining significant downside protection through typically taking a senior position. The borrower is fully aligned with the Group and their return is realised after the debt of the Group is serviced. The facilities Honeycomb provides are typically of short duration, with an average life of 2 to 3 years. The cash generated by the portfolio of assets on which the facility is secured generates sufficient cash flow to repay our loan removing refinancing and exit risk.

The investment objective is to deliver consistent returns and a diversified portfolio with high quality borrowers, rigorous investment process and robust downside protection. Sector specialism, strong networks with partners and proprietary deal flow are key facilitators in driving compelling returns, while stringently monitoring and managing risk. The Company aims to be the market-leading finance partner to the non-bank and broader asset based finance sector.

The combination of this asset backed strategy and the speed of growth amongst non-bank lenders drives high and stable income generation alongside a large and growing market opportunity for the Company to be highly selective in the loans it provides. This means the Company has a low volatility in NAV and dividend resilience.

[1] Bank of England, Ernst & Young, Financing & Leasing Association and Pollen Street Internal estimates

Impact

In lending, we see a large and growing opportunity for non-bank lenders to reach customers that are underserved by mainstream banks with bespoke and appropriate products. Our focus on Impact is built around 5 key areas where Honeycomb makes a meaningful difference:

1

Environmental Impact:

Reducing the carbon footprint and energy consumption of homes is one of the key-ways that people can have a positive impact on the environment. Our lenders help finance home improvements that improve energy efficiency, and we are now also focused on the electrification of transport.

2

Affordable Housing:

Our real estate lending strategy aims to improve the quality of the property stock and support the creation of affordable, efficient and good value homes.

3

Financial Inclusion:

Our lending supports financial inclusion at a time when mainstream lenders are offering only vanilla automated products. Some reports suggest that 25% of all adults in the UK do not meet the criteria for mainstream banking offerings. There is an important role to play for non-bank lenders to offer tailored products to ensure supportive and appropriate financial inclusion across the economy.

4

Regional Economic Growth:

Lending to support SMEs and communities is ever more critical to support regional growth across the UK. We work to support SME lenders who are close to the customers and are able to offer tailored products to support them in a prudent way. We also partner with experienced real estate lenders with 96% of funding, across the Manager's investments in 2021, going to projects outside of London.

5

Highest Standards of Governance:

All our lending partners are required to demonstrate and embed the highest quality of governance and their own three lines of defence which we ensure is being complied with as part of our on-going monitoring.

Chairman's Statement

I am pleased to present the Annual Report and Audited Financial Statements for Honeycomb Investment Trust plc, which covers the year ended 31 December 2021.

YEAR UNDER REVIEW

In an environment where the economy and businesses were cautiously returning to a 'new normal' of trading, Honeycomb Investment Trust plc has continued to perform well throughout the year executing on a strong pipeline of opportunities. The Company started the year with a robust cash position, and a pipeline of opportunities presenting strong underlying asset returns, and as a result of this was able to produce the strongest year since 2017.

Earnings for the year were £30.3m (2020: £20.7m) and monthly performance was consistent, delivering 8.5% NAV return for the year, up from 7.7% over 2020. The stability of the returns is a testament to the successful strategy.

The impairment charge for the year has reduced from £5.6 million in 2020 to a release of £0.8 million in 2021. The reduction in impairment charge is attributable to the focus on senior secured credit that protects the Company from adverse credit losses and the improving economic outlook. The bridge on page 16 provides more details on the composition of the returns.

The Company continued to declare dividends at 20.00 pence per share each quarter. This is in line with the target dividend yield of 8.0 per cent annualised dividend on the issued share price at the Company's initial public offering.

The share price closed the year at 945p on 31 December 2021, which is a modest discount of 7.3% (2020: 7.0%) to NAV.

ESG

The Board has supported the Investment Manager's Environmental Social and Governance ("ESG") programme over the course of the year, with progress made in embedding ESG as an integral part of the investment process. There are 5 key impact areas that are described in more detail on page 6. This is ever more critical in the current environment and the Board is excited to advance our progress towards sustainability in 2022 and beyond.

OUTLOOK

2021 has been a year of execution and consistency for Honeycomb. Having demonstrated the stability of the strategy over 2021 the Board is confident the Company will continue to deliver attractive investment returns. Looking ahead there are a number of factors that position Honeycomb strongly for 2022.

Firstly, market dynamics continue to drive compelling investment opportunities. Non-bank lending is an increasingly critical part of the lending landscape, providing financing to millions, including those that are underserved by high street banks. The Company continues to aim to be the finance partner of choice for the non-bank sector. Thanks to deep expertise and relationships, the Investment Manager is able to source most investments internally and negotiate bi-laterally.

Second is the strategy employed by the Company to address these investment opportunities. The strategy focuses on senior secured, asset-based credit investments, which is a structure that aligns interests between Honeycomb and its borrowers. The strategy has driven stable NAV returns over 2021.

Finally, positive societal and environmental impact continues to be an important feature of the Honeycomb investment strategy. Lending over the course of 2021 has supported regional economic growth, affordable homes and the transition towards a net zero emissions economy.

COMBINATION WITH POLLEN STREET

On 15 February 2022, Honeycomb announced that it had reached agreement on the terms of a recommended all share combination with Pollen Street Capital Holdings Limited, the parent company of the Investment Manager. Under the terms of the agreement, Honeycomb will acquire the entire issued share capital of Pollen Street Capital Holdings Limited in exchange for shares in the combined group such that the Honeycomb and Pollen Street businesses will be combined into a premium listed entity, owned by the shareholders of Honeycomb and Pollen Street. The combination is conditional on shareholder and regulatory approval. At announcement, shareholders representing c.56.4% of Honeycomb's issued share capital have given their support for the transaction.

As shareholders know, Honeycomb has been delivering strong and stable performance since inception in 2015, consistently delivering a net investment return of c.8%

We feel privileged to have many supportive shareholders, and thank them for their longstanding support.

I strongly believe that this is an extremely attractive opportunity for shareholders, as a combination with Pollen Street will accelerate growth and unlock value, delivering recurring income, retaining an attractive dividend yield (anticipated to be 6.5% and 6.6% in 2022 and 2023 respectively[2], on the basis of Pollen Street shareholders having agreed to waive dividends on 50% of consideration shares issued to them through 2022 and 2023) whilst presenting strong growth opportunities. The transaction is also expected to be EPS accretive in the second full year post closing for Honeycomb's shareholders[3].

Pollen Street is a highly successful and fast growing alternative asset manager with:

- deep capabilities in both Private Equity and Credit with well-established and outperforming flagship strategies
- a business that is benefiting from strong tailwinds from investor demand in its products; and
- a business that is at an inflexion point with highly visible growth ahead

The Board conducted extensive due diligence and believes that the combination will generate substantial value for shareholders, both because of the attractive valuation on which Honeycomb is acquiring the Pollen Street business compared to listed peers in the alternative asset management sector, and because of the profile of the combined group going forward. In particular the combined group will have:

- a balance of recurring fee income and interest income that delivers an attractive and growing revenue profile; and
- exciting potential to accelerate high quality growth as Honeycomb's capital can be deployed to unlock a multiplier effect on capital raising and, in doing so, accelerate the growth of new strategies.

The combined business will benefit from a complementary set of investment management and balance sheet activities, with strong earnings growth. The investment portfolio will continue to be predominantly invested in high quality, diversified and low risk asset based direct lending investments, generating stable returns. The investment portfolio profile of the combined group is expected to remain in line with the investment profile of Honeycomb on a stand-alone basis.

The transaction creates a business with a rare combination of high growth and high income yield. It also presents strong benefits for shareholders from a public market perspective:

- increased investor universe providing opportunity to diversify the share register;
- larger scale and growth which is expected to attract greater analyst coverage; and
- possibility for increased liquidity on account of the larger market cap and potential future FTSE 250 inclusion.

A shareholder circular will be published in due course and sent to shareholders to provide further details of, and request shareholder approval for the transaction.

The Board notes the current share price and if this persists will consider reactivating the Company's share buyback programme as the Board believes that at the current price the Company's shares offer significant value and a share buyback will be value accretive. The Board's policy is to consider conducting share buybacks when the shares trade more than 5% below NAV subject to maintaining the Company's gearing target limit.

I would like to thank my Board colleagues and the Investment Manager for their hard work over 2021 and I look forward to continuing to work together over 2022.

Robert Sharpe

Chairman

1 March 2022

[2] Based on the Honeycomb share price of 967.5 pence on 14 February 2022 (being the last business day prior to announcement).

[3] The statement that the combination is expected to be EPS accretive should not be construed as a profit forecast, and should not be interpreted to mean that the EPS in any future financial period will necessarily match or be greater than those for any preceding financial period.

Investment Manager's Report

The Investment Manager, Pollen Street, is an independent asset manager working across private equity and credit strategies. Pollen Street was formed in 2013 and possesses a strong and consistent track record within the financial and business services sectors.

INVESTMENT PERFORMANCE

The Group has maintained its track record of investment performance with earnings of £30.3m (2020: £20.7m); NAV returns of 8.5 percent (2020: 7.7 per cent) and dividend yield of 8.0 per cent (2020: 8.0 per cent).

The Manager targets new investment opportunities with credit asset returns of approximately 8 to 10 percent. The portfolio remains stable, both with further advances invested in existing facilities, and with new relationships. Pollen Street continues to focus the portfolio on structured and secured loans, reducing the risk of underperformance in the portfolio.

Profit for the year was £30.3 million (2020: £20.7 million), which translated into a basic earnings per share of 86p (2020: 56.5 pence). This is equivalent to an annualised NAV return of 8.5 percent (2020: 7.7 per cent). The growth is driven by an increase in average investment assets with an average value of £601.8million during the year (2020: £560.9m) combined with a reduction in the ECL charge, from a charge of £5.8 million to a release of £0.8 million.

The Group ended the year with a net debt to equity of 70.9[4] per cent (31 December 2020: 59.1 per cent) which is within its stated target of 50 per cent to 75 percent.

The Company has continued to meet its target dividend of 8.0 per cent based on the IPO issue price over the period and has grown its NAV per share (cumulative of income) at the end of the period of to 1,019 pence per ordinary share (31 December 2020: 1,013 pence).

We are pleased that the share price has been stable over the course of 2021 closing at 945p (31 December 2020: 943p).

OTHER HIGHLIGHTS

In addition to the resilient investment performance, the Company has continued to source and invest in senior secured investments, with 76% of the portfolio in senior assets and 97% structurally secured. In Q4 2021, the Company sold all of the organic portfolio to enable it to focus on more structured and secured loans.

During 2021, the Company made commitments of £48.2m to two credit investment vehicles that are managed by Pollen Street Capital. These investments allow Honeycomb to gain a diversified exposure to a broader range of Pollen Street's new investments when the Company is close to full deployment.

The Company also participated in a senior asset backed facility to the largest pure-play electric vehicle subscription business in Europe. The facility is directly secured on the fleet of electric vehicles and will fund growth in the number of cars to meet customer demand and drive increased access and adoption of electric vehicles across Europe.

In June 2021 the Company sold Honeycomb's listed bond portfolio (including Amigo Holdings Plc) realising a small profit of £0.02m with the sales proceeds of £22.41m marginally exceeding the net book value of the portfolio of £22.39m.

PORTFOLIO OVERVIEW

The portfolio compromises of £576.8 million of investments balanced across the property, SME, consumer and sustainability sectors. The portfolio is well-diversified, with an average exposure of £16.2m, maximum single exposure of £54.6m and the ten largest investments representing 65.5% of Net Investment Assets.

Investments are secured on diverse asset portfolios, providing high cash generation and stable returns. The strategy has focused predominately on senior loans, with 76% of portfolio in senior assets and 97% asset backed. Investments are all structured on a bespoke basis with a focus on capital preservation with the strategy combining the structuring and credit disciplines of asset-based finance with those of direct lending.

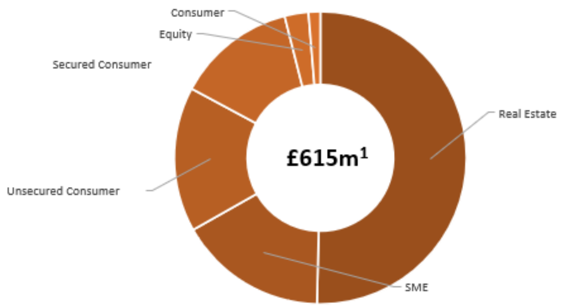
The portfolio is focused on secured asset based Credit Assets. These are loans to counterparties that benefit from two forms of protection:

- The Company has security over the underlying asset portfolios that generate the cash flow for the borrowers. Honeycomb can realise the collateral (sell or run off) to cover any shortfall on its loan.
- The Company has seniority over other creditors and equity holders for many deals meaning that other counterparties bear the first loss from any underperformance before the Company.

The resilience of the portfolio through this challenging year demonstrates the strategy of selecting only the assets that meet the strict risk adjusted returns criteria and maintaining strong credit quality.

[4] See section 5 for reconciliation of Alternative Performance Measures

Investment Assets by Type[5]



CREDIT PERFORMANCE & RISK MANAGEMENT

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") including interpretations issued by the IFRS Interpretations Committee adopted in the UK. Under IFRS 9, impairment losses are recognised on a forward-looking basis, taking into account both the risk profile of the Credit Assets and the macroeconomic outlook at the balance sheet date.

The impairment charge for the year has reduced from £5.6 million in 2020 to a release of £0.8 million in 2021. The reduction in impairment charge is attributable to the Company's continued focus on senior secured Credit Assets. As at 31 December 2021, 97% of the assets were structurally secured (31 December 2020: 91%).

The Expected Credit Loss ("ECL", "Impairment Provision") balance has reduced materially from £30.5 million as at 31 December 2020 to £10.8 million as at 31 December 2021. The main driver of the reduction is sale of the consumer portfolio. The risks arising from the investment assets are managed very closely. The Group's performance is linked to the health of the economy and the Group could experience further impairments and consequently reduced profits if economic expectations deteriorate. However, the risk of this has been mitigated by a focus on credit investments secured on loan portfolios of non-bank lenders with strong downside protection from senior ranking to the lender or borrower equity as well as security over the cashflow generated by the loan portfolio. This senior ranking provides insulation from increasing defaults in the portfolio and provides stability of returns.

ESG & IMPACT

The Investment Manager has embedded Environmental, Social and Governance "ESG" as a core part of its investment process – from identifying ESG risks when selecting and assessing investments, through to working with credit partners to embed an ESG framework and monitor performance against key criteria and measures, linked to the UN Sustainable Development Goals. Alongside ESG in the investment process, the Investment Manager has identified 5 key impact areas where the lending that Honeycomb Investment Trust plc provides can make a meaningful difference. These impact areas are listed on page 6. Progress against ESG targets and positive impact for Investment Manager as a whole is monitored and reported in the Pollen Street Capital Annual ESG Report. The Investment Manager collects data to measure the sustainability of operations as well as the relevant ESG impact. As the nascent environment for ESG data evolves, we are reviewing the data robustness with our partners to improve and align reporting. This will enable us to publish relevant ESG information in the future.

OUTLOOK

Honeycomb has built on a strong track record of consistent credit performance and dividends with another successful year in 2021. The strong financial performance has continued following the end of the financial year with annualised NAV returns of 8.1% in January 2022.

The role of non-bank lenders is ever increasing, as banks narrow their focus and customers are attracted to platforms that employ technology to deliver more tailored and efficient service. Our strong pipeline of deals, with over £1bn of deals under consideration by the investment manager, means we are able to select those that align with our strategy and ambitions in driving positive impact.

The outlook for the economy remains somewhat uncertain with the potential impact of the various supply shortages, the increasing cost-of-living and consequences of emerging geopolitical events. Despite this we believe that Honeycomb is well positioned for the future and we are proud to have delivered strong returns for Honeycomb shareholders over 2021 and indeed since inception in 2015.

We are excited about the potential combination of Pollen Street and Honeycomb and look forward to working with Board in 2022 to manage and grow the Company.

[5] Investment Assets includes equity assets held at fair value through profit or loss, credit assets at amortised cost and credit assets held at fair value through profit or loss

ESG AT THE HEART OF INVESTMENT MANAGEMENT

The Investment Manager has embedded Environmental, Social and Governance "ESG" as a core part of its investment process – from identifying ESG risks when selecting investments, through to working with credit partners to embed an ESG framework and monitor performance against key criteria, linked to the UN Sustainable Development Goals. We provide reporting on this framework annually in the Pollen Street Capital ESG Report.

ENVIRONMENTAL IMPACT

We recognise our responsibility to do business in a manner that protects and improves the environment for our future generations, as well as supporting businesses that take us closer to a clean and sustainable environment.

CREATING A LASTING ENVIRONMENTAL IMPACT

Create solutions that have a positive environmental impact – e.g. funding for residential energy efficiency initiatives and electric vehicles

SOCIAL IMPACT

We aim to ensure that the products and services of our portfolio companies and credit partners provide the best outcomes for stakeholders, including improving financial health for consumers and SMEs.

FINANCIAL INCLUSION

Access to loans and other financial products is made available to a broad audience, promoting greater access to opportunity.

We believe that a diverse business has multiple benefits. We champion diversity and seek to ensure that equal opportunities are promoted to all.

PROMOTE DIVERSITY

Promoting diversity and, in particular seeking to broaden representation at Board and company levels

We focus on efforts that provide real benefits and which address relevant regional issues.

REGIONAL ECONOMIC GROWTH

Provide services to small businesses promoting growth and job creation throughout the markets in which Pollen Street operates

GOVERNANCE & LEADERSHIP

We ensure we are appropriately accountable for our decisions, implementing strong governance throughout operational processes with the ability to identify and manage material risk factors, including sustainability risks. As we focus our investments within the largely regulated financial services sector, our portfolio operates high governance standards as a baseline.

REDUCING THE IMPACT OF FINANCIAL CRIME

Reduce overall levels of financial crime in Financial Services with effective AML & Cyber procedures and governance

ESG IN THE INVESTMENT PROCESS

The Investment Manager is committed to focus on actions that generate positive impact for our investors, people, portfolio companies and the wider society. As a core part of our investment process, we engage with our Credit partners to identify impact areas within ESG that are relevant to them and where we can support them to accelerate their positive impact.

ESG MEASUREMENT

With an ever-growing focus on ESG reporting and transparency from all stakeholder groups, as well as alignment with regulatory disclosures such as the EU Sustainable Financial Disclosure Regulation ("SFDR"), measuring impact is more important than ever.

As we strengthen our approach to ESG, we have defined a set of core metrics linked to ESG best practice which we collect from the Trust's credit partners, as well as collecting impact measures relevant to the investment (as set out below), and we continue to improve and align reporting linked to our ESG framework.

ESG IN ACTION

Recent examples of how Pollen Street Capital's credit facilities have supported a tangible ESG impact include:

Regional Economic Growth

Financing real estate across the UK and Ireland

The Investment Manager believes in investing into businesses across the UK and Europe that reduce regional disparities and support economic activities in all regions.

96% of overall real estate funding provided by Pollen Street through its credit partners has gone to projects outside London.

Financial Inclusion

Funding designed with small businesses in mind

Pollen Street's partnerships support non-bank lenders who are increasingly an integral part of the lending landscape. These lenders provide financing to thousands of businesses including those that would otherwise be underserved by mainstream banks.

During the year, the Investment Manager continued to build on its strong relationship with one of Europe's largest small business lenders, extending a £100m credit facility, of which funds managed by Pollen Street participated in £75m and the Company participated in £20m directly.

The facility enables the firm to grow its UK SME loan offering and reach more small businesses with appropriate products to help them flourish.

ESG - ONGOING FOCUS

BEST-IN-CLASS MEASUREMENT AND REPORTING	Measure what matters with a streamlined data collection process for benchmarking and setting targets; prepare our portfolio approach to EU Regulation on sustainability disclosures.
IMPACT	Drive progress across our ESG impact areas. This includes the development of lending products that enable individuals and businesses to "go green."
DIVERSITY & INCLUSION	Use data to better understand our demographics, beyond gender, and create meaningful priorities across the portfolio, closely linked to our culture and values.
CARBON COMMITMENT	Use our carbon footprint assessment to help set our strategy for portfolio carbon reduction and meet our targets.
BEST PRACTICE	Build and share ESG best-practice across the firm and portfolio, including a best practice roadmap for new and existing portfolio companies.
CULTURE	Scale a lasting programme with our Ten Years' Time partners, and continue to embed responsibility and sustainability into our Pollen Street culture.
STEWARDSHIP	Engage with key stakeholders – investors, portfolio companies and industry bodies – to elevate the ESG agenda across the wider industry.

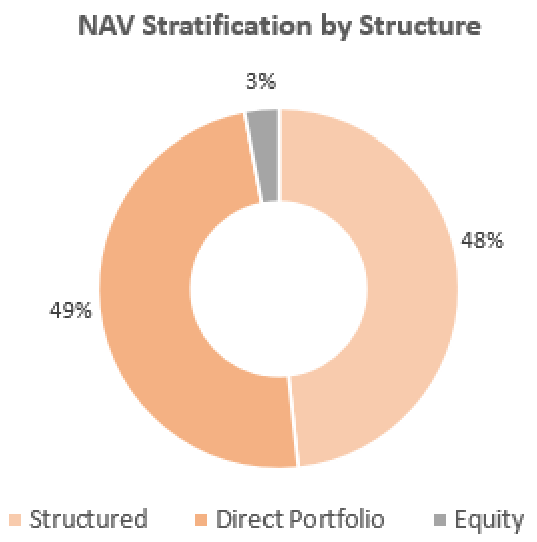
Top Ten Holdings

		Country	Deal Type	Sector	Value of holding at year-end (£m)[1]	LTV	Percentage of assets[2]
1	UK Agriculture Finance	United Kingdom	Senior	Short Term Property Loans	52.9	50%	8.6%
2	Sancus Loans Limited	United Kingdom	Senior	Short Term Property Loans	52.8	54%	8.6%
3	Creditfix Limited	United Kingdom	Senior	Discounted Fee Receivables	51.3	39%	8.3%
4	Oplo Direct Portfolio	United Kingdom	Secured	Secured Consumer	48.6	81%	7.9%
5	Nucleus Cash Flow Finance Limited	United Kingdom	Senior	SME	40.6	96%	6.6%
6	Downing Development Loans	United Kingdom	Senior	Short Term Property Loans	35.9	63%	5.8%
7	Duke Royalty	United Kingdom	Senior	SME	35.2	40%	5.7%
8	GE Portfolio	United Kingdom	Secured	Secured Consumer	31.2	61%	5.1%
9	Oplo Structured	United Kingdom	Mezzanine	Secured Consumer	29.9	95%	4.9%
10	Queen Street	United Kingdom	Senior	Short Term Property Loans	24.6	75%	4.0%

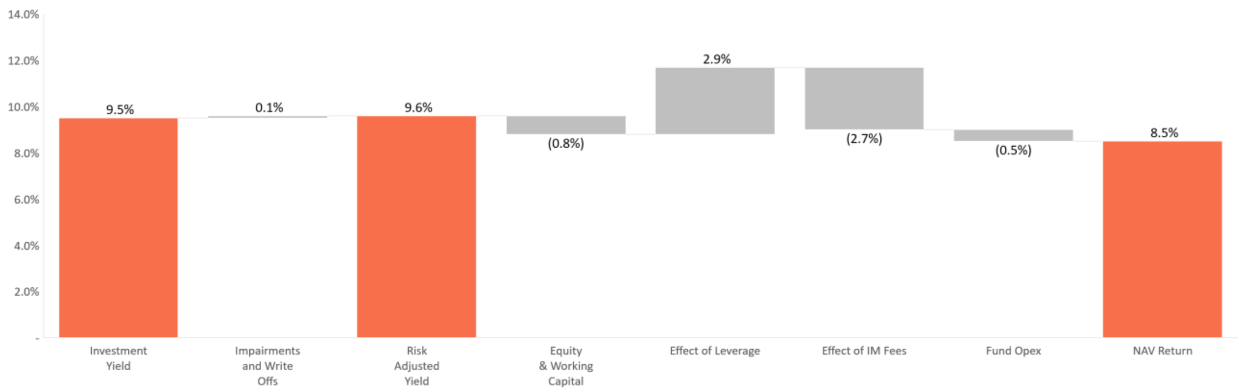
(1) Direct portfolios have been aggregated by originator and servicer
(2) Percentage of total investment assets of the Group (investment assets calculated as the carrying balance of all credit assets at amortised cost, credit assets held at fair value through profit or loss and equity investments held at fair value through profit or loss).

As at 31 December 2021 the value of the top 10 assets totalled £403.0 million (2020: £359.2 million) which equated to 65.5 percent (2020: 63.2 percent) of investment assets (investment assets calculated as the carrying balance of all credit assets at amortised cost and credit and equity investments held at fair value through profit or loss).

Portfolio Composition



Returns Bridge FY21



The above chart shows the composition of the NAV returns. See section 5 for reconciliation to Alternative Performance Measures.

Business Review

The Strategic Report on pages 3 to 29 has been prepared to help shareholders assess how the Group 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 Group and Company principal and emerging risks and uncertainties as identified by the Board, the key performance indicators used by the Board to measure the Group's performance, the strategies used to implement the Group's objectives, the Group's environmental, social and ethical policy and the Group's anticipated future developments.

KEY INFORMATION

Honeycomb Investment Trust plc (the "Company") is a closed-ended investment company incorporated and domiciled in the United Kingdom on 2 December 2015 with registered number 09899024. The Company is a publicly listed company. The registered office is 6th Floor, 65 Gresham Street, London, EC2V 7NQ, United Kingdom.

PRINCIPAL ACTIVITIES

The Group 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 Group'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.

STRATEGIC AND INVESTMENT POLICY

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

The Group targets the payment of dividends which equate to a yield of at least 8.0 percent 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 Group 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 Group.

ASSET ALLOCATION AND RISK DIVERSIFICATION

Credit Assets invested in by the Group consist of 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 Group's investment in Credit Assets encompasses the following investment models:

1. Structured Loans. The Group identifies top performing non-bank lenders that provide finance to a tightly defined target audience. Senior financing is provided with security over real assets and
2. Direct Portfolios. These portfolios of directly owned loans are typically sourced from established relationships with non-banks and are typically secured on underlying assets i.e. property

The Group may undertake such investments directly, or via subsidiaries or special purpose vehicles ("SPVs"). It is also possible that the Group 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 Group or other efficiencies (such as, without limitation, efficiencies as to origination, funding, servicing or administration of the relevant Credit Assets).

The Group also invests in Equity Assets. The Group shall invest no more than 10 percent of the aggregate net proceeds of any issue of shares in Equity Assets. This restriction shall not apply to any consideration paid by the Group for the issue to it of any Equity Assets that are convertible securities. However, it will apply to any consideration payable by the Group at the time of exercise of any such convertible securities or any warrants issued. The Group may invest in Equity Assets indirectly via other investment funds (including those managed by the Investment Manager or its affiliates).

IMPAIRMENT REVIEW

The Expected Credit Loss ("ECL", "Impairment Provision") balance has reduced materially from £30.5 million as at 31 December 2020 to £10.8 million as at 31 December 2021 on a NAV closing balance of £359m (2020: £357m). The main driver of the reduction is sale of the consumer portfolio.

The impairment charge for the year has reduced from £5.6 million in 2020 to a release of £0.8 million in 2021. The reduction in impairment charge is attributable to the Company's continued focus on senior secured Credit Assets and the improving economic outlook. As at 31 December 2021, 97% of the assets were senior secured (31 December 2019: 82%).

The outbreak of Covid-19 is causing major disruption across the globe. The principal effects of the outbreak in the UK began in March 2020.

Over 2020 many borrowers made requests for forbearance in line with regulatory guidance on the matter. By the end of 2020 a significant majority of borrowers had left payment holidays and returned to paying.

The downside protection built into the majority of the portfolio has limited the impact of Covid-19 on the ECL charge. However, given the Group's activities, its performance is linked to the health of the economy and consequently if economic expectations deteriorate against current expectations the Group could experience further impairments.

INVESTMENT RESTRICTIONS

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

The Group will not invest, in aggregate, more than 50 percent 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 Group:

- No single Credit Asset comprising a consumer credit asset shall exceed 0.15 percent of Gross Assets;
- No single SME or corporate loan, or trade receivable, shall exceed 5.0 percent 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 Group) shall exceed 20 percent of Gross Assets. For the avoidance of doubt, this restriction shall not prevent the Group from directly acquiring portfolios of Credit Assets which comply with the other investment restrictions described in this section.

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

No restrictions were breached at any point during the year ended 31 December 2021, or the year ended 31 December 2020.

OTHER RESTRICTIONS

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

These restrictions were not breached in year ended 31 December 2021 or the year ended 31 December 2020.

ESG

As detailed in the ESG section of the report. The Investment Manager has embedded Environmental, Social and Governance "ESG" as a core part of its investment process. This involves identifying ESG risks and opportunities when selecting and assessing investments, and working with credit partners to embed an ESG framework and monitor performance against key criteria and measures, linked to the UN Sustainable Development Goals.

Alongside ESG in the investment process, the Investment Manager has identified 5 key impact areas where the lending that Honeycomb Investment Trust plc provides can make a meaningful difference. Progress against ESG targets and positive impact for Investment Manager as a whole is monitored and reported in the Pollen Street Capital Annual ESG Report. The Investment Manager collects both core ESG practice metrics and relevant impact measures, and we continue to improve and align reporting aligned to the ESG framework and relevant regulatory developments.

BORROWING

Borrowings may be employed at the level of the Group and at the level of any investee entity. Further, the Group may seek to securitise all or parts of its Credit Assets and may establish one or more SPVs in connection with any such securitisation.

The Group may borrow, whether directly or indirectly through a subsidiary or an SPV, up to a maximum of 100 percent of Net Asset Value in aggregate. The limit is calculated at the time of draw down under any facility that the Group has entered into. The maximum borrowing limit includes investments made by the Group on a subordinated basis. The Group targets net borrowings in the range of 50 percent to 75 percent of Net Asset Value.

These restrictions were not breached in year ended 31 December 2021 or the year ended 31 December 2020.

In July 2021, the main debt facility was reduced by £50 million to £200m (2020: £250m). During the year, the Sting and Bud debt facilities remained on the same terms as at the end of 2020.

Reference rate reform

From 1 January 2022, the Sterling Overnight Index Average ("SONIA") became the new market accepted benchmark, having a credit adjustment spread applied to it where required to ensure that neither party had been adversely impacted by the switch. Note 12 has further details on the effect of IBOR reform. As at the end of the year the group had 51.268 million of asset and 30,129 million of liabilities that had yet to transition to SONIA.

The key differences between GBP LIBOR and SONIA are that GBP LIBOR is a 'term rate', which means that it is published for a borrowing period (such as three months or six months) and is 'forward looking', because it is published at the beginning of the borrowing period. SONIA is currently a 'backward-looking' rate, based on overnight rates from actual transactions, and it is published at the end of the overnight borrowing period. Furthermore, LIBOR includes a credit premium over the risk-free rate, which SONIA currently does not. To transition existing contracts and agreements that reference GBP LIBOR to SONIA, adjustments for term differences and credit differences are applied to SONIA, to enable the two benchmark rates to be economically equivalent on transition.

As at 31 December 2021, changes required to systems, processes and models have been identified and implemented. The Group has identified that the areas of most significant risk arising from the replacement of GBP LIBOR are: systems and processes which capture GBP LIBOR referenced contracts, amendments to those contracts, or existing fallback/transition clauses not operating as anticipated.

The US IBOR transition will continue into 2022 and no formal interest rate has yet been decided.

HEDGING

Fluctuations in interest rates are influenced by factors outside the Group's control and can adversely affect the Group's results, operations and profitability in a number of ways. The Group 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 other benchmarks). The Group expects that its borrowings will be subject to a floating rate of interest. Any mismatches the Group 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 Group may use derivative instruments, including interest rate swaps, to reduce its exposure to fluctuations in interest rates.

To the extent that the Group 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 Group to discharge its obligations could have a material adverse effect on the Group's results, operations and/or and financial condition.

The Manager monitors the interest rate risk position continuously and did not deem it appropriate to enter into any interest rate hedges for the period ending 31 December 2021 or the period ending 31 December 2020.

The Group intends to hedge currency exposure between Sterling and any other currency in which the Group's assets may be denominated, including US Dollars and Euros.

The Group will, to the extent it is able to do so on terms that the Investment Manager considers to be commercially acceptable, seek to arrange suitable hedging contracts, such as currency swap agreements, futures contracts, options and forward currency exchange and other derivative contracts (including, but not limited to, interest rate swaps and credit default swaps) in a timely manner and on terms acceptable to the Company. Details of hedging arrangements in place at 31 December 2021 and 2020 can be found on pages 108 and 109.

CASH MANAGEMENT

Whilst it is intended that the Group will be close to fully invested in normal market conditions, the Group 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 Group may hold and there may be times when it is appropriate for the Group to have a significant cash position instead of being fully or near fully invested. The Group's cash reserves decreased over the period with £12.9million of assets held in cash at 31 December 2021 (31 December 2020: £62.5 million).

BUSINESS MODEL

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

- The Group's level of gearing. The Group has a maximum limit of 100 percent 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 Group's investment policy which determines the diversity of the Group's portfolio. The Board sets limits and restrictions with the aim of reducing risk and maximising returns;
- The appointment, amendment or removal of the Group's third-party service providers;
- An effective system of oversight over the Group's risk management and corporate governance; and
- Premium/discount control mechanism, such as share buyback programmes.

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 Group.

The Board have acted in a way that they consider, in good faith, would be most likely to promote the success of the Group 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 Group's operations on the community and the environment;
- The desirability of the Group 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 Group.

Based on the Group's current position and the performance of the assets acquired, the principal risks that it faces and their potential impact on its future development and prospects, the Directors have concluded that there is a reasonable expectation that the Group will be able to continue its business model and meet its liabilities as they fall due over the three-year period to the AGM in 2025. Please see the viability statement on page 35 for more detail.

COMBINATION WITH POLLEN STREET

On 15 February 2022, the Company announced that it has reached agreement on the terms of a recommended all share combination with Pollen Street. Under the terms of the agreement, the Company will acquire the entire issued share capital of Pollen Street in exchange for shares in the combined group such that the Honeycomb and Pollen Street will be combined into a single business, owned by the shareholders of Honeycomb and Pollen Street. The combination is conditional on shareholder and regulatory approval, and certain other customary conditions.

The Group's anticipated future developments and outlook are discussed in more detail in the Chairman's Statement on pages 7 to 8 and the Investment Manager's Report on pages 9 to 10.

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 acts accordingly.

The Board is of the view that an increase of the Company's ordinary shares in issue may provide 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. At the Company's AGM in 2021, the Board was authorised to allot 7,051,948 ordinary shares, such authority lasting until the conclusion of the 2022 Annual General Meeting ("AGM") of the Company (or, if earlier, until close of business on 31 August 2022). Of this, up to 7,051,948 ordinary shares could be allotted on a non-pre-emptive basis, provided that the issue price is no lower than the latest published NAV per ordinary share. No shares were issued by the Company pursuant to these authorities.

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. No buy backs were executed over 2021 (2020: 4,190,178 share were purchased by the Company during the year under review at an average price of 821 pence). The last published NAV statement at the date of signing these financial statements was the NAV for 31 January 2022.

DIRECTORS' DUTIES

Section 172 of the Companies Act 2006

The Directors' overarching duty is to act in good faith and in a way that is the most likely to promote the success of the Group as set out in Section 172 of the Companies Act 2006.

The Board of Directors confirm that during the year under review, it has acted to promote the long-term success of the Company for the benefit of shareholders, whilst having due regard to the matters set out in section 172(1)(a) to (f) of the Companies Act 2006, being:

(a) the likely consequences of any decision in the long term
(b) the interests of the Company's employees
(c) the need to foster the Company's business relationships with suppliers, customers and others
(d) the impact of the Company's operations on the community and the environment
(e) the desirability of the Company maintaining a reputation for high standards of business conduct; and
(f) the need to act fairly between members of the Company.

Fulfilling this duty naturally supports the Group in achieving its Investment Objective and helps to ensure that all decisions are made in a responsible and sustainable way. In accordance with the requirements of the Companies (Miscellaneous Reporting) Regulations 2018, the Group explains how the Directors have discharged their duty under Section 172 below.

To ensure that the Directors are aware of, and understand, their duties, they are provided with the pertinent information when they first join the Board as well as receive regular and ongoing updates and training on the relevant matters. They also have continued access to the advice and services of the company secretary, and when deemed necessary, the Directors can seek independent professional advice.

DECISION-MAKING

The importance of the stakeholder considerations, in the context of decision-making, is taken into account at every Board and Committee meeting. All discussions involve careful considerations of the longer-term consequences of any decisions and their implications for stakeholders. For example, in any strategic planning discussions, the Board will consider in detail the portfolio's performance and forecasts; asset allocation within the portfolio; as well as financial performance, liquidity and balance sheet management. In addition, the Board and the Investment Manager hold separate strategy focused sessions at least once per annum to consider and analyse the investment strategy. Performance of the Group 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

The table below sets out four principal decisions made by the Board in 2021, in addition to consideration of the proposed combination with Pollen Street (more details of which are set out in the Chairman's Statement on pages 7 to 8): the response to Covid-19, the sale of the organic book, a cyber risk review and an operational resilience review. The table also includes the ways in which stakeholder considerations were factored in and addressed during the decision-making process:

Response to Covid-19

The Covid-19 pandemic has presented unprecedented challenges. A focal area for the Board over 2020 and 2021 has been on engaging with stakeholders to ensure that these challenges have been managed as effectively as possible.

How were stakeholders considered

The Board met regularly with the Manager to discuss the evolving situation and the performance of the portfolio. The Board also received regular updates on regulatory changes, shareholder views and on how to manage potential issues for creditors. The Board considered the credit partners to ensure they were being dealt with fairly whilst also protecting the interests of the shareholders

What was the outcome of such engagement

The Board supported the actions taken by the Investment Manager to steer the portfolio through the period. The Board approved changes to the Company's debt facility during the year. These ensured that the Group could benefit from an increased funding capacity and more diversified funding providers than it did at the start of the year.

The Sale of the Organic Book

The Company has previously held a portfolio of loans that were originated specifically for the Company to acquire (the "Organic Book"). Subsequently, it became apparent that these loans delivered less stable returns than other portfolios.

How were stakeholders considered?

The Manager is in regular contact with shareholders of the Company in addition to other stakeholders such as analyst and debt providers. It was clear that the selling the Organic book would benefit stakeholders by making returns more stable and simplifying the business.

What was the outcome?

The Organic Book was sold to a third party.

Cyber Risk Review

Cyber Risk has been an area of increasing focus recently given the wide prevalence of cyber incidents in corporates and other areas of society. The Risk Committee lead a review of cyber risk in conjunction with the Manager.

How were stakeholders considered?

The Manager commissioned a review of its systems and controls from a third-party cyber risk expert. The review and its conclusions were discussed with the board members.

What was the outcome?

The Manager implemented all recommendations of the review and agreed to update the review on an annual basis.

Operational Resilience Review

The Covid-19 pandemic presented intense challenges to the operations of all companies. The Risk Committee maintained oversight of the operational risks and the corresponding business continuity plans put in place by the Manager and third-party service providers.

How were stakeholders considered

The Board met with the Investment Manager and third-party service providers regularly throughout the year to ensure that all critical services continued to be delivered to a high standard.

What was the outcome of such engagement

The Company successfully managed through the crisis with all critical services maintained despite the work from home environment.

How we engage with stakeholders

The Board seeks to understand the needs and priorities of the Group's stakeholders, and these are taken into account during all its discussions and as part of its decision-making. As an externally managed investment firm, the Group does not have any employees or customers, nor does it have a direct impact on the community or environment in the conventional sense. Further explanation on environmental, human rights, employee, social and community issues is set out on pages 11 to 14.

The description of the way the Group operates on page 5 explains the various stakeholders in the lending market involved in the investment strategy of the Group. The Board defines the Group's key stakeholders as individuals or groups who have an interest in, or are affected by, the activities of our business; accordingly, the Board has considered its key stakeholders to be as follows:

Shareholders

Continued shareholder support and engagement are critical to existence of the business and the delivery of the long-term strategy of the business.

The Group's shareholders include institutional, professional and professionally advised and knowledgeable investors. The Group understands the need to effectively communicate with existing and potential shareholders, briefing them on strategic and financial progress and attaining feedback. The Board is committed to maintaining open channels of communication and to engage with shareholders in a manner which they find most meaningful, in order to gain an understanding of the views of shareholders. The Board engagement includes:

Annual General Meeting – The Group welcomes engagement from shareholders at the AGM as it sees it as an important opportunity for all shareholders to engage directly with the Board. Further details are included in the Notice of AGM which will be posted to shareholders along with this Annual Report and Audited Financial Statements.

The Board values any feedback and questions it may receive from shareholders ahead of and during the AGM and will take action or make changes, when and as appropriate. All directors attended the 2021 AGM, which was held as a closed meeting due to the Covid-19 pandemic. All voting at general meetings of the Company is conducted by way of a poll. All shareholders have the opportunity to cast their votes in respect of proposed resolutions by proxy, either electronically or by post. Following the AGM, the voting results for each resolution are published and made available on the Company's website

- **Publications** - The Annual Report and Audited Financial Statements and half-year results are made available on the Group's website and are circulated to shareholders. These reports provide shareholders with a clear understanding of the underlying portfolio and the financial position of the Group. The Group also publishes monthly the NAV per share and a monthly factsheet which are available on the website and the publication of which is announced via the London Stock Exchange. The monthly factsheet updates the market with underlying performance and commentary around this for that month. Feedback and/or questions the Group and the Investment Manager receive from the shareholders and analysts help the Board evolve its reporting;
- **Shareholder concerns** - In the event shareholders wish to raise issues or concerns with the Directors, they are welcome to do so at any time by writing to the Chairman at the registered office. Other members of the Board are also available to shareholders if they have concerns that have not been addressed through the normal channels. Feedback can also be gained via the Group's corporate brokers, which is communicated to the Board and Investment Manager; and

- **Working with external partners** – the Investment Manager and the Group's corporate brokers maintain an active dialogue with shareholders and potential investors at scheduled meetings or analyst briefings following financial results and provide the Board regular reports and feedback on key market issues and shareholder concerns. This includes market dynamics and corporate perception.

The Investment Manager

The Investment Manager's performance is critical for the Group to successfully deliver its investment strategy and meet its objective 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 Group's strategy and that present opportunities to enhance the Group's returns from its investments ("Equity Assets").

Maintaining a close and constructive working relationship with the Investment Manager is crucial as the Board and the Investment Manager both aim to continue to achieve consistent, long-term returns in line with its investment objective. Important components in the collaboration with the Investment Manager, representative of the Group's culture are:

- Encouraging open discussion with the Investment Manager;
- Adopting a tone of constructive challenge when appropriate;
- Drawing on Board Members' individual experience and knowledge to support the Investment Manager in its monitoring the portfolio of investments; and
- That the Board and the Investment Manager should act within the agreed investment restrictions and risk appetite statement and not seek to add further investment risk.

The Company Secretary, the Administrator, the Registrar, the Depositary, The Broker

In order to function as an investment trust and a constituent of the premium segment of the Main Market of the London Stock Exchange, the Group relies on a diverse range of advisors for support with meeting all relevant obligations.

The Board maintains regular contact with its key external providers, primarily at the Board and committee meetings, as well through the Investment Manager from its own interactions with the external providers outside of the regular meeting cycle. In addition, the Management Engagement Committee is tasked with periodic reviews of the external service providers, assessing their performance, fees and continuing appointment at least annually to ensure that the key service providers continue to function at an acceptable level and are appropriately remunerated to deliver the expected level of service.

Lenders

Availability of funding and liquidity are crucial to the Group's ability to take advantage of investment opportunities as they arise.

Therefore, the Group aims to demonstrate to lenders that it is a well-managed business, capable of consistently delivering stable returns with limited risk.

Regulators

The Group regularly considers how it meets various regulatory and statutory obligations and follows voluntary and best-practice guidance, and how any governance decisions it makes can have an impact on its stakeholders, both in the shorter and in the longer-term.

CORPORATE AND OPERATIONAL STRUCTURE

Corporate Structure

On 20 June 2019 the Group incorporated Sting Funding Limited ("Sting"), a limited Company incorporated under the law of England and Wales. The Group is considered to control Sting through holding 100 percent of the issued shares.

Sting became active on 28 August 2019 when it drew down on a debt facility backed by commercial and second charge residential mortgages.

The Company also controls Bud Funding Limited ("Bud"), a limited company incorporated under the law of England and Wales. The Company is considered to control Bud through its exposure to the variable returns of the vehicle through holding of a junior note issued by it. Bud was incorporated on 2 November 2020.

As a result, the financial statements for the year ended 31 December 2021 and 31 December 2020 are prepared on a consolidated basis.

Operational and portfolio management

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

- Pollen Street Capital Limited has been appointed as the Group'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 Group's Administrator (the "Administrator");
- Link Company Matters Limited has been appointed to act as the Company's Secretary (the "Company Secretary");
- Indos Financial Limited has been appointed to act as the Group's Depositary (the "Depositary");
- Sparkasse Bank Malta plc has been appointed to act as the Group's Custodian (the "Custodian");

- Computershare Investor Services plc has been appointed as the Group's Registrar (the "Registrar"); and
- Liberum Capital Limited and Cenkos Securities plc have been appointed to act as the Group's joint corporate broker and financial adviser.
- Slaughters and May have been appointed to provide legal services to the Group.

Alternative Investment Fund Managers Directive ("AIFMD")

In accordance with the AIFMD, the Group has appointed Pollen Street Capital Limited to act as the Group's AIFM for the purposes of the AIFMD. The AIFM ensures that the Group's assets are valued appropriately in accordance with the relevant regulations and guidance. The Group has appointed Indos Financial Limited as depositary. In addition, the Group 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 Group has no employees or operations but has adopted 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 Group is required by law to provide details of environmental matters (including the impact of the Group'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 Group does not have any employees and the Board is composed of independent non-executive Directors. As an investment trust, the Group does not have any direct impact on the environment and is currently exempt from the requirement to disclose TCFD disclosures. The Group 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 Group has no internal operations or physical assets such as property 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 Group 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 Group aims to conduct itself responsibly, ethically and fairly.

The Investment Manager is committed to maintaining and enhancing its focus on the societal impact of its actions in a way that generates enduring long-term returns for investors and society. Further detail on this is included in the ESG section on pages 11 to 14.

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 recognises the benefits of greater diversity, including gender and ethnic diversity and remains committed to ensuring that the Directors bring a wide range of skills, knowledge, experience, backgrounds and perspectives.

All appointments are made on merit against objective criteria identified with regard for the benefits of diversity on the Board, so as to achieve the overall balance of skills and experience that the Board judges that it needs in order to remain effective in meeting the challenges and opportunities that it anticipates.

The Board of Directors consists of four non-executive Directors, one of whom is female. During 2019, the Board adopted a Board Diversity and Inclusion policy and has established measurable objectives for achieving diversity on the Board and has undertaken to only engage executive search firms who have signed up to the voluntary Code of Conduct on gender diversity and best practice. With the appointment of Joanne, the Board is pleased to note that it has achieved its aim within the Board Diversity and Inclusion Policy to secure at least 25% female representation on the Board; the Board and the Nomination Committee will continue to review whether this 25% target remains appropriate or should be increased in going forward, along with other potential initiatives to further support and encourage diversity and inclusion.

Principal Risks and Uncertainties

The Group faces a number of risks, both principal and emerging, and as a result management of the risks we face is central to everything we do. 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 Board maintains comprehensive risk management methodology overseeing the risks which are considered to be material to its business and maintaining surveillance of its operating environment for emerging risks. This approach balances risks and opportunities, and contributes to the achievement of the Group's strategic objectives. It maintains a risk register which records risk management process for the Group's identified risks, 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 Group. The risk register was last reviewed by the Risk Committee and Board on 20 January 2022.

The main change to the risk register since the prior year is a reduction in borrowing risk given that all debt facilities are operating comfortably within their limits and enhanced mitigation actions have been implemented. The day-to-day risk management functions of the Group have been delegated to the Investment Manager, which reports to the Risk Committee.

INVESTMENT RISKS

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 potentially resulting in performance degradation, reduced profitability, and reputational damage.

Mitigation

The Group's investment decisions are delegated to the Investment Manager. Performance of the Group 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. We expect the economic environment to create some compelling new opportunities for the Group which the Investment Manager will selectively review and deploy capital into.

Fluctuations in the market price of Issue Shares

The market price of the Group's shares may fluctuate widely in response to different factors and there can be no assurance that the Group's shares will be repurchased by the Group 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 Group'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. The Investment Manager engages actively with shareholders and analysts to help communicate the Company's financial success and positive outlook and an attractive dividend policy has been adopted. As at 31 December 2021, the Company's shares were trading at a discount to Net Asset Value.

Revenue reserves have increased by 1.6million over the year, consequently increasing NAV per share to 1,019pence from 1,013pence. The Company has paid a consistent dividend of 20.00p per ordinary share throughout 2021, representing an 8.00% annualised yield on the IPO issuance price, in line with the Board's dividend policy. The last published NAV statement at the date of signing these financial statements was the NAV for 31 January 2022.

Exposure to Credit Risk

The Group 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 investment.

The Covid-19 pandemic has continued to cause disruption across the globe throughout 2021. Although grass roots of economic rebound have been observed, at the time of writing a new variant has emerged threatening the return to normality that economies depend on for their continued recovery. However, the portfolio has continued to perform robustly throughout the year, delivering stable returns. The Group could experience impairments and consequently reduced profits, particularly if economic expectations deteriorate further. The overall effect of this cannot be quantified reliably because of uncertainty surrounding further waves, and the macro environment.

Mitigation

The Manager has substantial sector expertise and experience in transformation, driving growth for the portfolio and performance for investors. The Group will invest in a granular portfolio of assets, diversified by the number of borrowers, the type, and the credit risk of each borrower. Each loan is subject to, amongst other restrictions, a maximum single loan exposure limit. Additionally, the Group has made assumptions around loss and arrears rates within the portfolio in its financial projections. Further, the Investment Manager diligences the established underwriting criteria of the platforms which includes (where applicable) credit referencing, income verification and affordability testing, identity verification and various forward-looking indicators of a borrower's likely financial strength. The Group also provides structured lending facilities to corporate entities which can be larger value loans. Please see Note 13 to the financial statements for more details on Credit Risk.

The Manager has access to a diversified range of sources from which to select attractive assets. For structured lending facilities the Group 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 Group operates within the Investment policy guidelines and lends on a secured basis against identifiable and accessible assets.

Borrowing

The Group 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 Group 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 Group's issued shares when the value of the Group'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 Group's income falls for whatever reason, the use of borrowings will increase the impact of such a fall on the Group's return and accordingly will have an adverse effect on the Group's ability to pay dividends to shareholders.

Mitigation

The Investment Manager and the Board closely monitors the level of gearing of the Group. The Group has a maximum limitation on borrowings of 100 percent of net debt to equity ratio (the target is 75 percent net debt to equity). The Investment Manager may draw debt facilities at its discretion when conditions and opportunities exist to enhance investment returns, the facilities have long maturity dates, and amortisation and cash sweep mechanics built into the facility agreements.

2021 closed in a strong position with ample headroom on the existing facilities. Further detail on these facilities can be found in Note 17.

Interest Rate Risk

The Group 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 other benchmarks) and expects that its borrowings will be subject to a floating rate of interest. Any mismatches the Group has between the income generated by its Credit Assets (e.g., as a result of loss of earnings), on the one hand, and the liabilities in respect of its borrowings, on the other hand, may subject the Group to interest rate risk.

Mitigation

Interest rate risk exposures may be managed, in part, by the natural hedge between floating rate borrowings (debt) with investments in Credit Assets that are also subject to a floating rate of interest. The Group may use derivative instruments, including interest rate swaps, to reduce its exposure to fluctuations in interest rates, however some unmatched risk may remain.

Liquidity

The Group may invest in assets that are aligned with the Group's strategy and that present opportunities to enhance the Group's return on its investments. Such assets are likely to be illiquid and therefore may be more difficult to realise, or excessive losses may occur in the event of the fire sale of assets.

Mitigation

The Group actively manages its liquidity position to ensure there is sufficient liquidity to meet liabilities as they fall due (note 19). The Group benefits from long term debt facilities with amortisation periods rather than bullet repayments; amortising assets that are highly cash generative; strong covenant packages that give the Group ability to influence the borrower's behaviours in times of stress.

Climate Risk

Climate change presents potential financial risks that have far reaching implications, potentially impacting the group's investments. The risks arise through two primary channels: the physical effects of climate change and the impact of changes associated with the transition to a lower carbon economy.

Climate risk is expected to manifest itself over the medium to long term as emerging regulations are implemented. The greatest risk is expected to lie within our partners businesses and the investment portfolio. In this context, Honeycomb has comparatively short duration assets. This substantially mitigates the exposure to climate risk. No material impact on the financial statements has been identified from the risks arising from climate change.

Mitigation

The Group has performed an initial high-level materiality assessment of climate risk across its investment portfolio and is developing a comprehensive action plan that takes into account the components of the Taskforce for Climate-related Financial Disclosures (TCFD). Through this, the Group is progressing a range of activities to better understand the impacts of the Group's operations on the climate and the impacts of climate change on the Group's portfolios. The Group is focusing on its business resilience in order to enhance the Group's capabilities for the identification, management, monitoring and disclosure of climate related risks and opportunities.

OPERATIONAL RISKS

Third Party Service Providers

Whilst the Group has taken all reasonable steps to establish and maintain adequate procedures, systems, and controls to enable it to comply with its obligations, the Group 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 Group.

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 Group, which could result in significant compensation costs or regulatory sanctions or a breach of applicable regulations. 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 Group, or to carry out its obligations to the Group in accordance with the terms of its appointment, could have a material adverse effect on the Group's operations and its ability to meet its investment objective.

Mitigation

The Group 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 each of the service providers is subject to regular performance and compliance monitoring. The performance of the Investment Manager in its duties to the Group is subject to ongoing review by the Board on a quarterly basis as well as formal annual review by the Group'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 Group.

As part of the response to Covid-19 all outsourced third party service providers have successfully implemented business continuity processes such as working from home. This has meant that the service levels received by the Group have been maintained.

Reliance on key individuals

The Group 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 Group. 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 Group's business prospects and results of operations. Accordingly, the ability of the Group 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 Group 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 Group is subject to ongoing review by the Board on a quarterly basis as well as formal annual review by the Group's Management Engagement Committee.

REGULATORY RISKS

Tax

Any changes in the Group's tax status or in taxation legislation could affect the Group's ability to provide returns to shareholders and affect the tax treatment for shareholders of their investments in the Group.

Mitigation

The Group conducts 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 Group to maintain its investment trust status. The conditions required to satisfy the investment trust criteria are monitored by the Investment Manager and performance of the same shall be reported to the Board on a quarterly basis. Where new SPVs are created or acquired these are done in such a way to not impact the potential tax liability of the Group.

Breach of applicable legislative obligations

The Group 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 Group and impact returns to shareholders.

Mitigation

The Group 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 Group 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 Group 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 Group. 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 Group is subject to ongoing review by the Board on a quarterly basis as well as formal annual review by the Group's Management Engagement Committee.

EMERGING RISKS

The Group monitors its emerging risks, supporting organisational readiness for external volatility, incorporating input and insight from both a top-down and bottom-up perspective:

- Top-down: Emerging risks identified by directors at a group level via the Risk Committee and the Board helping to define the overall attitude of the Group to risk.
- Bottom-up: Emerging risks identified at a business level and escalated, where appropriate by the Investment Manager, Manager, via risk updates into the Risk Committee and the Board.

Recent developments such as the emergence of new markets and technologies, and the existence of increasingly complex supply chains have given rise to new challenges, uncertainties and opportunities in the macro-economy.

Over the period, the risk committee has considered market, political, and operational risks such as ESG, operational resilience, financial instability, and cyber risks. These risks are considered as new risks in known context; risks that have emerged in the external environment but are associated with the existing strategy of the Group.

It is anticipated that climate risk (including natural resources management) will continue to dominate the emerging risk landscape together with technology risk. There has been particular focus recently on cyber risk and its potential impact on companies and society.

Mitigation

Emerging risks are monitored by the Risk Committee on an ongoing basis. Actions are tracked to ensure the Group's preparedness should an emerging risk crystallise.

During 2021, the Risk Committee led a deep dive on cyber risk and, together with the Investment Manager, commissioned an external review of Pollen Street's cyber security arrangements. The review did not identify any major weaknesses and all recommendations have since been implemented.

The Risk Committee will continue to monitor these risks and respond to the evolving risk landscape.

Key Performance Indicators

The Board monitors success in implementing the Group'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 with commentary included throughout the Strategic Report:

	31 December 2021	31 December 2020
NET ASSET VALUE		
NET ASSET VALUE (CUM INCOME) (£'000) (1)	359,342	357,232
MARKET CAPITALISATION (£'000) (2) (3)	333,204	332,323
PER SHARE METRICS		
SHARE PRICE (AT CLOSE) (4)	945.0p	942.5p
NAV PER SHARE (CUM INCOME) (1)	1,019.1p	1,013.1p
SHARES IN ISSUE	35,259,741	35,259,741
PERFORMANCE INDICATORS AND KEY RATIOS		
PREMIUM / (DISCOUNT) (2) (5)	(7.3%)	(7.0)%
ANNUAL NAV RETURN (2) (6)	8.5%	7.7%
PROFIT (£'000) (7)	30,318	20,701
ITD TOTAL NAV RETURN (2) (8) (9)	49.9%	41.1%
DEBT TO EQUITY (2) (10)	74.5%	76.6%
NET DEBT TO EQUITY (2) (11)	70.9%	59.1%
DIVIDEND RETURN (2) (12)	8.0%	8.0%
ONGOING CHARGES (2) (13)	2.3%	2.0%

APPROVAL

The Strategic Report was approved by the Board of Directors on 1 March 2022 and signed on its behalf by:

Robert Sharpe
Chairman

1 March 2022

(1) NET ASSET VALUE (CUM INCOME): includes the value of investments, other assets and cash, including current year revenue, less liabilities. NAV per share is calculated by dividing the calculated figure by the total number of shares.
(2) 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.
(3) MARKET CAPITALISATION: the closing mid-market share price multiplied by the number of shares outstanding at month end.
(4) SHARE PRICE (AT CLOSE): closing mid-market share price at period end.
(5) 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.
(6) ANNUAL NAV 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.
(7) PROFIT: as profit after taxation
(8) ITD: inception to date - excludes issue costs.
(9) TOTAL NAV 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 percent 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 percent in relation to the April-18 capital raise.
(10) DEBT TO EQUITY: is calculated as the Group's interest bearing debt divided by the net asset value, expressed as a percentage.
(11) NET DEBT TO EQUITY: is calculated as the Group's interest bearing debt, less cash and cash equivalents divided by the net asset value, expressed as a percentage..
(12) DIVIDEND RETURN: is calculated as the total declared dividends for the period divided by IPO issue price.
(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

2 Directors' Report

Board of Directors

The directors of the company who were in office during the year and up to the date of signing the financial statements were Robert Sharpe, Jim Coyle, Richard Rowney and Joanne Lake.

ROBERT SHARPE (1)

Chairman of the Board, the Nomination Committee and the Management Evaluation Committee.

Member of the Remuneration Committee.

Robert has over 45 years' experience in retail banking. He is currently chairman at MetroBank plc, Hampshire Trust Bank plc and Aspinall Financial Services Limited. He has had an extensive number of appointments both in the UK and the Middle East including non-executive Director ("NED") at Aldermore Bank plc, George Wimpy plc, Barclays Bank UK Retirement Fund, Vaultex Limited, LSL Properties plc, RIAS plc and several independent NED roles at banks in Qatar, 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)

Senior Independent Director to the Board.

Chairman of the Audit Committee.

Member of the Risk Committee, the Nomination Committee, the Remuneration Committee and the Management Evaluation Committee. 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 Chairman at Supply@ME Capital plc, a non-executive Director and Chairman of the audit and risk committee at Scottish Water, non-executive director at Marks & Spencer Financial Services plc and an independent non-executive member of Deloitte UK Oversight Board. He was previously Chairman at Worldfirst, 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.

RICHARD ROWNEY (2)

Chairman of the Risk Committee.

Member of the Audit Committee, the Nomination Committee, the Remuneration Committee and the Management Evaluation Committee.

Richard is currently Group CEO of James Hay Partnership ("JHP") and Nucleus Financial Group ("NFG") a leading retirement and wealth management specialist managing over £48bn of assets. Backed by Private Equity specialist Epiris, JHP is a consolidator in the platform market. He is also a non-executive Director at MSP Capital Limited. Prior to this, Richard was group chief executive of LV= a leading financial services provider and a mutual where he worked as an executive member of the board for 13 years. Richard left LV= at the end of 2019 following the sale of the General Insurance business to the Allianz Group. Richard had led the business to win the Moneywise Most Trusted Life Insurer award as well as YouGov's UK's Most Recommended Insurer. Prior to his position as chief executive officer he had been Managing Director of the group's Life & Pensions business which he successfully turned into one of the UK's leading Protection and Retirement specialist companies. Prior to his time at LV= Richard held various chief operating officer and risk roles across Barclays corporate and retail banking. Richard holds a first-class degree in Geography from the University of Leeds, an MBA from Henley Business School and has completed the Harvard Management Programme in 2006.

JOANNE LAKE [3]

Chairman of the Remuneration Committee.

Member of the Audit Committee, the Risk Committee, the Nomination Committee and the Management Evaluation Committee.

Joanne has over 35 years' experience in financial and professional services. She is currently independent non-executive chair of Made Tech Group plc, the AIM-listed leading provider of digital, data and technology services to the UK public sector, independent non-executive chairman of Mattioli Woods Plc, the AIM-listed specialist wealth and asset management business, independent non-executive deputy chairman of Main Market-listed land promotion, property development and investment, and construction group, Henry Boot PLC, and is an independent non-executive director at AIM-listed Gateley Holdings plc, the legal and professional services group, and Morses Club Plc, an established provider of non-standard financial services, and Braemar Shipping Services PLC, an established international provider of shipping, marine and energy services. Joanne is a Chartered Accountant and has previously held senior roles at UK investment banks including Panmure Gordon, Evolution Securities and Williams de Broe and in audit and business advisory services with PwC. Joanne is a Fellow of the ICAEW and a member of its Corporate Finance Faculty and is a Fellow of the Chartered Institute for Securities and Investment.

(1) Appointed 14 December 2015
(2) Appointed 1 July 2019
(3) Appointed 1 January 2021

Statutory Information

The Directors of Honeycomb Investment Trust plc (Registered: 09899024) present their report and audited financial statements of the Company and its subsidiaries (together, the "Group") for the year ended 31 December 2021. The shares are listed on the Main Market of the London Stock Exchange.

The strategic report on pages 3 to 29 includes section 172 of the Companies Act 2006 highlighting the Directors' overarching duty.

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 on pages 31 and 32.

During the year under review the Group maintained directors' and officers' liability insurance for its Directors and officers as permitted by section 233 of the Companies Act 2006. The directors' and officers' liability insurance has been renewed and will remain in place under the current renewal until February 2023.

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 (2020: 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 Group. The Board has carried out a robust assessment of its principal and emerging risks and the controls to help mitigate these. Further details of the Group's principal and emerging risks and uncertainties can be found in the Strategic Report on pages 25 to 28 and details of the Group's internal controls can be found on pages 45 and 46. Details of the Group's hedging policies are set out in the Strategic Report on page 19.

SHARE CAPITAL – VOTING AND DIVIDEND

As at 31 December 2021, the Company had 39,449,919 ordinary shares in issue, of which 4,190,178 Ordinary Shares were held by the Company as treasury shares. (31 December 2020 39,449,919 ordinary shares in issue, of which 4,190,178 were held in treasury). As at the date of this report, the Company had 39,449,919 ordinary shares in issue, of which 4,190,178 ordinary shares are held in Treasury. As at the date of this report, the total number of voting rights in the Company is 35,259,741.

On 8 June 2021, at the Company's last Annual General Meeting ("AGM"), the Board was granted authority to allot the Company's ordinary shares of £0.01 each or grant rights to subscribe for, or convert any security into ordinary shares in the Company up to an aggregate nominal amount of £35,259.74 representing 3,525,974 ordinary shares. The authority will expire (unless previously renewed, varied or revoked) on the conclusion of the 2022 AGM of the Company (or, if earlier, at the close of business on 31 August 2022).

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, and pursuant to the Articles of Association, a continuation vote will be put to shareholders every five years. The Directors convened a General Meeting on 16 December 2019 at which a resolution for the continuation of the Company was proposed and passed by Shareholders. The next such proposal shall be made no earlier than the AGM in 2023 and no later than the AGM in 2024.

At the AGM held on 8 June 2021, the Directors were granted the authority to purchase in the market up to 5,285,435 ordinary shares, such authority expiring at the conclusion of the 2022 AGM of the Company (or, if earlier, until close of business on 31 August 2022). The Company intends to seek approval from the shareholders, by special resolution, to renew this authority at the next AGM.

Further to the authority granted by shareholders at the 2020 AGM, the Company commenced a share buyback programme on 10 August 2020. All ordinary shares purchased by the Company pursuant to the buyback programme were held in treasury. No shares were purchased by the Company during the reporting period.

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 percent 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).This requirement was triggered for 2020 and a discontinuation vote was held at the 2021 AGM., at which 98.55% of the shares voted were against the resolution to discontinue the business of the Company. The requirement to propose a special resolution for the discontinuation of the business of the Company at the 2022 AGM has not been triggered.

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

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"). As such the dividends are declared as interim dividends rather than final dividends. The dividends paid or payable in respect of the year ended 31 December 2021 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 on pages 72 to 73 of the financial statements. 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

Between 31 December 2021 and the date of this report, 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
Aberdeen Asset Management PLC	Undisclosed	<5%

INDEPENDENT AUDITORS

The Company's independent auditors, PricewaterhouseCoopers LLP ("PwC"), were re-appointed at the Company's AGM in 2021 and have expressed willingness to continue to act as the Group's auditors for the forthcoming financial year.

As detailed in the Audit Committee report for 2021, Richard McGuire had served as audit partner for five years and was replaced by Claire Sandford during the reporting period. The Audit Committee ensured there were appropriate arrangements in place to secure an orderly and effective change of audit partner over the last 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 Group during the year under review, has recommended to the Board that the independent auditors be re-appointed at the forthcoming 2022 AGM. At the 2022 AGM, resolutions are therefore to be proposed for the re-appointment of the independent auditors and to authorise the Directors to agree its remuneration for the forthcoming financial year. In reaching its recommendation, the Audit Committee considered the points detailed on pages 48 to 52 of 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 Group'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 Group's auditors 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 Group from the date of this report, which shows that the Group will be able to generate sufficient cash flows in order to meet its liabilities as they fall due. These financial projections have been performed for Honeycomb under various origination volumes and stressed scenarios and in all cases the Group is able to meet its liabilities as they fall due. The stressed scenarios considered included halting future originations, late repayments of the largest structured facilities and individual exposures experiencing ongoing performance at the worst monthly impact experienced throughout 2020 and 2021; which incorporated one-off macro-economic charges for Covid-19. The Directors consider these scenarios to be the most relevant risks to the Group's operations. As part of these projections, the Directors have also reviewed any financial and non-financial covenants in place for all debt facilities with no breaches anticipated, even in the stressed scenario.

The Directors have also reviewed the potential effect of the combination with Pollen Street on financial projections of the combined group. These financial projections have been stress tested under different scenarios, including delaying all additional fund raises to demonstrate that the combined group will be able to generate sufficient cash flows in order to meet its liabilities as they fall due.

The Group has performed these prudent financial scenarios to ensure that it has sufficient cash resources to weather any remaining impact of Covid-19, as it continues to cause disruption across the globe. The conclusion of the stress testing is that the business has more than adequate cash resources, including under the proposed combination with Pollen Street, to meet its liabilities as they fall due over the next 12 months from the date of approval of these financial statements being the 1 March 2022.

Accordingly, the Directors are satisfied that the going concern basis remains appropriate for the preparation of the financial statements. The Group also has detailed policies and processes for managing the risk, set out in the Strategic Report on pages 25 to 28.

VIABILITY STATEMENT

In accordance with provision 31 of the UK Corporate Governance Code, published by the Financial Reporting Council in 2018 (the "Code") and the corresponding provision 36 of The AIC Code of Corporate Governance (the "AIC Code"), the Directors have assessed the prospects of the Group over the three-year period to the AGM in 2025. 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 Group.

At the year-end, the Group had cash balances of £12.9 million. The Company also has £396 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, uncertainties and mitigating factors that are detailed on pages 25 to 28. 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. In addition, the Board have reviewed the potential effect of the combination with Pollen Street. 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 origination volumes and the performance of the assets acquired.

The experience of Covid-19 over 2020 and 2021 has been considered in these projections as part of the stress testing in the going concern analysis which has also been used as part of the analysis for the Company's viability. In this case the Group continues to be viable, though with the prospect of the continued vaccine 'booster' rollout in the UK, and around the globe, the Directors expect the actual impact to be more favourable than the levels projected.

All 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, including under the proposed combination with Pollen Street. 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 2025. 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.

CAPITAL REQUIREMENTS

The Group 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.

MANAGEMENT AND ADMINISTRATION

Administrator

The Group'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 Group. The Administrator is responsible for the Group's general administrative functions, such as the calculation of the Net Asset Value and maintenance of the Group's accounting records.

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 percent on 1 January in each year); and (ii) an amount equal to the sum of 1/12 of 0.06 percent of the portion of Net Asset Value up to £150 million, and 1/12 of 0.05 percent 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 Group. 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

Link Company Matters Limited has been appointed as the company secretary of the Group. 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 is entitled to a general annual fee of £60,000 (all fees excluding VAT). The Company Secretary shall also be entitled to reimbursement of reasonable out of pocket expenses incurred in connection with the performance of its duties (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 Group'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 Group'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 percent of the Gross Asset Value (which includes only value attributable to credit assets and equity assets held by the Group for investment purposes). Once more than 80.0 percent of the listing proceeds of any placing were invested the management fee payable was based on 1.0 percent of the Gross Assets. Further details on the management fee and the performance fee can be found in Note 5 to the financial statements. The management agreement can be terminated by either party providing twelve months' written notice.

Depositary

The Group'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 percent of NAV per annum, subject to a minimum monthly fee of £2,500; and

(B) Where NAV is greater than £200 million, 0.02 percent of NAV per annum in respect of the first £200 million of NAV and:

  i. 0.0175 percent 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 percent per annum of that part of NAV which is in excess of £400 million.

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

The Depositary is entitled to charge an additional fee where the Group 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 Group 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 Group. 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 Group 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 Group not less than nine months' written notice of its wish to do so. To the extent that the Group 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 Group 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 Group's financial instruments to Sparkasse Bank Malta plc. The Depositary is primarily liable to the Group and investors for losses of financial instruments held by the by the Custodian, however, the Group 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 Group 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 Group. No amount is payable by the Group to the Custodian.

Corporate broker and financial adviser

Liberum Capital Limited ("Liberum") and Cenkos Securities plc, companies authorised and regulated in the United Kingdom by the FCA, have been appointed as the Group's joint corporate broker and financial advisers.

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 a 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.

The Manager has been discussing the potential combination of Pollen Street and the Company with the Company's debt facility provider and expects that consent will be granted for the transaction.

SUBSEQUENT EVENTS

On 23 February 2022 a dividend of 20.0 pence per ordinary share was approved for payment on 25 March 2022.

DONATIONS

The Group made no political or charitable donations during the year under review to organisations either within or outside the UK (2020: 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, including the proposed combination of the Honeycomb and Pollen Street businesses, are discussed in more detail in the Chairman's Statement on pages 7 to 8.

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 Group 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 also published its interim report and unaudited financial statements for the period from 1 January 2021 to 30 June 2021
9.8.4 (4) – incentive schemes	The Group 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 Group.
9.8.4 (7), (8) and (9)	During the year under review, Honeycomb Investment Trust plc did not issue shares.
9.8.4 (8) and 9.8.4 (9) – relate to companies that are part of a group of companies	Not applicable
9.8.4 (10) – contract of significance	During the year under review, there were no contracts of significance subsisting to which the Group is a party and in which a Director of the Group is or was materially interested or between the Group 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
9.8.14	Not applicable

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.

Following the Company's entire share capital (being 39,449,919 ordinary shares) being admitted to the premium listing segment of the Main Market on 28 October 2020, the UK Listing Rules applicable to closed-ended investment companies that are listed on the premium listing segment of the UK Listing Authority now apply in full to the Company. The Board remains fully committed to high standards of corporate governance and, as introduced by the Board in the Company's 2020 Annual Report and Audited Financial Statements, has taken steps to revise its committee structure and membership to be in line with developing good practice. This is set out in fuller detail in subsequent sections of this report.

The Listing Rules and the Disclosure Guidance and Transparency Rules ("DTR") require the Board to disclose how it has applied the principles of the Code, published by the Financial Reporting Council ("FRC") in July 2018. 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") revised and published the AIC Code of Corporate Governance (the "AIC Code") in February 2019. 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. For the purposes of this Statement, the Board considers that reporting against the principles and recommendations of the AIC Code will provide more relevant and insightful information to shareholders. The AIC Code is available from the AIC's website at www.theaic.co.uk.

STATEMENT OF COMPLIANCE

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

For the reasons set out in the AIC Code, the Board considers the role of the Chief Executive and Executive Directors' remuneration as being not relevant to the 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 in-house internal audit function. Updates on the work carried out by the Investment Manager's outsourced internal audit function are presented to the Board on a quarterly basis. An internal audit function specific to the Company is therefore not considered necessary at this time. The need for an internal audit function will be considered on an annual basis.

The Board reported in the Company's 2020 Annual Report and Audited Financial Statements that Joanne Lake was appointed as a Director of the Company with effect from 1 January 2021, to bring further skills and experience to the Board. Following Joanne's appointment, and with regard to the increased size of the Board and the Company's life cycle as well as the provisions in the AIC Code, the Board confirmed the following changes:

- Jim Coyle was appointed as Senior Independent Director with effect from 1 March 2021;
- The functions of the Audit and Risk Committee were split into two separate committees, an Audit Committee and a Risk Committee; and the functions of the Remuneration and Nomination Committee were split into two separate committees, a Remuneration Committee and Nomination Committee. These changes became effective 1 March 2021;
- Joanne Lake was appointed Chairman of the Remuneration Committee with effect from 1 March 2021, with Robert Sharpe remaining as a member of the committee;
- Richard Rowney was appointed Chairman of the Risk Committee with effect from 1 March 2021; and
- Robert Sharpe, as Chairman of the Company, stepped down as a member of the Audit Committee and the Risk Committee, as recommended by the AIC Code, with effect from 8 September 2021.

The Board is of the view that, following these changes, the Company now complies with the relevant provisions of the AIC Code in respect of the SID position and constitution and membership of the Audit Committee, Risk Committee, Remuneration Committee and Nomination Committee.

The Board and committee structure and membership is therefore as follows:

Board	Robert Sharpe (Chairman) Jim Coyle Richard Rowney Joanne Lake
Audit Committee	Jim Coyle (Chairman) Richard Rowney Joanne Lake
Risk Committee	Richard Rowney (Chairman) Jim Coyle Joanne Lake
Remuneration Committee	Joanne Lake (Chairman) Robert Sharpe Jim Coyle Richard Rowney
Management Evaluation Committee	Robert Sharpe (Chairman) Jim Coyle Richard Rowney Joanne Lake

THE BOARD OF DIRECTORS

The Board consists of four Directors, all of whom are independent non-executive Directors.

Biographies of the Directors are shown on pages 31 and 32 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.

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 2022 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 on pages 31 to 32. The responsibilities of the Chairman have been agreed by the Board and are available to view on the Company's website.

The Directors appointed Jim Coyle as Senior Independent Director, with effect from 1 March 2021, and will, amongst his other duties in that role, lead the evaluation of the Chairman on behalf of the other Directors as part of the annual evaluation process.

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 scheduled Board and Committee meetings from March 2021 to February 2022, following the split of the Audit and Risk Committee, and the Remuneration and Nomination Committee.

Director	Board[1]	Audit Committee[2]	Risk Committee[2]	Remuneration Committee	Nomination Committee	Management Engagement Committee
Robert Sharpe	5	5	5	1	1	1
Jim Coyle	5	5	5	1	1	1
Richard Rowney	5	5	5	1	1	1
Joanne Lake	5	5	5	1	1	1
Total	5	5	5	1	1	1

[1]A number of additional ad-hoc meetings of the Board were held throughout the year to discuss transactional matters, including the proposed combination of Honeycomb and Pollen Street.

[2] The Audit and Risk Committee met twice prior to the split in the committees effective 1 March 2021 and all Directors were in attendance.

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 and also has oversight of the Investment Manager's operations and certain corporate actions to ensure effective control of strategic, financial, operational and compliance issues, which includes:

- The Group'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 Group'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 Group'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.

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

Culture

The Directors have considered and defined the Company's culture, purpose and values. By formally identifying the important elements of the Company's culture, the Directors are able to assess and monitor it and ensure that it remains well aligned with the Company's purpose, values and strategy.

The Company has a well-defined and communicated purpose, as set out in the investment objective on page 4. The Directors have considered the values to be transparency and clarity in its reporting to shareholders, constructive challenge in maintaining a strong relationship with the Investment Manager whilst preventing the addition of avoidable risk in the Company's operations. In its strategy, the Board have committed to work closely with and support the Investment Manager to deliver the returns from opportunities in speciality lending.

The culture of the Board is considered as part of the annual review of the Company's culture policy, performance evaluation and strategy review processes, and the review of the Investment Manager's engagement.

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. The Board is of the view that there are no relationships or circumstances relating to the Company that are likely to affect the judgement of any of the Directors.

The Board notes that Joanne Lake is a Director of Morses Club plc, an entity for which the Company provided a facility during 2021. This was considered by the Board upon her appointment. The Board has determined that, in view of the size of the current facility provided to Morses Club plc, her directorship of Morses Club plc does not impinge upon Joanne's independence. The Board has nonetheless agreed that, should any matters need to be considered by the Board in the future in the context of the Morses Club plc exposure, Ms Lake could be excluded from voting or discussions as appropriate. The Company no longer lends to Morses Club plc

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.

Board evaluation

The performance of the Board, its committees and Directors and the independence of the Directors during 2021 was evaluated by means of a Director self-assessment questionnaire. The results of the evaluation process were reviewed by the Board in November 2021 and actions arising from the evaluation process were agreed. Continuing to closely monitor and observe the Company's risk and control systems, maintaining business performance and resilience, looking for further opportunities for sustainable growth.

In terms of Director training, 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 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 during or before June 2022.

Directors' succession Policy

At the start of 2019, the Association of Investment Companies (the "AIC") published an updated AIC Code of Corporate Governance. The Committee welcomed the AIC's approach to tenure of chairs of investment companies which, recognising that the circumstances of chairs of investment companies differed from other companies, the AIC recommended that instead of adhering to a nine-year limit on chair tenure, the Boards could determine and disclose their policy on the chair tenure instead.

Taking the AIC recommendations into account, the Board has adopted a policy on Directors' Succession. In accordance with the policy, the Company has put into effect an orderly rotation of the Board which commenced at the 2019 AGM and will subsequently occur every other year. The Board will continue to review succession arrangements at Board level and determine the most appropriate time for the next phase of the succession policy to be implemented.

MANAGEMENT AGREEMENT AND CONTINUING APPOINTMENT

Details of the Investment Manager's agreement and fees are set out in Note 5 to the financial statements.

Directors' Interests

As at 31 December 2021 Joanne Lake held 2,713 shares in the Company; No other Director held shares in the Company. 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 23 February 2022.

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 continued 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.

The committee noted that the proposed combination with Pollen Street would likely result in changes to service providers. These matters were under active consideration by the board.

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.

COMMITTEES

As set out on page 39, the Committee structure was reviewed by the Board in early 2021. The Board now constitutes the following Committees:

- Audit Committee
- Risk Committee
- Remuneration Committee
- Nomination Committee
- Management Evaluation Committee

Jim Coyle, Richard Rowney and Joanne Lake are members of each Committee. Robert Sharpe is a member of the Remuneration Committee, Nomination Committee and Management Evaluation Committee. The Terms of Reference of each Committee is available from the office and the Company's website at www.honeycombplc.com.

Each Committee reports to the Board on its proceedings after each meeting.

Audit Committee

The Board has delegated certain responsibilities to its Audit Committee. An outline of the remit of the Audit Committee (as constituted for the reporting period) and its activities during the year are set out on page 49.

The Audit Committee is chaired by Jim Coyle and meets at least on a quarterly basis. It is responsible for ensuring that the financial performance of the Group is properly reported and monitored and provides a forum through which the Group'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, and financial announcements.

Throughout the course of the year. The Audit Committee received updates on the Manager's internal audit programme. Further details on the work of the Audit Committee can be found in the report of the Audit Committee on pages 48 to 52.

Risk Committee

The Risk Committee is chaired by Richard Rowney and meets on a quarterly basis. The Risk Committee is responsible for:

- reviewing the Group's internal control and risk management systems, in collaboration with the Audit Committee;
- setting and monitoring the Company's risk appetite;
- carrying out a robust assessment of the Company's emerging and principal risks; and
- key policies and processes for identifying and assessing both financial and non-financial business risks, (including compliance, fraud detection and whistleblowing arrangements), the management of these risks (including quality, ethics and independence) along with an assessment of their robustness, appropriateness and effectiveness.

The Risk Committee reviews and approves statements to be included in the Annual Report and Audited Financial Statements concerning internal controls and risk management; assessment of the adequacy of the levels of professional indemnity insurance and other insurance cover maintained for the Company.

During the year under review, the Risk Committee met five times, twice as the Audit and Risk Committee and three times subsequently. The Risk Committee considered the following items during the year under review:

- The Company's risk appetite statement and risk dashboard, taking in consideration the Company's risk profile;
- Risk Reports received from the Investment Manager, which included information relating to business continuity in view of Covid-19, compliance monitoring activities, debt facilities and compliance with covenants,
- The Investment Manager's Whistleblowing and Conflicts Policy;
- A presentation on the Manager's information security review, in the context of the Company's cyber risk; and
- A compliance report setting on regulatory developments potentially impacting the Company.

The Principal Risks and Uncertainties for the Group are set out in detail on pages 25 to 28.

Remuneration Committee

The Remuneration Committee is chaired by Joanne Lake and meets at least once a year.

The primary responsibility of the Committee is to consider and make recommendations to the Board on Directors' remuneration. Further details on the work of the Remuneration Committee can be found in the Directors' Remuneration Report on pages 53 to 58.

Nomination Committee

The Nomination Committee is chaired by Robert Sharpe and meets at least once a year. The responsibilities of the Nomination Committee include:

- To review the structure, size and composition of the Board;
- To ensure plans are in place for orderly succession to the board and oversee the development of a diverse pipeline for succession;
- To evaluate the balance of skills, knowledge, experience and diversity of the Board;
- Responsibility for nominating for the approval by the board candidates to fill board vacancies as they arise;
- To consider additional external appointments of Directors;
- To consider the membership of any other Board committees as appropriate, in consultation with the Chairman of those committees;
- To consider the re-appointment of any non-executive director and to provide an explanation as to why the Committee recommends that the Board member be re-appointed for shareholder consideration. All Board Members to be subject to annual re-election; and
- To determine and disclose a policy on the tenure of the chair. A clear rationale for the expected tenure should be provided, and the policy should explain how this is consistent with the need for regular refreshment and diversity.

Management Evaluation Committee

The Management Evaluation Committee is chaired by Robert Sharpe and meets at least once a year. Its principal duties are:

- On an annual basis, to formally review the contractual relationships with, and scrutinize and hold to account the performance of, the Investment Manager and report on the review in the Annual Report and Audited Financial Statements.
- To review and consider, at least annually, the Investment Manager fees and services as set out in the Management Agreement; and
- In conjunction with the Investment Manager, monitor and evaluate other service providers.

COMBINATION WITH POLLEN STREET

The Board has led the negotiations leading to the proposed combination with Pollen Street, which was announced on 15 February 2022. The Company appointed financial and legal advisers to advise on the terms of the transaction, as well as a sponsor to advise on the Company's compliance with its regulatory obligations under the Listing Rules. The Company's professional advisers conducted legal, financial and tax due diligence on the Pollen Street corporate group prior to agreeing the terms of the transaction. The Board is reviewing the Company's governance structure and arrangements to ensure they are robust and appropriate in light of the proposed combination.

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 brokers 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 will ordinarily have the opportunity to attend and vote, in person or by proxy, at the AGM and any general meetings of shareholders. While shareholders were unable to attend and vote in person at the 2021 AGM due to the restrictions introduced in response to the Covid-19 pandemic, alternative arrangements were provided to shareholders to facilitate engagement with the Board prior to, and at, the AGM.

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 they have 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 Group and for reviewing the effectiveness of the Group's system of internal controls including financial, financial reporting, operational, compliance and risk management. The Board has in place a robust process to assess and monitor the risks of the Group. 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 Group 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 Group. Details of the Group's risks can be found on pages 25 to 28 of the Strategic Report, together with an explanation of the controls that have been established to mitigate each risk. The risk matrix provides a basis for the Risk 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 Group'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 Pollen Street Capital Group companies which include the AIFM during the year was £18.9 million, split £8.1 million into variable and £10.8 million in fixed remuneration. During the year, the average number of beneficiaries at the Group which includes the AIFM were 73 and the aggregate amount of remuneration paid in relation to the Senior Management of the firm was £5.5 million. Fixed remuneration is amounts paid as salaries. Variable remuneration is amounts paid under bonus and similar remuneration arrangements. 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 Audited 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 and Audited Financial Statements.

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 25 to 28 and in Note 12 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 percent of NAV, the actual leverage employed by the Company as a percentage of NAV was 74.5 percent as at 31 December 2021. 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 2021, 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 2021	173%	177%

Other matters

The Investment Manager has confirmed 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 1 March 2022.

On behalf of the Board
Robert Sharpe
Chairman

1 March 2022

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 2021. Full details of the number of committee meetings and attendance by individual committee members can be found on pages 31 to 32.

As noted in the previous Audit and Risk Committee report for reporting period to 31 December 2020, the Board made the decision in February 2021 to split the functions of the Audit and Risk Committee into two separately constituted committees of the Board – the Audit Committee and the Risk Committee. The committee met twice prior to this decision, in January and February 2021. For the purposes of this report, the activities of the Audit Committee will be presented here, while those of the Risk Committee are explained on page 44.

MEMBERSHIP OF THE AUDIT COMMITTEE

For the reporting period, the Audit Committee was chaired by Jim Coyle. Please see pages 31 and 32 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.

Following Ms Lake's appointment in January 2021, the Board reviewed the composition of each Board committee and it was considered appropriate during the reporting period that Mr Sharpe, as Chairman of the Board, step down as a member of the Audit Committee, due to the increased size of the Board.

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.

For the year ended 31 December 2021, the roles and responsibilities of the Audit Committee include the following:

Financial and narrative reporting	• 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
Internal controls and risk management	• In collaboration with the Risk Committee, to review the adequacy and effectiveness of the Group's internal financial and internal control and risk managements systems;
External audit	• To make recommendations to the Board on the reappointment 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;
Internal audit	• To review and consider on an annual basis the need for an internal audit function.

THE COMMITTEE'S CHALLENGE OF INFORMATION

The Committee recognises the importance of its role, on behalf of shareholders and wider stakeholders, to ensure the integrity of the Group's financial reporting and risk management processes. We rely on a number of sources to ensure this integrity, including the views of the external auditor.

The Committee has worked with the Investment Manager and other service providers over the course of 2021 to continue to improve the quality and timeliness of written and verbal reporting to the Committee and we are pleased with progress to date. These continued improvements have enriched the debate and discussion at the meetings of the Committee and supported the Committee to fulfil its responsibilities, which are set out below.

MATTERS CONSIDERED DURING THE YEAR

The Audit Committee met five times during the year under review, twice prior to the split as the Audit and Risk Committee and three times subsequently as the Audit Committee (please see pages 40 to 41 for member's attendance) and considered the following items:

- The Group's Annual Report and Audited Financial Statements for the year ended 31 December 2020 and advised the Board accordingly in 2021;
- The Group's Annual Report and Audited Financial Statements for the year ended 31 December 2021 and advised the Board accordingly in 2022; The Company's half-year financial statements for the period ended 30 June 2021 and advised the Board accordingly;
- The rotation of the external audit partner, which concluded in a recommendation to the Board to appoint following Ms. Claire Sandford as audit partner. The audit partner rotation was completed in accordance with the Financial Reporting Council's Revised Ethical Standard 2019;
- The independence and re-appointment of the external auditor;
- The audit plan for the Group's annual audit shared by the external auditors;
- The Company's policy on non-audit services provided by the external auditor;
- Monitored the Investment Manager's impairment approach required by IFRS 9;
- In order to support the Board's approval of the going concern assessment and viability statement on page 35 as to the longer-term viability of the Group, the Committee reviewed papers from the Investment Manager supporting the going concern and the viability statement; and
- The ongoing impact and risks associated with the Covid-19 crisis.

The Audit Committee also reviewed the following items:

- Whether there was a requirement for an internal audit function;
- Before the split of the Audit and Risk Committee in March 2021, the risk management report presented by the Investment Manager along with the Group's risk appetite statement, risk matrix and the internal controls implemented to manage those risks; and
- The appropriateness of the Group's accounting policies and whether appropriate estimates and judgements have been made.

FAIR BALANCE AND UNDERSTANDABLE REPORTING

Following the year end, the Audit Committee has reviewed the 2021 Annual Report and Audited Financial Statements to consider whether they provide a true and fair view of the Group's affairs at the end of the year and provided shareholders with the necessary information in a fair, balanced and understandable way to enable them to assess the Group's position, performance, business model and strategy.

There was a rigorous review process and challenge at different levels within the Group to ensure balance and consistency. The Committee also reviewed copies of the 2021 Annual Report and Audited Financial Statements during the drafting process to ensure key messages and themes being followed throughout the Annual Report were aligned with the Company's position, performance and strategy intentions, and that the Annual Report and Audited Financial Statements' narrative reporting was consistent throughout.

When forming its opinion, the Committee considered the following questions to encourage challenge and assess whether the Annual Report and Audited Financial Statements was fair, balanced and understandable:

Is the Report fair?	• Is the whole story presented? • Have any sensitive material areas been omitted? • Are the KPIs disclosed at an appropriate level based on the financial reporting?
Is the Report balanced?	• Is there a good level of consistency between the front and back sections of the Annual Report and Audited Financial Statements? • Is the Annual Report and Audited Financial Statements a document for shareholders and other stakeholders?
Is the Report understandable?	• Is there a clear and understandable framework to the Annual Report and Audited Financial Statements? • Are the Annual Report and Audited Financial Statements user-friendly, easy to understand and presented in straightforward language?

CONCLUSION

After completion of its detailed review, the Committee was satisfied, when taken as a whole, the Company's Annual Report and Audited Financial Statements were fair, balanced and understandable, and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

SIGNIFICANT ACCOUNTING MATTERS

The Audit Committee met on 23 February 2022 to review the report and financial statements for the year ended 31 December 2021. The Audit Committee considered the following significant issues, including principal risks and uncertainties in light of the Group's activities and matters communicated by the external Auditors during their audit, all of which were satisfactorily addressed:

Issue considered	How the Committee gained assurance
Risk of misappropriation of assets and ownership of investments	The Audit Committee has reviewed reports from its service providers on key controls over the assets of the Group over the course of 2021. 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 Group's assets. The Company's Depositary issues a quarterly report on the status of the assets to the Directors for review.
Risk on valuations of unlisted equities at fair value	The Audit and Risk Committee received presentations in 2021 and 2022 from the Investment Manager including valuations of equity assets held at fair value and justification for these. After challenging the Investment Manager, the Committees concluded that the valuations held were reasonable.
The risk of material misstatement of expected credit losses under IFRS 9 Financial instruments	The Audit and Risk Committee view credit provisioning as the key accounting estimate area for the Group. As in previous years, the Audit Committee and Risk Committee received presentations in 2022 from the Investment Manager explaining key judgement areas, such as, consistency of approach and the Group's business mix. After challenging the Investment Manager, the Committees concluded that the provisioning approach and key judgements were reasonable. The Investment Manager also reviews impairment performance monthly and reviews its impairment policy for appropriateness and accuracy on a regular basis to ensure they meet the accounting policy set out in Note 1 to the financial statements. A particular focal area for the Committees in 2021 has been on the actual and forecasted impact of Covid-19 on expected credit losses. The Committees have carefully challenged a number of the assumptions underpinning reporting under IFRS 9. The impact of Covid-19 more widely is described in the Strategic Report on pages 3 to 29; and the Board's role in managing this impact over the course of 2021 is set out in the s172 statement on page 21.
Going concern and viability statement	The Audit Committee reviewed a paper from the Investment Manager in support of the going concern basis and the longer-term viability of the Group. The Committee noted the stability of the Group's business model, its successful track record, the Group's three-year financial projections and the results of internal stress testing in relation to Covid-19 and concluded this provided sufficient evidence to support the Board's viability statement set out on page 35. The Committee will continue to monitor this area closely given the expected material impact of Covid-19 on the profitability of the business as the longer-term effects on the UK economy continue to be seen.
Fair, balanced and understandable	The approach taken by the Committee in determining whether the Annual Report is, when taken as a whole; fair, balanced and understandable, is described in greater detail in this Audit Committee report on page 49.
Retention of Investment Trust Status	The Audit Committee received a report from the Investment Manager in February 2022 confirming that the Company has remained compliant with the requirements to maintain its Investment Trust status. 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 Group's external auditors, PricewaterhouseCoopers LLP ("PwC"), were appointed on 16 May 2016 and last re-appointed on 8 June 2021 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 Group's appointed audit partner is Ms. Claire Sandford. Ms Sandford was appointed in 2021 following Mr. Richard McGuire's fifth and final year as audit partner. The audit partner rotation was completed in accordance with the Financial Reporting Council's Revised Ethical Standard 2019.

The audit and non-audit fees for the year under review can be found in Note 6 to the financial statements.

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 Audit Committee will review the scope and size of any such services provided and any consequent impact upon the auditors' independence.

The Group's policy follows the requirements of the Financial Reporting Council's Revised Ethical Standard for Auditors published in December 2019. The policy specifies a number of prohibited services which it is not permitted for the auditors to provide under the revised Ethical Standard.

The auditors did not provide any non-audit services to the Group in 2021 (2020: nil).

EXTERNAL AUDIT INDEPENDENCE

The Committee has undertaken a formal assessment of PwC's independence, which included a review of:

a report from PwC describing their arrangements to identify, report and manage any conflicts of interest;
their policies and procedures for maintaining independence and monitoring compliance with relevant requirements; and
the value of non-audit services provided by PwC (as described above).

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.

EXTERNAL AUDIT EFFECTIVENESS

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. Over the reporting period, the Audit Committee met with the audit partner and assessed PwC's performance to date. The review 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 recommended to the Board that it proposes to shareholders via an ordinary resolution that PwC be reappointed as auditors at the AGM. PwC has confirmed its willingness to continue in office.

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

INTERNAL AUDIT

The Audit Committee believes that the Group does not require an internal audit function, principally because the Group 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 via the Audit Committee on a quarterly basis.

APPROVAL

This Report was approved by the Audit Committee on 23 February 2022.

Jim Coyle
Chairman of the Audit Committee

1 March 2022

Directors' Remuneration Report

STATEMENT FROM THE CHAIRMAN

As Chairman of the Remuneration Committee, I am pleased to present the Directors' remuneration report for the year ended 31 December 2021, prepared in accordance with The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 and the Companies Act 2006. The Group'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.

In February 2021, the Board made the decision to split the functions of the Remuneration and Nomination Committee into two separately constituted Committees of the Board - the Remuneration Committee and the Nomination Committee.

As at the date of this report, the Remuneration Committee comprises all Directors and is chaired by Joanne Lake. Pages 31 and 32 include the member's biographies, and full details of the number of committee meetings and attendance by individual committee members can be found on page 41.

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 2020 AGM held on 26 June 2020. 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 2021. An ordinary resolution to approve the Directors' remuneration policy will be put to shareholders at least once every three years, and will next be put to shareholders at the AGM in 2023. At the 2022 AGM, shareholders will also be asked to consider an advisory resolution on the contents of the Directors' remuneration report.

As at 31 December 2021, the Board comprised four non-executive Directors, all of whom are independent of the Investment Manager. For the year ended 31 December 2021, the responsibilities of the Remuneration a Committee were to:

- consider and approve Directors' remuneration;
- consider and approve the framework and policy for the remuneration of the Directors; and
- consider the need to appoint external remuneration consultants.

The Committee met on 23 February 2022 and considered the continued time commitment required to carry out their duties. In that discussion, the Committee noted the additional duties and responsibilities to be placed upon directors of the Company following the Company's move to a premium listing. The Committee also had regard to market trends in remuneration in comparable UK-listed companies. Following that discussion, the Board approved, following the recommendation of the Committee, the following fee structure for Directors with effect from 1 March 2022:

Chairman	£60,000 per annum
Senior Independent Director	£50,000 per annum
Non-Executive Director	£45,000 per annum
Chair of Audit Committee	Additional supplement of £5,000 per annum
Chair of Risk Committee	Additional supplement of £5,000 per annum
Chair of Remuneration Committee	Additional supplement of £5,000 per annum

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 Group. 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 Group'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.

None of the Directors have 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, subject to any policy on tenure or orderly succession which may be adopted by the Board from time to time. 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.

Following shareholder approval, this policy took effect from the 2020 Annual General Meeting and is next scheduled for approval by shareholders by the Company's 2023 Annual General Meeting.

The components of the remuneration package for non-executive Directors, which are comprised in the Directors' remuneration policy of the Company, are set out below with a description and approach to determination:

Remuneration Type - Fixed Fees

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.

Annual fees are set to 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.

Directors do not participate in discussions relating to their own fee.

Remuneration Type - Additional Fees

Additional fees may be paid to any Director who fulfils the role of Chairman, who chairs any committee of the Board or who is appointed Senior Independent Director. Such fees will be set at a competitive level to reflect experience and time commitment.

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 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.

Remuneration Type - Expenses

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.

Remuneration Type - Other

Board members are not eligible for bonuses, pension benefits, share options, long-term incentive schemes or other non-cash benefits or taxable expenses.

VOTING AT ANNUAL GENERAL MEETING

The Directors' Remuneration Report for the year ended 31 December 2020 and the Directors' Remuneration Policy were approved by shareholders at the Annual General Meetings held on 8 June 2021 and 26 June 2020 respectively. The votes cast were as follows:

	Directors' Remuneration Report		Directors' Remuneration Policy	
	Number of Votes	% of Votes Cast	Number of Votes	% of Votes Cast
For	25,932,353	99.12	26,934,019	99.99
Against	229,225	0.88	2,875	0.01
Total votes cast	26,161,578	100	26,936,894	100
Number of votes withheld	2,118	-	-	-

The Directors' remuneration report, excluding 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 2022 AGM on the advisory resolutions will be disclosed in the remuneration report for the year to 31 December 2022.

DIRECTORS' FEES (AUDITED)

Single total aggregate Directors' remuneration for the year under review was £208,000 (2020: £178,000). The Directors who served during the year under review received the following emoluments:

Director	Fixed fees paid or receivable during the year	Fixed fees paid or receivable during the year	Variable fees paid or receivable during the year	Variable fees paid or receivable during the year	Total remuneration paid or receivable during the year	Total remuneration paid or receivable during the year
	2021	2020	2021	2020	2021	2020
	£'000	£'000	£'000	£'000	£'000	£'000
Robert Sharpe (Chair)	58	48	-	15	58	63
Jim Coyle	53	45	-	15	53	60
Richard Rowney (1)	48	40	-	15	48	55
Joanne Lake (2)	48	-	-	-	48	-
Total	207	133	-	45	207	178

(1) Fees paid to the Directors during the year do not include employers' national insurance costs
(2) Joanne Lake was appointed on 1 January 2021

No payments were made to past Directors for loss of office. 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.

The following table sets out the annual percentage change in Directors' fees for the year ending 31 December 2021. The amounts shown were effective from the 1 March 2021 and remain effective at the year ending 31 December 2021.

Director	Fixed fees	Fixed fees	Variable fees	Variable fees	Change in fixed fees	Change in variable fees
	2021	2020	2021	2020	2021	2020
	£'000	£'000	£'000	£'000	%	%
Robert Sharpe (Chair)	60	48	-	15	25%	(100%)
Jim Coyle	55	45	-	15	22%	(100%)
Richard Rowney (1)	50	40	-	15	25%	(100%)
Joanne Lake (2)	50	-	-	-	-	-
Total	215	133	-	45		

The previous change to Directors fees was effective 1 March 2019. There was no change to Directors fees in 2020. The requirements to disclose this information came into force for companies with financial years starting on or after 10 June 2019 and, as such, this is the first year the Company has disclosed this information. The Company does not have any employees and therefore no comparisons are given in respect of Directors' and employees' pay increases.

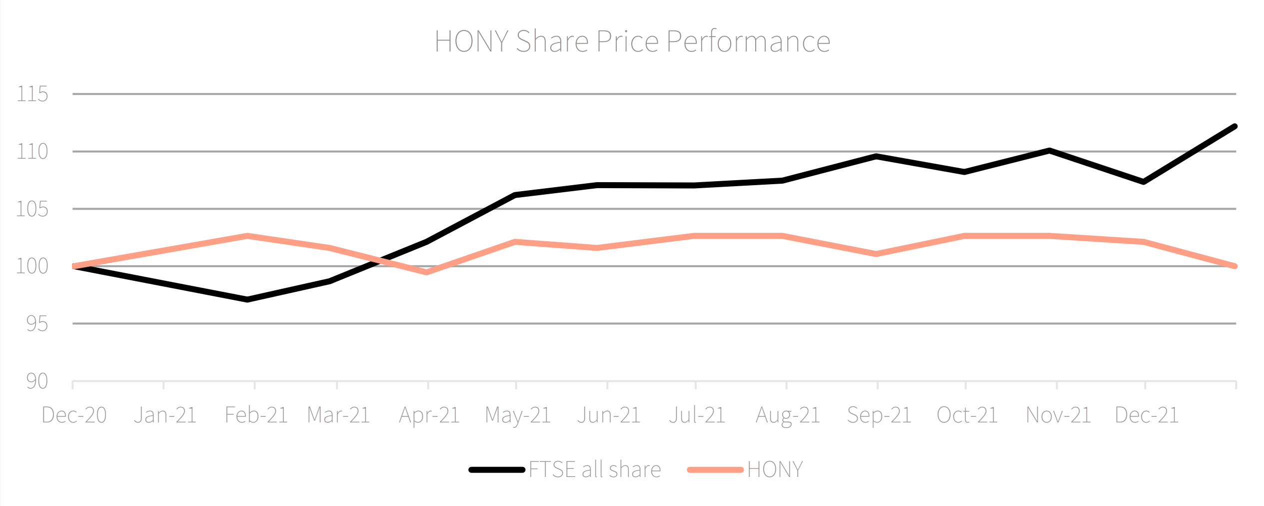
Many parts of The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 do not apply to the Company as the Board is comprised entirely of non-executive Directors and the Company has no employees.

The Board has considered and approved a formal policy for the approval of Directors' expenses.

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 on pages 7 to 8 and Investment Manager's Report on pages 9 to 10.

The graph below compares the total shareholder return on the Company's share classes from January 2021 to 31 December 2021 with that of the FTSE All-Share Total Return Index (ASXTR Index).



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 2021. The table shows the remuneration paid to Directors for the year under review, compared with the distribution payments to shareholders.

	31 December 2021 £'000	31 December 2020 £'000
Total remuneration paid to Directors	203	178
Shareholder distributions – dividends or share buybacks	29,809	63,830

DIRECTORS' INTERESTS (AUDITED)

The Company does not have any requirement for any Director to own shares in the Company. As at 31 December 2021, Joanne Lake held 2,713 shares in the Company and no other Director held shares in the Company (2020: None)

There have been no changes to any holdings between 31 December 2021 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 23 February 2022 and signed on behalf of the Board by:

Joanne Lake
Chairman of the Remuneration Committee

1 March 2022

Statement of Directors' responsibilities in respect of the financial statements.

Listed companies are required by the Financial Conduct Authority's Disclosure Guidance and Transparency Rules (the "Rules") to include a management report in their annual financial statements. The information required to be in the management report for the purpose of the Rules is included in the Chairman's Statement (pages 7 and 8), the Investment Manager's Report (pages 9 to 10), Top Ten Holdings (page 15), Portfolio composition (page 16), the Business Review (page 17 to 24) and the Directors' Report (pages 30 to 59). Therefore, a separate management report has not been included.

DIRECTORS' RESPONSIBILITIES STATEMENT IN RELATION TO THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Annual Report and Audited Financial Statements 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 group and the company financial statements in accordance with UK-adopted international accounting standards.

Under company law, directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company and of the profit or loss of the group for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable UK-adopted international accounting standards have been followed, 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 group and company will continue in business.

The directors are responsible for safeguarding the assets of the group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the group's and company's transactions and disclose with reasonable accuracy at any time the financial position of the group and company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006.

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

DIRECTORS' CONFIRMATIONS

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

- the group and company financial statements, which have been prepared in accordance with UK-adopted international accounting standards, give a true and fair view of the assets, liabilities and financial position of the group and company, and of the profit of the group; and
- the management report, as represented by Chairman's Statement, the Investment Manager's Report, Top Ten Holdings, Portfolio composition, the Business Review and the Directors' Report, includes a fair review of the development and performance of the business and the position of the group and company, together with a description of the principal risks and uncertainties that it faces.

Robert Sharpe
Chairman

1 March 2022

Independent auditors' report to the members of Honeycomb Investment Trust plc

Report on the audit of the financial statements

Opinion

In our opinion, Honeycomb Investment Trust plc's group financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2021 and of the group's profit and the group's and company's cash flows for the year then ended;
- have been properly prepared in accordance with UK-adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Audited Financial Statements (the ''Annual Report''), which comprise: the Consolidated and Company Statements of Financial Position as at 31 December 2021; the Consolidated Statement of Comprehensive Income, the Consolidated and Company Statements of Changes in Shareholders' Funds and the Consolidated and Company Statements of Cash Flows for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

We have provided no non-audit services to the company or its controlled undertakings in the period under audit.

Our audit approach

Overview

Audit scope

- The scope of our audit and the nature, timing and extent of audit procedures performed were determined by our risk assessment and the financial significance of components.
- We performed audit procedures over components considered financially significant in the context of the group (full scope audit). For two other components, specific audit procedures were performed over selected significant account balances.

Key audit matters

- Valuation of the allowance for expected credit losses on credit assets at amortised cost (group and company)
- Valuation of equity investments held at fair value through profit and loss (group and company)

Materiality

- Overall group materiality: £3,600,000 (2020: £3,570,000) based on 1% of net assets.
- Overall company materiality: £3,400,000 (2020: £3,390,000) based on 1% of net assets, capped at 95% of group materiality.
- Performance materiality: £2,700,000 (2020: £2,680,000) (group) and £2,500,000 (2020: £2,550,000) (company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Key audit matters

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

This is not a complete list of all risks identified by our audit.

Compared to last year the number of key audit matters has reduced from five to two. The following are no longer considered to be key audit matters.

- Interest income on credit assets at amortised cost (group) - the risk is reduced due to the low estimation uncertainty involved in determining the accuracy of interest income.
- Consideration of the impact of Covid-19 (group and Company) - there has been limited impact on the resources and operations of the group and Company during 2021 and there is reduced uncertainty of the impact of Covid-19 on the group and Company as markets and economies continue to recover;
- Ability to continue as a going concern (shareholder discontinuation vote) (group and Company) - the requirement for a special resolution to be proposed at the next Annual General Meeting of the shareholders for the discontinuation of the business of the Company in its present form has not been triggered.

The remaining two key audit matters are consistent with the last year.

Key audit matter	How our audit addressed the key audit matter
Valuation of the allowance for expected credit losses on credit assets at amortised cost (group and company) Refer to Report of the Audit Committee 'Significant accounting matters'; Note 1 Principal accounting policies 'Expected credit loss allowance for financial assets measured at amortised cost'; Note 2 Significant accounting judgements, estimates and assumptions 'Expected credit loss allowance for financial assets measured at amortised cost'; and Note 10 Investments at amortised cost. Credit assets recorded at amortised cost amounted to £565,994k for the group and Company as at 31 December 2021. The amount is net of the allowance for expected credit losses ('ECL') in accordance with IFRS 9 of £10,786k (group and Company) Determining ECL involves judgement and is subject to a high degree of estimation uncertainty. Various assumptions are required when estimating ECL. The significant assumptions that we focused on in our audit included those with greater levels	We understood and evaluated the design of controls over the estimation of ECLs over credit assets at amortised cost. We understood and assessed the ECL methodology and assumptions applied by the group by reference to accounting standards and industry practice and tested the techniques used in estimating the ECL. We performed substantive testing over the following, with the assistance of our credit specialists: • We tested the compliance of ECL methodologies and assumptions applied by the group and company with the requirements of IFRS 9; • We assessed the appropriateness of the significant assumptions and methodologies used for models and judgemental adjustments, including the selection of key parameters such as probabilities of default and the selection of macroeconomic scenarios. We independently reperformed the calculations for a sample of those models and judgemental adjustments. • We tested the appropriateness and application of the quantitative and qualitative criteria used to assess significant increases in credit risk; and

of judgement and for which variations had the most significant impact on ECL. These were the following: • forward looking economic scenarios and their probability weightings; • quantitative and qualitative criteria used to assess significant increases in credit risk ('SICR'); and • judgemental adjustments to the modelled ECL. The impact of Covid-19, including the nature and extent of government support, has resulted in unprecedented economic conditions leading to uncertainty around judgements made in determining the severity and probability weighting of macroeconomic variable forecasts across the different economic scenarios used in ECL models. These uncertainties are addressed with judgemental adjustments to the modelled ECL.	• We further considered whether the judgements made in selecting the significant assumptions would give rise to indicators of possible management bias. We evaluated and tested the disclosures over credit assets recorded at amortised cost less ECL made in the financial statements. We found that the calculations and assumptions used to estimate the ECL on credit assets at amortised cost were supported by the audit evidence we obtained.
Valuation of equity investments held at fair value through profit and loss (group and company) Refer to Report of the Audit Committee 'Significant accounting matters'; Note 2 Significant accounting judgements, estimates and assumptions 'Equity investments'; and Note 11 Assets at fair value through profit or loss. Equity investments held at fair value amounted to £15,659k at 31 December 2021 (group and Company). These investments are unlisted and, as such, the valuation requires the use of inputs which are not readily observable in the market. Determining unobservable inputs in fair value measurement involves judgement and is subject to a high degree of estimation uncertainty.	We understood and evaluated the design of controls over estimating the fair value of unlisted equity investments. With the assistance of our valuation experts, we understood and assessed the valuation methodology applied by reference to accounting standards and industry practice and tested the techniques used in determining the fair value of the unlisted equity investments. We performed substantive testing over the following, with the assistance of our valuation experts: • On a sample basis, we corroborated the accuracy and reasonableness of inputs used in valuations, including comparison to recent relevant transactions and other market performance information. • We tested the appropriateness of underlying investment company financial information and the impact and sensitivity of the valuation to other plausible scenarios. We further considered whether the judgements made in selecting the significant assumptions would give rise to indicators of possible management bias. We evaluated and tested the disclosures over equity investments made in the financial statements. We found that the fair valuation of equity investments was consistent with the accounting policies and supported by the audit evidence we obtained.

How we tailored the audit scope

We tailored the scope of the audit to ensure that we performed sufficient audit work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the Company, the accounting processes and controls, and the industry in which they operate.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. We performed a risk assessment, giving consideration to relevant external and internal factors, including Covid-19, climate change, economic risks and the group's strategy. We also considered our knowledge and experience obtained in the prior year audits. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Financial statements - group	Financial statements - company
Overall materiality	£3,600,000 (2020: £3,570,000).	£3,400,000 (2020: £3,390,000).
How we determined it	1% of net assets	1% of net assets, capped at 95% of group materiality
Rationale for benchmark applied	We have applied this benchmark, which is a generally accepted auditing practice for investment trust companies.	We have applied this benchmark, which is a generally accepted auditing practice for investment trust companies.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was £3.4m - £3.6m. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2020: 75%) of overall materiality, amounting to £2,700,000 (2020: £2,680,000) for the group financial statements and £2,500,000 (2020: £2,550,000) for the company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £0.2m (group audit) (2020: £0.18m) and £0.2m (company audit) (2020: £0.17m) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the group's and the company's ability to continue to adopt the going concern basis of accounting included:

- Reviewing the Directors' assessment of the group and Company's financial position and forecasts, including the liquidity of its assets, updated loan covenant analysis of facilities and understanding the severity of stress testing performed; and

- Reading and evaluating the adequacy of the disclosures made in the financial statements in relation to going concern.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the group's and the company's ability to continue as a going concern.

In relation to the directors' reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

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

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

Directors' Remuneration

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Corporate governance statement

The Listing Rules require us to review the directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the company's compliance with the provisions of the UK Corporate Governance Code specified for our review. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- The directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;

- The directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the group's and company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- The directors' explanation as to their assessment of the group's and company's prospects, the period this assessment covers and why the period is appropriate; and
- The directors' statement as to whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the directors' statement regarding the longer-term viability of the group was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the group and company and their environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- The directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the group's and company's position, performance, business model and strategy;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the Audit Committee.

We have nothing to report in respect of our responsibility to report when the directors' statement relating to the company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified under the Listing Rules for review by the auditors.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' responsibilities in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to the qualification as an Investment Trust under the Corporation Tax Act 2010, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue, and management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Discussions with the Investment Manager and the Audit Committee, including consideration of known or suspected instances of non-compliance with laws and regulation;
- Assessment of the Company's compliance with the requirements of Section 1158 of the Corporation Tax Act 2010, including recalculation of the various numerical aspects of the eligibility conditions;
- Reviewing relevant meeting minutes including those of the Board and Audit Committee;
- Challenging assumptions and judgements made by the Directors in their significant accounting estimates, in particular in relation to the valuation of equity investments held at fair value and allowance for expected credit losses on amortised cost assets; and
- Identifying and testing journal entries meeting specific fraud criteria, including those posted with certain descriptions or to certain account combinations, backdated journals or posted by unexpected users.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

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

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the directors on 16 May 2016 to audit the financial statements for the year ended 31 December 2016 and subsequent financial periods. The period of total uninterrupted engagement is 6 years, covering the years ended 31 December 2016 to 31 December 2021.

Other matter

In due course, as required by the Financial Conduct Authority Disclosure Guidance and Transparency Rule 4.1.14R, these financial statements will form part of the ESEF-prepared annual financial report filed on the National Storage Mechanism of the Financial Conduct Authority in accordance with the ESEF Regulatory Technical Standard ('ESEF RTS'). This auditors' report provides no assurance over whether the annual financial report will be prepared using the single electronic format specified in the ESEF RTS.

Claire Sandford (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
1 March 2022

3 Financial Statements

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2021

	Notes	For the year ended 31 December 2021 Revenue £'000	Capital £'000	Total £'000	For the year ended 31 December 2020 Revenue £'000	Capital £'000	Total £'000
Net Income							
Interest Income on credit assets at amortised cost	4	56,484	-	56,484	54,970	-	54,970
(Loss) / Income on credit and equity assets at fair value through profit and loss	11	1,874	(1,337)	537	-	400	400
Credit impairment reversal / (losses)	10	844	-	844	(5,581)	-	(5,581)
Third party servicing		(2,810)	-	(2,810)	(3,918)	-	(3,918)
Net operating income/(expense) before financing and fund costs		56,392	(1,337)	55,055	45,471	400	45,871
Finance costs	17	(12,859)	-	(12,859)	(14,323)	-	(14,323)
Net operating income/(Expense) before fund costs		43,533	(1,337)	42,196	31,148	400	31,548
Management fee	5	(6,191)	(158)	(6,349)	(5,823)	(119)	(5,942)
Performance fee	5	(3,369)	-	(3,369)	(2,300)	-	(2,300)
Fund expenses	6	(2,160)	-	(2,160)	(2,605)	-	(2,605)
Total operating expenses		(11,720)	(158)	(11,878)	(10,728)	(119)	(10,847)
Profit/(Loss) before taxation		31,813	(1,495)	30,318	20,420	281	20,701
Tax expense	7	-	-	-	-	-	-
Profit/(Loss) after taxation		31,813	(1,495)	30,318	20,420	281	20,701
Earnings per share (basic and diluted)	8	90.2p	(4.2)p	86.0p	55.7p	0.8p	56.5p

The total column of this statement represents the Statement of comprehensive income prepared in accordance with UK-adopted International Accounting Standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards. 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 on pages 76 to 120 form an integral part of the financial statements.

Consolidated Statement of Financial Position

As at 31 December 2021

	Notes	31 December 2021 £'000	31 December 2020 £'000
Non-current assets			
Assets held at fair value through profit or loss	11	48,770	20,864
Credit assets at amortised cost	10	565,994	547,737
Derivative assets held at fair value through profit or loss		-	21
Fixed assets	14	-	-
		614,764	568,622
Current assets			
Cash and cash equivalents		12,948	62,548
Receivables	15	6,554	6,773
		19,502	69,321
Total assets		634,266	637,943
Current liabilities			
Management fee payable	5	(1,037)	(1,040)
Performance fee payable	5	(3,431)	(2,300)
Other payables	16	(2,691)	(3,832)
Derivative liability held at fair value through profit or loss		(108)	-
Interest bearing borrowings	17	(49,339)	(20,865)
		(56,606)	(28,037)
Total assets less current liabilities		577,660	609,906
Non-current liabilities			
Interest bearing borrowings	17	(218,318)	(252,674)
Net assets		359,342	357,232
Shareholders' funds			
Ordinary share capital	19	352	352
Share premium		299,599	299,599
Revenue reserves		4,790	1,185
Capital reserves		(2,244)	(749)
Special distributable reserves		56,845	56,845
Total shareholders' funds		359,342	357,232
Net asset value per share	23	1,019.1	1,013.1p

The notes on pages 76 to 120 form an integral part of the financial statements.

The financial statements on pages 68 to 120 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 1 March 2022. They were signed on its behalf by:

Robert Sharpe, Chairman

Company Statement of Financial Position

As at 31 December 2021

	Notes	31 December 2021 £'000	31 December 2020 £'000
Non-current assets			
Assets held at fair value through profit or loss	11	48,770	20,864
Credit assets at amortised cost	10	565,994	547,737
Derivative assets held at fair value through profit or loss		-	21
Fixed assets	14	-	-
		614,764	568,622
Current assets			
Cash and cash equivalents		10,500	59,673
Receivables	15	6,554	6,773
		17,054	66,446
Total assets		631,818	635,068
Current liabilities			
Management fee payable	5	(1,037)	(1,040)
Performance fee payable	5	(3,431)	(2,300)
Other payables	16	(2,392)	(3,429)
Derivative liability held at fair value through profit or loss		(108)	-
Deemed loan	18	(32,118)	-
Interest bearing borrowings	17	(15,072)	(73)
		(54,158)	(6,842)
Total assets less current liabilities		577,660	628,226
Non-current liabilities			
Deemed loan	18	(50,208)	(103,719)
Interest bearing borrowings	17	(168,110)	(167,275)
Net assets		359,342	357,232
Shareholders' funds			
Ordinary share capital	19	352	352
Share premium		299,599	299,599
Revenue reserves		4,790	1,185
Capital reserves		(2,244)	(749)
Special distributable reserves		56,845	56,845
Total shareholders' funds		359,342	357,232
Net asset value per share	23	1,019.1	1,013.1p

Advantage has been taken of the exemption under section 408 of the Companies Act 2006 and accordingly the Company has not presented a Statement of Comprehensive Income for the Company alone. The profit on ordinary activities after taxation of the Company for the year ended 31 December 2021 was £30.3 million (2020: £20.7 million). The financial statements on pages 68 to 120 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 1 March 2022. They were signed on its behalf by:

Robert Sharpe, Chairman

Consolidated Statement of Changes in Shareholders' Funds

For the year ended 31 December 2021

	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 2021	352	299,599	1,185	(749)	56,845	357,232
Ordinary shares bought back	-	-	-	-	-	-
Profit / (Loss) after taxation	-	-	31,813	(1,495)	-	30,318
Dividends paid in the year	-	-	(28,208)	-	-	(28,208)
Shareholders' funds at 31 December 2021	352	299,599	4,790	(2,244)	56,845	359,342

For the year ended 31 December 2020

	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 2020	394	299,599	5,270	(1,030)	96,128	400,361
Ordinary shares bought back	(42)	-	-	-	(34,783)	(34,825)
Profit after taxation	-	-	20,420	281	-	20,701
Dividends paid in the year	-	-	(24,505)	-	(4,500)	(29,005)
Shareholders' funds at 31 December 2020	352	299,599	1,185	(749)	56,845	357,232

For both year ended 2020 and 2021, the Group's capital reserve arising on investments sold and revenue reserve could have been distributed by way of a dividend. The portion of capital reserve arising on investments held is wholly non-distributable. There may be factors that restrict the value of the reserves that can be distributed and these factors may be complex to determine. Amounts fully distributable may therefore not be the total of the revenue reserve and the portion of the capital reserve arising on investments sold.

The notes on pages 76 to 120 form an integral part of the financial statements.

Company Statement of Changes in Shareholders' Funds

For the year ended 31 December 2021

	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 2021	352	299,599	1,185	(749)	56,845	357,232
Ordinary shares bought back	-	-	-	-	-	-
Profit / (Loss) after taxation	-	-	31,813	(1,495)	-	30,318
Dividends paid in the year	-	-	(28,208)	-	-	(28,208)
Shareholders' funds at 31 December 2021	352	299,599	4,790	(2,244)	56,845	359,342

The Company's capital reserve arising on investments sold and revenue reserve may be distributed by way of a dividend. The portion of capital reserve arising on investments held is wholly non-distributable. There may be factors that restrict the value of the reserves that can be distributed, and these factors may be complex to determine. Amounts fully distributable may therefore not be the total of the revenue reserve and the portion of the capital reserve arising on investments sold.

For the year ended 31 December 2020

	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 2020	394	299,599	5,270	(1,030)	96,128	400,361
Ordinary shares bought back	(42)	-	-	-	(34,783)	(34,825)
Profit after taxation	-	-	20,420	281	-	20,701
Dividends paid in the year	-	-	(24,505)	-	(4,500)	(29,005)
Shareholders' funds at 31 December 2020	352	299,599	1,185	(749)	56,845	357,232

The Company's capital reserve arising on investments sold and revenue reserve may be distributed by way of a dividend. The portion of capital reserve arising on investments held is wholly non-distributable. There may be factors that restrict the value of the reserves that can be distributed and these factors may be complex to determine. Amounts fully distributable may therefore not be the total of the revenue reserve and the portion of the capital reserve arising on investments sold.

The notes on pages 76 to 120 form an integral part of the financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2021

	Notes	31 December 2021 £'000	31 December 2020 £'000
Cash flows from operating activities:			
Profit after taxation		30,318	20,701
Adjustments for:			
(Advances) / repayments of Investments at amortised cost		(22,883)	18,982
Change in expected credit loss	10	(844)	5,581
Net change in unrealised (gains)/losses		(854)	(1,155)
Finance costs		12,859	14,323
Amortisation	14	-	41
(Increase) / decrease in receivables	15	219	2,102
Decrease / (increase) in derivatives		130	(21)
Increase in payables		(13)	867
Net cash inflow from operating activities		18,932	61,421
Cash flows from investing activities:			
Purchase of fair value investments		(21,583)	(2,621)
Net cash (outflow) / inflow from investing activities		(21,583)	(2,621)
Cash flows from financing activities:			
Redemption of shares		-	(34,825)
Drawdown of interest bearing borrowings	17	27,000	359,648
Repayments of interest-bearing borrowings	17	(34,375)	(289,013)
Interest paid on financing activities	17	(11,366)	(18,211)
Dividends declared and paid	9	(28,208)	(29,005)
Net cash (outflow) from financing activities		(46,949)	(11,406)
Net change in cash and cash equivalents		(49,600)	47,394
Cash and cash equivalents at the beginning of the year		62,548	15,154
Cash and cash equivalents		12,948	62,548

The notes on pages 76 to 120 form an integral part of the financial statements.

Company Statement of Cash Flows

For the year ended 31 December 2021

	Notes	31 December 2021 £'000	31 December 2020 £'000
Cash flows from operating activities:			
Profit after taxation		30,318	20,701
Adjustments for:			
(Advances) / repayments of Investments at amortised cost		(22,883)	18,982
Change in expected credit loss	10	(844)	5,581
Net change in unrealised (gains)/losses		(854)	3,338
Finance costs		9,678	12,042
Amortisation	14	-	41
(Increase) / decrease in receivables	15	219	1,552
Decrease / (increase) in derivatives		130	(21)
Increase in payables		91	985
Net cash inflow from operating activities		15,855	63,201
Cash flows from investing activities:			
Purchase of fair value investments		(21,583)	-
Sale of fair value investments		-	(2,621)
(Purchase) / receipt from deemed loans		(21,393)	25,107
Net cash inflow / (outflow) from investing activities		(42,976)	22,486
Cash flows from financing activities:			
Redemption of shares		-	(34,825)
Drawdown of interest bearing borrowings	17	27,000	312,500
Repayments of interest-bearing borrowings	17	(12,000)	(272,752)
Interest paid on financing activities	17	(8,844)	(15,183)
Dividends declared and paid	9	(28,208)	(29,005)
Net cash (outflow) from financing activities		(22,052)	(39,265)
Net change in cash and cash equivalents		(49,173)	46,422
Cash and cash equivalents at the beginning of the year		59,673	13,251
Cash and cash equivalents		10,500	59,673

The notes on pages 76 to 120 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 UK-adopted International Accounting Standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards. 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.

The financial statements have been prepared on a consistent basis year on year, 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 Group has adequate financial resources to enable it to continue operations for a period of no less than 12 months from the signing of these accounts, being the 1 March 2022. In order to reach this conclusion the Directors have reviewed the financial projections of the Group from the date of this report, which shows that the Group will be able to generate sufficient cash flows in order to meet its liabilities as they fall due. These financial projections have been performed under various origination volumes and stressed scenarios and in all cases the Group is able to meet its liabilities as they fall due. The stressed scenarios considered included no future originations by the Group, late repayments of significant structured facilities and individual exposures experiencing ongoing performance at the worst monthly impact noted throughout 2020; which incorporated one-off macro-economic charges for Covid-19. As part of these projections, the Directors have also reviewed any financial and non-financial covenants in place under all debt facilities in place with no breaches anticipated, even in our stressed scenario.

The Directors have also reviewed the potential effect of the combination with Pollen Street on financial projections of the combined group. These financial projections have been stress tested under different scenarios, including delaying all additional fund raises to demonstrate that the combined group will be able to generate sufficient cash flows in order to meet its liabilities as they fall due.

The principal accounting policies adopted by the Company and Group 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.

Changes to Accounting Policies

At the date of authorisation of these financial statements, the following standards and interpretations have been applied in these financial statements:

Interest Rate Benchmark Reform Phase 2 – Amendments to IFRS 9, IFRS 7, IFRS 4 and IFRS 16

In August 2020, the IASB made amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 to address the issues that arise during the reform of an interest rate benchmark rate, including the replacement of one benchmark with an alternative one. The Phase 2 amendments provide the following reliefs:

- When changing the basis for determining contractual cash flows for financial assets and liabilities (including lease liabilities), the reliefs have the effect that the changes, that are necessary as a direct consequence of IBOR reform and which are considered economically equivalent, will not result in an immediate gain or loss in the income statement.

The 'Phase 2' reforms are effective from 1 January 2021. The amendments require that, for financial instruments measured using amortised cost measurement (that is, financial instruments classified as amortised cost and debt financial assets classified as FVOCI), changes to the basis for determining the contractual cash flows required by interest rate benchmark reform are reflected by adjusting their effective interest rate. No immediate gain or loss is recognised. These expedients are only applicable to changes that are required by interest rate benchmark reform, which is the case if, and only if, the change is necessary as a direct consequence of interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis (that is, the basis immediately preceding the change).

Where some or all of a change in the basis for determining the contractual cash flows of a financial asset and liability does not meet the above criteria, the above practical expedient is first applied to the changes required by interest rate benchmark reform, including updating the instrument's effective interest rate. Any additional changes are accounted for in the normal way (that is, assessed for modification or derecognition, with the resulting modification gain / loss recognised immediately in profit or loss where the instrument is not derecognised). Refer to note 12 for further details on the group's exposure to IBOR as at the year end.

Accounting standards issued but 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 2023.

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 Group's business being that it has no insurance contracts.

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

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. At the Company level, the Company's investments in its subsidiaries are measured at fair value which is determined with reference to the underlying net asset value of the subsidiary.

On 20 June 2019 the Group incorporated Sting Funding Limited ("Sting"), a limited Company incorporated under the law of England and Wales. Sting became active on 28 August 2019 when it drew down on a debt facility backed by commercial and second charge residential mortgages. The company is registered at 1 Bartholomew Lane, London, United Kingdom, EC2N 2AX. The Group is considered to control Sting through holding 100 percent of the issued shares. As a result, the financial statements for the year ended 31 December 2020 and 31 December 2021 are prepared on a consolidated basis.

Due to the nature of Sting, whereby the credit facility is guaranteed by the investments within Sting this constitutes as a restriction on the Group's ability to access or use the assets and settle the liabilities of the Group. There is a restricted ability on the Group to transfer cash or other assets from Sting to the Group.

The Company controls Bud Funding Limited ("Bud"), a limited company incorporated under the law of England and Wales. The Company is considered to control Bud through its involvement in the initial creation of Bud and in the absence of another entity now having control over Bud. Bud was incorporated on 2 November 2020 and the junior note was funded on 2 December 2020.

In the 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.

All entities within the Group have co-terminus reporting dates.

Foreign Currency

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

The primary objective of the Group is to generate returns in Pounds Sterling, its capital-raising currency. The liquidity of the Group is managed on a day-to-day basis in Pounds Sterling as the Group'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.

Transactions involving foreign currencies are converted at the exchange rate ruling at the date of the transaction. Foreign currency monetary assets and liabilities are 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 capital investments (equity investments reported in Note 11);
- Increases and decreases in the valuation of capital investments held at the 31 December 2020 and 31 December 2021;
- 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 Group 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 Group's right to receive payment has been established, normally the ex-dividend date.

Expenses

All expenses are accounted for on the accrual 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 Equity Assets 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 equity investments held can be demonstrated and, accordingly, the management fee for the financial year has been allocated 98 percent to revenue and 2 percent to capital (being the management fee percentage applied to the Equity Assets throughout the financial year), in order to reflect the Directors' long-term view of the nature of the expected investment returns of the Group.

Finance costs

Finance costs are accrued on the effective interest rate basis and are presented as a separate line on the statement of comprehensive income.

Shares

Ordinary and treasury shares are classified as equity. The costs of issuing or acquiring equity are recognised in equity (net of any related income tax benefit), as a reduction of equity on the condition that these are incremental costs directly attributable to the equity transaction that otherwise would have been avoided.

The costs of an equity transaction that is abandoned are recognised as an expense. Those costs might include registration and other regulatory fees, legal fees, accounting and other professional advisers, printing costs and stamp duties.

Treasury shares have no entitlements to vote and are held directly by the Company.

Capital reserves

Capital reserves arise from:

- Gains or losses on disposal of equity investments during the year
- Increases and decreases in the valuation of equity investments held at the year end
- Other capital charges and credits charged to this account in accordance with the accounting policies above or as applied to the capital column of the Consolidated Statement of Comprehensive Income, prepared under guidance issued by the Associated of Investment Companies.

All of the above are accounted for in the Consolidated Statement of Comprehensive Income. Any other gains or losses, charges or credits from investments still held or otherwise are included in the revenue reserves.

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 Group'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 and continues to monitor itself against the conditions required to satisfy the investment trust criteria, including but not limited to making sufficient interest distributions.

Where additional SPVs are created these are structured in such a way that they either make no profit and as such pay no tax or that they are exempt from taxation.

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

Credit assets 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 expected credit losses (see Note 11 to the financial statements).

Investments held at fair value through profit or loss

All investments held by the Group which 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 2019 and updated in March 2020 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 Group 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

Dividends to shareholders are recognised in the year in which they are paid.

Investments in associates

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

No associates are presented on the Statement of Financial Position as the Group 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. All associate investments held by the Company are for capital appreciation where such an opportunity has arisen, as opposed to being extensions of the Company's business, and have been designated as at fair value through profit or loss upon initial recognition. 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 24 to the financial statements.

Classification and measurement

Financial assets and financial liabilities are recognised in the Statement of Financial Position when the Group becomes a party to the contractual provisions of the instrument. The Group 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 Group settles its obligations relating to the instrument.

Classification and measurement - Financial assets

IFRS 9 contains a 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. No assets have been classified at FVOCI as at 31 December 2020 or 31 December 2021.

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 Group establishes a fair value by using valuation techniques. In addition, on initial recognition the Group 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 Group 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 Group'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 Group'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.

Classification and measurement - Financial liabilities

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

Deemed loans

The deemed loans are a non-derivative financial liability with fixed or determinable repayments that are not quoted in an active market. Deemed loans in relation to the Company arise from loans originated by the Company and subsequently sold to in a special purpose entity to reduce the cost of borrowing, in this case Sting Funding Limited and Bud Funding Limited. Although the loans are no longer legally owned by the Company, the Company maintains the economic risks and rewards of the underlying assets and therefore does not meet the criteria to derecognise. Derecognition cannot be achieved by merely transferring the legal title of a financial asset to another party. The substance of the arrangement must be assessed in order to determine whether an entity has transferred the economic exposure associated with the rights inherent in the asset.

Loans and related transaction costs are measured at initial recognition at fair value and are subsequently measured at amortised cost using the EIRM. International accounting standards ("IAS") makes it clear that assets should only appear on one statement of financial position. IFRS require a reporting entity, as part of the derecognition assessment, to consider whether the transfer includes a transfer to a consolidated subsidiary. Derecognition cannot be achieved by merely transferring the legal title to a financial asset to another party. The substance of the arrangement must be assessed in order to determine whether an entity has transferred the economic exposure associated with the rights inherent in the asset (i.e., its risks and rewards) and, in some cases, control of those rights.

In the case of the Company, it has not met the requirements of derecognition in relation to the deemed loans given the economic exposure associated with the rights inherent in the assets (i.e., its risks and rewards), have been retained. As such the Company fails to meet the requirements for derecognition and continues to recognise the financial assets and as such has a deemed loans liability to the to the relevant special purpose entity. At a consolidated Group level, the deemed liability is eliminated.

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 Group 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.

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. 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. 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. Stage 2 and Stage 3 are based on lifetime expected credit losses.

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 Group 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 Group 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 Group'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 estimated credit loss ("ECL") is determined by estimating the PD, LGD, and EAD 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, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original EIR 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 where 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, LGDs are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGDs 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 using independent third-party economic information.

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.

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, where this information is available
  - 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, as a backstop, unless identified at an earlier stage, the credit risk of financial assets is deemed to have increased significantly when repayments are 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 Group uses this 90-day backstop for all its assets except for UK second mortgages, the Group 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 Group's risk management practices. 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 Group 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 Group'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 2021 as well as 31 December 2020, all the portfolios of the Group 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 and adjusted based on the macroeconomic variables (or changes in macroeconomic variables) that are most closely correlated with credit losses in the relevant portfolio. The Group 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 percent 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 percent weighting and the downside and upside a 30 percent weighting each. These weightings were introduced in the 2018 financial year and maintained in the current financial year.

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 Group considers these forecasts to represent its best estimate of the possible outcomes and has analysed the non-linearities and asymmetries within the Group'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 no adjustment has been made to the ECL for such factors. This is reviewed and monitored for appropriateness on an annual basis.

In March 2020, the World Health Organisation recognised Covid-19 as a pandemic. Covid-19 has caused major disruption to businesses and economic activity with corresponding volatility in global stock markets. There are no comparable recent events which may provide guidance as to the effect of the spread of the Covid-19 and a potential pandemic, and as a result, the ultimate impact of the Covid-19 outbreak or a similar health epidemic is highly uncertain and subject to change. Given the Group's strategy, its performance is linked to the health of the economy. We expect the Group could experience further impairments and consequently reduced profits, particularly if economic expectations deteriorate. The government has also launched a number of initiatives aimed at providing finance to SMEs and support to consumers. Two of our largest borrowers are in the process of lending under the Recovery Loan Scheme government guarantee scheme which will also refinance part of their exposure with the benefit of the government guarantee. The recent market improvements and progress made on national vaccination programmes are encouraging, however uncertainty remains.

Collateral and other credit enhancements

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

The Group 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;
- Security over our borrowers receivables;
- Margin agreement for derivatives, for which the Group 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 Group closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the Group will take possession of collateral to mitigate potential credit losses.

Modification of financial assets

The Group 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 Group monitors the subsequent performance of modified assets. The Group 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 Group assesses whether or not the new terms are substantially different to the original terms. The Group 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 Group 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 Group 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 Group 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 Group transfers substantially all the risks and rewards of ownership, or (ii) the Group 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 Group:

- 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.

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 percent 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.

Segmental Reporting

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

Whilst visibility over deal type and sector 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 financial performance. There are no segment managers directly accountable for the individual routes to market and the routes to market are not determinants of resource allocations, rather each investment opportunity is considered on its own merits.

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

2. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of financial statements accordance with both International Accounting Standards in conformity with UK-adopted International Accounting Standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards requires the Group 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 Group's financial statements, to select suitable accounting policies, apply them consistently and make judgements and estimates that are reasonable. The Group'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 estimates of most significance to the financial statements, are in relation to expected credit losses and equity 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.

The critical judgements relate to the application of consolidation accounting principles, and within the Company, the treatment of asset derecognition and deemed loans. These have been explained on pages 77 to 83 as well as in the accounting policies section of the Notes.

Estimates

Expected Credit loss allowance for financial assets measured at amortised cost

The calculation of the Group's ECL allowances and provisions against loan commitments and guarantees under IFRS 9 is 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 driven by Covid-19 pandemic, 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 on page 84, the Group has rebutted the presumption in IFRS 9 that default occurs no later than when a payment is 90 days past due on some of its portfolio.

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 Group 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 Group 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 calculate the related ECL allowance. This weighting scheme is deemed appropriate for the computation of unbiased ECL. Key scenario assumptions are set using external economist forecasts, 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, the overall narrative of the scenarios is aligned to the macroeconomic risks faced by the Group at the 31 December 2021.

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. It may be insufficient to use three scenarios in certain economic environments. Additional analysis may be requested at management's discretion, including the production of extra scenarios. We anticipate there will only be limited instances when the standard approach will not apply. The Base case, Upside and Downside scenarios are usually generated annually and those described herein reflect the conditions in place at the balance sheet date and are only updated during the year if economic conditions change significantly.

The Group's UK mild upside scenario can be thought of as an alternative, more optimistic, base case in which households run down savings accumulated during the pandemic at a faster pace than assumed in the baseline, permanent scars to the supply side are avoided, and the economy reverts to its pre-crisis trajectory within a couple of years. This mild-upside case scenario sees UK unemployment drop by 0.8 per cent in 2022. Consequently, for the mild upside scenario the Bank of England base rate is forecast to rise to around 0.9 per cent by the end of 2022. The one-year forecast changes in these key economic drivers are shown in the table below.

The base case forecasts unemployment reducing to 3.8% by the end of 2025; returning to match unemployment seen in March 2020. The downside scenario however forecasts a much slower recovery, with unemployment at 6.1% by December 2025 and HPI still 19.3% lower than at the end of 2021.

See Note 10 for the sensitivity analysis.

2021	Base	Upside	Down-side
UK unemployment rate yearly change	(0.17%)	(0.84%)	1.64%
UK HPI yearly change	(0.45)	4.25%	(9.43%)
UK Base Rate	0.37%	0.75%	(0.13%)

2020	Base	Upside	Down-side
UK unemployment rate yearly change	(0.11%)	(1.60%)	2.01%
UK HPI yearly change	(5.50%)	(1.32%)	(14.32%)
UK Base Rate	0.1%	0.4%	(0.3%)

Loss given default ("LGD") - LGD represents the 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. 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 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, LGDs are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGDs are influenced by collection strategies, including contracted debt sales and price.

Exposure at default ("EAD") - EAD is based on the amounts expected to be owed at the time of default, over the next 12 months ("12M EAD") or over the remaining lifetime ("Lifetime EAD"). IFRS 9 requires an assumed draw down profile for committed amounts.

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 multiple 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 the net asset value of the investment. 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.

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 Consolidated Statement of Comprehensive Income as a capital item. On disposal, realised gains and losses are also recognised in the Consolidated 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. Sensitivity analysis has been performed on the equity investment valuations in Note 11.

Judgement

Consolidation

Determining whether the Group has control of an entity is generally straightforward when based on ownership of the majority of the voting capital. However, in certain instances, this determination will involve significant judgement, particularly in the case of structured entities where voting rights are often not the determining factor in decisions over the relevant activities. This judgement may involve assessing the purpose and design of the entity. It will also often be necessary to consider whether the Group, or another involved party with power over the relevant activities, is acting as a principal in its own right or as an agent on behalf of others.

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 treating its subsidiaries as investments at fair value through profit or loss.

The Company controls Bud Funding Limited ("Bud"), a limited company incorporated under the law of England and Wales, though it does not own the majority of the voting capital the Company is considered to control Bud through its exposure to the variable returns of the vehicle through hold of a junior note issued by it and the controls it exerts over Bud. Bud was incorporated on 2 November 2020 and the junior note was funded on 2 December 2020, at which point control was obtained. The Company exercises control over Bud through its involvement in the initial creation of Bud and in the absence of another entity now having control over Bud and so the Group consolidates Bud.

3. BUSINESS COMBINATION

On 20 June 2019 the Group incorporated Sting Funding Limited ("Sting"), a limited Company incorporated under the law of England and Wales. Sting became active on 28 August 2019 when it drew down on a debt facility backed by commercial and second charge residential mortgages. The Group is considered to control Sting through holding 100 percent of the issued shares.

The Company also controls Bud Funding Limited ("Bud"), a limited company incorporated under the law of England and Wales. The Company is considered to control Bud through its exposure to the variable returns of the vehicle through holding of a junior note issued by it and the control it exerts over Bud. Bud was incorporated on 2 November 2020 and the junior note was funded on 2 December 2020, at which point the control began.

As a result, the financial statements for the year ended 31 December 2021 and 31 December 2020 are prepared on a consolidated basis.

4. INTEREST INCOME ON CREDIT ASSETS AT AMORTISED COST

Group	31 December 2021 £'000	31 December 2020 £'000
Investment income		
Interest income	51,900	50,948
Commitment fee income	2,403	2,154
Arrangement fee income	2,232	1,844
Net (loss) / gain on foreign exchange*	(53)	21
Total investment income	56,482	54,967
Other income		
Deposit interest	2	3
Total income	56,484	54,970

*Net (loss)/Gain on foreign exchange also includes fair value movements on derivatives taken out to economically hedge fair value exposures

5. 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 percent per month of Gross Asset Value (the "Management Fee"). Gross Asset Value is the equivalent of Total Assets on the Consolidated Statement of Financial Position. The aggregate fee payable on this basis must not exceed 1.0 percent 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 percent 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.

Management fees charged for the year ended 31 December 2021 totalled £6.4 million (2020: £5.9 million) of which £1.0 million was payable at the year-end (2020: £1.0 million).

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 percent 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 percent 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.

Performance fees for the year ended 31 December 2021 totalled £3.4 million (2020: £2.3 million) of which £3.4 million was payable at the year-end (2020: £2.3 million).

6. FUND EXPENSES

Group	31 December 2021 £’000	31 December 2020 £’000
Directors’ fees	203	200
Administrator’s fees	179	148
Auditors’ remuneration	319	287
Amortisation	-	41
Potential merger costs	-	585
LSE market listing costs	18	280
Other expenses	1,441	1,064
Total fund expenses	2,160	2,605

All expenses where applicable are inclusive of VAT (except those paid to the auditors which are net). Directors’ fees above include £203,000 (2020: £178,000) paid to Directors’ and £23,256 (2020: £21,538) of employment taxes. Further details on Directors’ fees can be found in the Directors’ remuneration report on pages 53 to 56.

The auditors’ remuneration net of VAT for the audit of the Group was £319,000 for the year ended 31 December 2021 (2020: £287,000). Remuneration includes the audit of subsidiaries during the year was £29,000 (2020: £37,500). Non-audit fees amounted to £0 in 2021 (2020: £nil).

7. TAX EXPENSE

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 2021.

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

The following table presents the tax chargeable for the year ended 31 December 2020.

Group	Revenue £'000	Capital £'000	Total £'000
Corporation tax	-	-	-
Total current tax charge	-	-	-
Deferred tax movement	-	-	-
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 percent (2020: 19.00 percent). A reconciliation of the 2021 taxation charge based on the standard rate of UK corporation tax to the actual taxation charge is shown below.

Group	Revenue £'000	Capital £'000	Total £'000
Profit before taxation	29,809	509	30,318
Profit before taxation multiplied by the standard rate of UK corporation tax of 19.00%	5,664	97	5,761
Effects of:			
Capital items exempt from tax	-	(127)	(127)
Excess management expenses not utilised / (utilised)	(304)	30	(274)
Interest distributions paid in respect of the year	(5,360)	-	(5,360)
Total tax charge in income statement	-	-	-

A reconciliation of the 2020 taxation charge based on the standard rate of UK corporation tax to the actual taxation charge is shown below.

Group	Revenue £'000	Capital £'000	Total £'000
Profit/(loss) before taxation	20,420	281	20,701
Profit/(loss) before taxation multiplied by the standard rate of UK corporation tax of 19.00%	3,880	53	3,933
Effects of:			
Excess management expenses not utilised	855	(53)	802
Interest distributions paid in respect of the year	(4,735)	-	(4,735)
Total tax charge in income statement	-	-	-

8. EARNINGS PER SHARE

Group	31 December 2021	31 December 2020
Revenue	90.2p	55.7p
Capital	(4.2)p	0.8p
Earnings per ordinary share	86.0p	56.5p

The calculation for the year ended 31 December 2021 is based on revenue returns of £31.8 million, capital returns of £(1.5) million and total returns of £30.3 million and a weighted average number of ordinary shares of 35,259,741.

The calculation for the year ended 31 December 2020 is based on revenue returns of £20.4 million, capital returns of £0.3 million and total returns of £20.7 million and a weighted average number of ordinary shares of 36,657,807.

9. ORDINARY DIVIDENDS

	31 December 2021 £'000	31 December 2020 £'000
20.00p Interim dividend for the period to 31 December 2019 (paid 27 March 2020)	-	7,450
20.00p Interim dividend for the period to 31 March 2020 (paid on 23 June 2020)	-	7,303
20.00p Interim dividend for the period to 30 June 2020 (paid on 22 September 2020)	-	7,201
20.00p Interim dividend for the period to 30 September 2020 (paid 27 December 2020)	-	7,051
20.00p Interim dividend for the period to 31 December 2020 (paid 26 March 2021)	7,052	-
20.00p Interim dividend for the period to 31 March 2021 (paid on 25 June 2021)	7,052	-
20.00p Interim dividend for the period to 30 June 2021 (paid on 30 September 2021)	7,052	-
20.00p Interim dividend for the period to 30 September 2021 (paid 24 December 2021)	7,052	-
Total dividend paid in period	28,208	29,005
20.00p Interim dividend for the period to 31 December 2020 (paid 26 March 2021)	-	7,051
20.00p Interim dividend for the period to 31 December 2021 (to be paid 25 March 2022)	7,052	-
Total dividend paid/to be paid in relation to period	28,208	28,606

The 31 December 2021 interim dividend of 20.00 pence was approved on 23 February 2022 and will be paid on the 25 March 2022 before the approval of the financial statements.

10. INVESTMENTS AT AMORTISED COST

(a) Credit Assets 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. Please see Note 1 for more detail on the allowance for ECL.

The following table analyses loans by industry sector and represent the concentration of exposures on which credit risk is managed for both the Group and Company as at 31 December 2021:

	31 December 2021			31 December 2020		
Group and Company	Gross Carrying Amount £'000	Allowance for ECL £'000	Net Carrying Amount £'000	Gross Carrying Amount £'000	Allowance for ECL £'000	Net Carrying Amount £'000
Credit Assets at amortised cost						
Consumer	95,665	(3,190)	92,475	211,636	(20,000)	191,636
Property	383,473	(7,596)	375,877	343,219	(10,269)	332,950
SME	97,642	-	97,642	23,359	(208)	23,151
Total Assets	576,780	(10,786)	565,994	578,214	(30,477)	547,737

The following table analyses loans by staging for both the Group and Company as at 31 December 2021:

	31 December 2021			31 December 2020		
Group and Company	Gross Carrying Amount £'000	Allowance for ECL £'000	Net Carrying Amount £'000	Gross Carrying Amount £'000	Allowance for ECL £'000	Net Carrying Amount £'000
Credit Assets at amortised cost						
Stage 1	544,233	(952)	543,281	509,550	(1,464)	508,086
Stage 2	6,363	(946)	5,417	11,691	(1,927)	9,764
Stage 3	26,184	(8,888)	17,296	56,973	(27,086)	29,887
Total Assets	576,780	(10,786)	565,994	578,214	(30,477)	547,737

Group and Company	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
At 1 January 2021	1,464	1,927	27,086	30,477
Movement from stage 1 to stage 2	(8)	450	-	442
Movement from stage 1 to stage 3	(2)	-	766	764
Movement from stage 2 to stage 1	-	(218)	-	(218)
Movement from stage 2 to stage 3	-	(321)	432	111
Movement from stage 3 to stage 1	2	-	(388)	(386)
Movement from stage 3 to stage 2	-	58	(237)	(179)
Decreases due to repayments	(53)	(139)	(1,651)	(1,843)
Increases due to origination	67	-	-	67
Remeasurements due to modelling	460	33	(94)	399
Loans sold	(978)	(843)	(16,714)	(18,535)
Loans written off	-	(1)	(312)	(313)
Allowance for ECL at 31 December 2021	952	946	8,888	10,786

Group and Company	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
At 1 January 2020	3,217	2,606	24,331	30,154
Movement from stage 1 to stage 2	(102)	3,170	-	3,068
Movement from stage 1 to stage 3	(270)	-	7,379	7,109
Movement from stage 2 to stage 1	11	(515)	-	(504)
Movement from stage 2 to stage 3	-	(1,180)	3,206	2,026
Movement from stage 3 to stage 1	4	-	(343)	(339)
Movement from stage 3 to stage 2	-	75	(213)	(138)
Decreases due to repayments	(794)	(2,607)	(4,870)	(8,271)
Increases due to origination	381	-	-	381
Remeasurements due to modelling	490	796	963	2,249
Loans sold	(1,473)	(418)	(3,367)	(5,258)
Allowance for ECL at 31 December 2020	1,464	1,927	27,086	30,477

(b) Expected Credit Loss allowance for IFRS 9

Under the expected credit loss model introduced by 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.

The following table analyses Group and Company loans by stage and sector for the year ended 31 December 2021:

Group	Consumer £'000	Property £'000	SME £'000	Total £'000
At 1 January 2021	20,000	10,269	208	30,477
Charge for the period – Stage 1	5	(41)	326	290
Charge for the period – Stage 2	3	(486)	-	(483)
Charge for the period – Stage 3	1,545	(2,196)	-	(651)
Charge for the period – total	1,553	(2,723)	326	(844)
Loans sold	(18,363)	50	(534)	(18,847)
Allowance for ECL at 31 December 2021	3,190	7,596	-	10,786

The following table analyses Group and Company loans by stage and sector for the year ended 31 December 2020:

Group	Consumer £'000	Property £'000	SME £'000	Total £'000
At 1 January 2020	19,844	10,051	259	30,154
Charge for the period – Stage 1	(344)	149	(91)	(286)
Charge for the period – Stage 2	61	(320)	(17)	(276)
Charge for the period – Stage 3	5,697	389	57	6,143
Charge for the period – total	5,414	218	(51)	5,581
Loans sold	(5,258)	-	-	(5,258)
Allowance for ECL at 31 December 2020	20,000	10,269	208	30,477

Measurement uncertainty and sensitivity analysis of ECL

The recognition and measurement of 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 Group 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 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 statements, 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 percent. 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 consider independent recovery valuations provided by external consultants where available, or internal forecasts corresponding to anticipated economic conditions.

The table below shows a sensitivity analysis for ECL based on changing the weighting of the scenarios to allocate a 100 percent weight to the downside scenario. The scenarios are applicable to 31 December 2021. The analysis shows that the ECL would have been £2.9 million higher under this sensitivity.

2021	Weighted Year end ECL £'000	100% Downside Scenario £'000
Consumer	3,190	5,096
Property	7,596	8,616
SME	-	-
Total	10,786	13,712

At 31 December 2020 if the weightings used represented a 100 percent downside scenario the ECL would have been £4.0 million higher as split below:

2020	Weighted Year end ECL £'000	100% Downside Scenario £'000
Consumer	20,000	20,205
Property	10,269	14,099
SME	208	208
Total	30,477	34,512

The sensitivity of the ECL has been further analysed by assessing the impact of £10.0 million of credit assets at amortised cost moving from Stage 1 to Stage 2. The analysis shows that the ECL would have been £1.5 million higher under this sensitivity.

The amortised cost of the structurally secured portfolio is £297 million, and the largest exposure is on page 12. We have stress tested each structured position as at 31 December 2021 to analyse the sensitivity to impairment of the underlying assets. The portfolio was able to withstand the stress test without incurring a loss, this has been done by running each structured model on a 100% downside scenario to show that excess cashflow remains, such that in the event of default LGD is nil.

11. ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Total assets at Fair Value Through Profit or Loss

Group and Company	2021 £'000
Opening fair value	20,864
Purchases at cost	31,347
Reclassification from loans at amortised cost	5,476
Disposal at cost	(9,726)
Net change in unrealised gains	809
Realised (losses)/gains	-
Closing fair value as at 31 December 2021	48,770
Comprising:	
Equity assets at fair value	15,659
Credit assets at fair value	33,111
Closing fair value as at 31 December 2021	48,770

Group and Company	2020 £'000
Opening fair value	8,390
Purchases at cost	16,220
Reclassification from loans at amortised cost	2,509
Disposal at cost	(6,655)
Net change in unrealised gains	1,155
Realised (losses)/gains	(755)
Closing fair value as at 31 December 2020	20,864
Comprising:	
Equity assets at fair value	14,959
Credit assets at fair value	5,905
Closing fair value as at 31 December 2020	20,864

Equity assets at Fair value through profit or loss

(a) Movements in the year

The table below sets out the movement in equities assets at fair value through profit or loss for the Group for the year ended 31 December 2021.

Group and Company	2021 £'000
Valued using transaction price	13,600
Valued using an earnings multiple	1,359
Opening fair value	14,959
Purchases at cost	2,037
Disposal at cost	-
Net change in unrealised gains	(1,337)
Realised (losses)/gains	-
Closing fair value as at 31 December 2021	15,659
Comprising:	
Valued using an earnings multiple	1,359
Valued using a TNAV[6] multiple	14,300
Closing fair value as at 31 December 2021	15,659

The table below sets out the movement in equity assets at fair value through profit or loss for the Group for the year ended 31 December 2020.

Group	2020 £'000
Valued using transaction price	550
Valued using an earnings multiple	7,840
Opening fair value	8,390
Purchases at cost	13,599
Disposal at cost	(6,655)
Net change in unrealised gains	380
Realised losses	(755)
Closing fair value as at 31 December 2020	14,959
Comprising:	
Valued using sales value	1,380
Valued using an earnings multiple	13,579
Closing fair value as at 31 December 2020	14,959

[6] TNAV is defined as "Tangible Net Asset Value"

The table below sets out the movement in equity assets at fair value through profit or loss for the Company for the year ended 31 December 2020.

Company	2020 £'000
Valued using Net Asset Value	4,493
Valued using transaction price	550
Valued using an earnings multiple	7,840
Opening fair value	12,883
Purchases at cost	13,599
Disposal at cost	(6,655)
Net change in unrealised losses	(4,113)
Realised losses	(755)
Closing fair value as at 31 December 2020	14,959
Comprising:	
Valued using an earnings multiple	1,380
Valued using a TNAV multiple	13,579
Closing fair value as at 31 December 2020	14,959

(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 Group's investments:

Group	Closing fair value as at 31 Dec 2021 £'000	Closing fair value as at 31 Dec 2020 £'000
Level 1	-	-
Level 2	-	-
Level 3	15,659	14,959
Total	15,659	14,959

The investments in unquoted equities are valued using several different techniques, including recent transactions and recent rounds of funding by the investee entities and the market approach. Quantitative information regarding the unobservable inputs for the Group's Level 3 positions as at 31 December 2021 is given below:

Closing fair value as at 31 Dec 2021 £'000	Valuation Technique	Earnings multiple changed by 1 £'000
1,359	Earnings Multiple	238
1,359		238

Earnings multiples used is 5.3x.

Closing fair value as at 31 Dec 2021 £'000	Valuation Technique	TNAV multiple changed by 0.25x £'000
14,300	TNAV Multiple	1,543
14,300		1,543

Tangible Net Asset Value ("TNAV") multiple used is 2.1x.

Quantitative information regarding the unobservable inputs for the Group and Company's Level 3 positions as at 31 December 2020 is given below:

Closing fair value as at 31 Dec 2020 £'000	Valuation Technique	Earnings multiple changed by 1 £'000
1,380	Earnings Multiple	265
1,380		265

Earnings multiples used is 4.3x.

Closing fair value as at 31 Dec 2020 £'000	Valuation Technique	TNAV multiple changed by 0.25x £'000
13,579	TNAV Multiple	1,583
13,579		1,583

TNAV multiple used is 2.15x.

Credit assets at Fair value through profit or loss

(a) Movements in the year

The table below sets out the movement in credit assets at fair value through profit or loss for the Group for the year ended 31 December 2021.

Group and Company	2021 £'000
Opening fair value	5,905
Purchases at cost	29,310
Reclassification from loans at amortised cost	5,476
Disposals	(9,726)
Net change in unrealised gains	2,146
Closing fair value as at 31 December 2021	33,111
Comprising:	
Valued using an earnings multiple	7,775
Valued using a TNAV multiple	25,336
Closing fair value as at 31 December 2021	33,111

Group and Company	2020 £'000
Opening fair value	-
Purchases at cost	2,621
Reclassification from loans at amortised cost	2,509
Disposals	-
Net change in unrealised gains	775
Closing fair value as at 31 December 2020	5,905
Comprising:	
Valued using an earnings multiple	1,655
Valued using a TNAV multiple	4,250
Closing fair value as at 31 December 2020	5,905

(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 Group and Company's investments:

Group and Company	Closing fair value as at 31 Dec 2021 £'000	Closing fair value as at 31 Dec 2020 £'000
Level 1	-	-
Level 2	-	-
Level 3	33,111	5,905
Total	33,111	5,905

Quantitative information regarding the unobservable inputs for the Group and Company's Level 3 positions as at 31 December 2021 is given below:

Closing fair value as at 31 Dec 2021 £'000	Valuation Technique	Earnings multiple changed by 1 £'000
	Earnings Multiple	
7,775	1.08	1,740

Earnings multiple used is 1.33x.

Closing fair value as at 31 Dec 2021 £'000	Valuation Technique	TNAV multiple changed by 0.1x £'000
	TNAV Multiple	
25,336	0.9	2,393

TNAV multiple used is 1.0x.

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

For the Group as at 31 December 2021:

Group	As Presented	Fair Value			
		Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets					
Investments at amortised cost	565,994	-	-	579,482	579,482
Receivables	6,554	-	6,554	-	6,554
Cash and cash equivalents	12,948	12,948	-	-	12,948
Total assets	585,496	12,948	6,554	579,482	598,984
Liabilities					
Management fee payable	(1,037)	-	(1,037)	-	(1,037)
Performance fee payable	(3,431)	-	(3,431)	-	(3,431)
Other payables	(2,691)	-	(2,691)	-	(2,691)
Interest bearing borrowings	(267,657)	-	(267,657)	-	(267,657)
Total liabilities	(274,816)	-	(274,816)	-	(274,816)

For the Company as at 31 December 2021:

Company	As Presented	Fair Value			
		Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets					
Investments at amortised cost	565,994	-	-	579,482	579,482
Receivables	6,554	-	6,554	-	6,554
Cash and cash equivalents	10,500	10,500	-	-	10,500
Total assets	583,048	10,500	6,554	579,482	596,536
Liabilities					
Management fee payable	(1,037)	-	(1,037)	-	(1,037)
Performance fee payable	(3,431)	-	(3,431)	-	(3,431)
Other payables	(2,392)	-	(2,392)	-	(2,392)
Deemed Loan	(82,326)	-	(82,326)	-	(82,326)
Interest bearing borrowings	(183,182)	-	(183,182)	-	(183,182)
Total liabilities	(272,368)	-	(272,368)	-	(272,368)

For the Group as at 31 December 2020:

Group	As Presented	Fair Value			
		Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets					
Investments at amortised cost	547,737	22,175	-	538,314	560,489
Receivables	6,773	-	6,773	-	6,773
Cash and cash equivalents	62,548	62,548	-	-	62,548
Total assets	617,058	84,723	6,773	538,314	629,810
Liabilities					
Management fee payable	(1,040)	-	(1,040)	-	(1,040)
Performance fee payable	(2,300)	-	(2,300)	-	(2,300)
Other payables	(3,832)	-	(3,832)	-	(3,832)
Interest bearing borrowings	(273,539)	-	(273,539)	-	(273,539)
Total liabilities	(280,711)	-	(280,711)	-	(280,711)

For the Company for the year ended 31 December 2020:

Company	As Presented	Fair Value			
		Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets					
Investments at amortised cost	547,737	22,175	-	538,314	560,489
Receivables	6,773	-	6,773	-	6,773
Cash and cash equivalents	59,673	59,673	-	-	59,673
Total assets	614,183	81,848	6,773	538,314	626,935
Liabilities					
Management fee payable	(1,040)	-	(1,040)	-	(1,040)
Performance fee payable	(2,300)	-	(2,300)	-	(2,300)
Other payables	(3,429)	-	(3,429)	-	(3,429)
Deemed Loan	(103,719)	-	(103,719)	-	(103,719)
Interest bearing borrowings	(167,348)	-	(167,348)	-	(167,348)
Total liabilities	(277,836)	-	(277,836)	-	(277,836)

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 11). Further details of the loans at amortised cost held by the Group can be found in note 10 to the financial statements.

12. FINANCIAL RISK MANAGEMENT

The Group's investing activities undertaken in pursuit of its investment objective, as set out on page 4, involve certain inherent risks. The main financial risks arising from the Group's financial instruments are credit risk, market risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks as summarised below. Credit risk is analysed further in Note 13.

Market risk

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

The Group'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 Group'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) 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 Group 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 other benchmarks). The Group's borrowings may be subject to a floating rate of interest.

The Group 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 Group 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 Group has not used any interest rate derivative instruments in the current or prior year.

The Group finances its operations through its share capital and reserves, including realised gains on investments as well as the Group's debt facilities. As at 31 December 2021 the Group had £270.0 million drawn down under these facilities (2020: £273.5 million).

Exposure of the Group'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 2021 is shown below:

Group Financial instrument	Floating Rate £'000	Fixed or Administered Rate £'000	Total £'000
Credit Assets at amortised cost	269,053	296,941	565,994
Cash and cash equivalents	12,948	-	12,948
Interest bearing borrowings	(267,657)	-	(267,657)
Total exposure	14,344	296,941	311,285

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 2021 is shown below:

Company Financial instrument	Floating Rate £'000	Fixed or Administered Rate £'000	Total £'000
Credit Assets at amortised cost	269,053	296,941	565,994
Cash and cash equivalents	10,500	-	10,500
Interest bearing borrowings	(183,182)	-	(183,182)
Deemed loan	(82,326)	-	(82,326)
Total exposure	14,045	296,941	310,986

Exposure of the Company and Group'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 2020 is shown below:

Group Financial instrument	Floating Rate £'000	Fixed or Administered Rate £'000	Total £'000
Credit Assets at amortised cost	204,592	343,145	547,737
Cash and cash equivalents	62,548	-	62,548
Interest bearing borrowings	(273,539)	-	(273,539)
Total exposure	(6,399)	343,145	336,746

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 2020 is shown below:

Company Financial instrument	Floating Rate £'000	Fixed or Administered Rate £'000	Total £'000
Credit Assets at amortised cost	204,592	343,145	547,737
Cash and cash equivalents	59,673	-	59,673
Interest bearing borrowings	(167,348)	-	(167,348)
Deemed loan	(103,719)	-	(103,719)
Total exposure	(6,802)	343,145	336,343

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

A 1 percent change in interest rates impacts income on the assets with a floating rate by £2.8 million (2020: £2.7 million). A 1 percent change in interest rates impacts debt expense on the liabilities with a floating rate by £2.7 million (2020: £2.7 million).

(b) Currency risk

Currency risk is the risk that the value of net assets will fluctuate due to changes in foreign exchange rates. Relevant risk variables are generally movements in the exchange rates of non-functional currencies in which the Group holds financial assets and liabilities. The assets of the Group are invested in Credit Assets and other investments including unquoted equities which are denominated in Pounds Sterling and other currencies. Accordingly, the value of such assets may be affected favourably or unfavourably by fluctuations in currency rates. The Group hedges currency exposure between Pounds Sterling and other currencies.

Concentration of foreign currency exposure

The Investment Manager monitors the fluctuations in foreign currency exchange rates and may use forward foreign exchange contracts to hedge the currency exposure of the Group's non-GBP denominated investments. The Investment Manager re-examines the currency exposure on a regular basis in each currency and manages the Group's currency exposure in accordance with market expectations. The Group did not designate any derivatives as hedges for accounting purposes as described under IFRS 9 during the year (2020: none) and records its derivative activities on a fair value basis. The forward contracts held at 31 December 2021 were carried out with Lumon Pay Limited and represent USD12,000k (2020: USD0) and EUR1,950k (2020: 2,780k).

The largest exposure to FX is to the USD. The below table presents the net exposure to USD and Euros as at 31 December 2021. The table includes forward foreign exchange contracts at their notional exposure value and excludes all GBP assets and liabilities recorded on the Consolidated Statement of Financial Position.

Total Assets (£'000)	Total Liabilities (£'000)	Forward Contract (£'000)	Net Exposure after Forward Contract (£'000)
9,149	-	(8,758)	391
9,149	-	(8,758)	391

If the GBP exchange rate simultaneously increased/decreased by 10 percent against the above currencies, the impact on profit would be an increase/decrease of £915k (2020: 3k). 10 percent is considered to be a reasonably possible movement in foreign exchange rates.

The table below presents the net exposure to Euro's at 31 December 2020. The table includes forward foreign exchange contracts at their notional exposure value and excludes all GBP assets and liabilities recorded on the Consolidated Statement of Financial Position.

Total Assets (£'000)	Total Liabilities (£'000)	Forward Contract (£'000)	Net Exposure after Forward Contract (£'000)
1,762	-	(1,750)	12
1,762	-	(1,750)	12

(c) Price risk

Price risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting similar financial instruments traded in the market. Local, regional or global events such as war, acts of terrorism, the spread of infectious illness or other public health issue, recessions, or other events could have a significant impact on the Group and market prices of its investments. This risk applies to financial instruments held by the Group, including equity assets, credit assets and derivatives. Sensitivity analysis on the equity assets is included in Note 11.

Capital Management

The Company's primary objectives in relation to the management of capital are driven by strategic and organisational requirements but are focused around:

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

In the management of capital and in its definition, we include equity (including revenue and capital reserves), debt (including long-term credit facilities, commercial paper backstopped by long-term credit facilities and any hedging assets or liabilities associated with long-term debt items), cash and temporary investments.

The Board manage the capital structure and make adjustments to it considering changes in economic conditions and the risk characteristics of the business. The Company aims to meet these objectives by diversifying the leverage facilities through the introduction of a new Topco facility, a new amortising term loan and an increase in an existing facility.

The Group monitors capital using a ratio of debt to equity. Debt is calculated as total interest-bearing borrowings (as shown in the Consolidated Statement of Financial Position). The Group's debt to equity ratio which is a key performance indicator used for internal management at Group level was 74.5 percent at 31 December 2021 (31 December 2020: 76.6 percent).

Liquidity risk

Liquidity risk is the risk that the Group will be unable meet its obligations in respect of financial liabilities as they fall due.

The Group 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 Group.

A substantial proportion of the Group's net assets are in loans, whose cash collections could be utilised to meet funding requirements if necessary. The Group has the power, under its Articles of Association, to take out both short and long-term borrowings subject to a maximum value of one hundred percent of its share capital and reserves.

At 31 December 2021 the Company had a committed debt facility totalling £200.0 million with a maturity date of 4 September 2023. This facility includes a term and revolving facility secured on a range of assets. The Company also has a 2-year term facility that is structured as run-off financing in that the debt will paydown over the term of the facility and a £35m amortising term loan with a 49 year term, but where final repayment is expected in 2024 in line with the facility it is secured against. 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 11 for details). Further details of the loans at amortised cost held by the Group can be found in Note 10 to the financial statements.

The table below shows the amortised cost assets and liability balances by maturity dates:

Group	Total £'000	Less than 3months £'000	3 - 12months £'000	1- 5years £'000	More than 5 years £'000
Assets					
Investments at amortised cost	565,994	35,479	47,590	314,073	168,852
Liabilities					
Interest bearing borrowings	(267,657)	96	(49,435)	(182,602)	(35,717)

The table below shows the amortised cost assets and liability principal by contractual maturity dates:

Group	Total £'000	Less than 3months £'000	3 - 12months £'000	1- 5years £'000	More than 5 years £'000
Liabilities					
Interest bearing borrowings	(269,980)	-	(49,435)	(185,545)	(35,000)

Effect of IBOR reform

Following the financial crisis, the reform and replacement of benchmark interest rates such as GBP LIBOR and other inter-bank offered rates ('IBORs') become a priority for global regulators. The Group's risk exposure that is directly affected by the interest rate benchmark reform predominantly comprises its portfolio of GBP credit assets that are measured at amortised cost, which as at the 31 Dec 2021 had an outstanding principal of GBP573.7m and liabilities of GBP270m.

For the GBP LIBOR reforms, the UK Financial Conduct Authority ('FCA') has decided to no longer compel panel banks to participate in the GBP LIBOR submission process after the end of 2021. The Group will now be using the SONIA reference rates to measure the variable elements of its credit assets and obligations. The key differences between GBP LIBOR and SONIA. GBP LIBOR is a 'term rate', which means that it is published for a borrowing period (such as three months or six months) and is 'forward looking', because it is published at the beginning of the borrowing period. SONIA is currently a 'backward-looking' rate, based on overnight rates from actual transactions, and it is published at the end of the overnight borrowing period. Furthermore, LIBOR includes a credit spread over the risk-free rate, which SONIA currently does not. To transition existing contracts and agreements that reference GBP LIBOR to SONIA, adjustments for term differences and credit differences might need to be applied to SONIA, to enable the two benchmark rates to be economically equivalent on transition.

As at 31 December 2021, changes required to systems, processes and models have been identified. The Group has identified that the areas of most significant risk arising from the replacement of GBP LIBOR are: updating systems and processes which capture GBP LIBOR referenced contracts, amendments to those contracts, or existing fallback/transition clauses not operating as anticipated.

The Group currently has a number of contracts which reference GBP or USD LIBOR and extend beyond 2021. The principal balance of these contracts are disclosed within the tables below by GBP and USD.

Non-derivative assets and liabilities exposed to GBP LIBOR	Carrying Value/Nominal Amount at 31 December 2021	
	Assets	Liabilities
	£'000	£'000
Credit assets at amortised cost	51,268	30,129
Total exposure	51,268	30,129

Non-derivative assets and liabilities exposed to USD LIBOR	Carrying Value/Nominal Amount at 31 December 2021	
	Assets	Liabilities
	£'000	£'000
Credit assets at amortised cost	285	-
Total exposure	285	-

The GBP positions that are yet to transition to SONIA will transition within Q1 of 2022.

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

The Investment Manager establishes and adheres to stringent underwriting criteria. The Group 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 Group 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 Group finances the senior risk.

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

The outbreak of Covid-19 continues to cause major disruption across the globe. The potential impacts of the government's assistance to consumers and businesses coming to an end are yet unknown, but they may increase the potential expected credit loss impact. Depending on the evolution of the Covid-19 situation, this could result in further economic downturn and potentially a material increase in credit risk. This is being continually monitored.

Set out below is the analysis of the gross closing balances of the Group and Company's credit assets split by the type of loan and the credit risk band as at 31 December 2021, each loan is assigned to a credit risk band at inception:

Credit Risk Band	Unsecured £'000	Secured £'000	Total £'000
A & B	1,411	575,369	576,780
C	-	-	-
D & E	-	-	-
Total	1,411	575,369	576,780

Set out below is the analysis of the closing balances of the Group and Company's credit assets split by the type of loan and the credit risk band as at 31 December 2020:

Credit Risk Band	Unsecured £'000	Secured £'000	Total £'000
A & B	29,845	524,989	554,834
C	9,419	-	9,419
D & E	13,961	-	13,961
Total	53,225	524,989	578,214

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

14. FIXED ASSETS

The tables below set out the movement in Fixed Assets for the Group and Company.

Year ended 31 December 2021	IT Development and Software £'000	Total £'000
Opening net book amount	-	-
Additions	-	-
Amortisation charge	-	-
Closing net book amount	-	-
As at 31 December 2021		
Cost	-	-
Accumulated amortisation	-	-
Net book amount	-	-

Year ended 31 December 2020	IT Development and Software £'000	Total £'000
Opening net book amount	41	41
Additions	-	-
Amortisation charge	(41)	(41)
Closing net book amount	-	-
As at 31 December 2020		
Cost	830	830
Accumulated amortisation	(830)	(830)
Net book amount	-	-

15. RECEIVABLES

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

Group and Company	31 December 2021 £'000	31 December 2020 £'000
Prepayments and other debtors	5,583	4,820
Amounts due from platforms	924	1,820
Other receivables	47	133
Total receivables	6,554	6,773

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.

Amounts due from platforms relate to cash that has been collected by the platform partners but not yet remitted to the Group, whereby the credit asset at amortised cost has been treated as if this cash had been received.

16. OTHER PAYABLES

The table below set out a breakdown of the Group payables.

Group	31 December 2021 £'000	31 December 2020 £'000
Accruals and other payables	2,691	3,832
Total other payables	2,691	3,832

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

Company	31 December 2021 £'000	31 December 2020 £'000
Accruals and other payables	2,392	3,429
Total other payables	2,392	3,429

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 2021 (31 December 2020: £nil) 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.

17. INTEREST BEARING BORROWINGS

The table below sets out a breakdown of the Group's interest-bearing borrowings.

Group	31 December 2021 £'000	31 December 2020 £'000
Current Liabilities		
Credit facility	49,435	20,916
Interest and commitment fees payable	195	183
Prepaid interest and commitment fees	(291)	(234)
Total current liabilities	49,339	20,865
Non-Current Liabilities		
Credit facility	220,545	256,438
Interest and commitment fees payable	-	-
Prepaid interest and commitment fees	(2,227)	(3,764)
Total non-current liabilities	218,318	252,674
Total interest-bearing borrowings	267,657	273,539

The table below sets out a breakdown of the Company's interest-bearing borrowings.

Company	31 December 2021 £'000	31 December 2020 £'000
Current Liabilities		
Credit facility	15,000	-
Interest and commitment fees payable	72	73
Prepaid interest and commitment fees	-	-
Total current liabilities	15,072	73
Non-Current Liabilities		
Credit facility	170,000	170,000
Interest and commitment fees payable	-	-
Prepaid interest and commitment fees	(1,890)	(2,725)
Total non-current liabilities	168,110	167,275
Total interest-bearing borrowings	183,182	167,348

At 31 December 2021 the Company's main debt facility was a £250 million provided by Goldman Sachs, being a £170 million term loan and £80 million revolving credit facility. At 31 December 2021 the term loan was fully drawn with £nil drawn on the revolving element. Interest is charged at LIBOR plus a margin with the facility maturing in September 2023. From 2022 onwards the facility will be charged using SONIA; the Company does not expect to be negatively impacted by the change to SONIA. The debt facility is secured against the Company's loan portfolios and other assets, in addition to the net exposures the Company holds where the Company is the junior lender to an SPV.

In August 2019, the Group entered a two-year debt facility to finance three residential mortgage portfolios, two commercial mortgage pools and a small unsecured consumer pool. These portfolios were previously leveraged through the Company level debt facility but getting assets specific leverage on these provides a lower cost of funding at a higher advance rate. The total debt raised on day one of this facility was £81.0 million. Interest was charged at LIBOR plus a margin. From 2022 onwards, the facility is now be charged at SONIA plus a margin. The facility was a 2-year term with a 1-year extension option and is structured as a run-off financing in that the debt will paydown over the term of the facility. During 2020 the 1-year extension was exercised, and an additional mortgage portfolio was transferred into the pool. The facility therefore now expires in August 2022. The carrying value of the portfolio of loans, which this facility is secured against, at 31 December 2021 was £76.5 million (2020: £93.6 million).

In December 2020, the Group entered into a £35 million debt facility secured against a structured SME facility, the carrying value of this structured SME facility at 31 December 2021 was £39.5 million. The debt facility charges LIBOR plus a margin and is an amortising term loan with the full £35 million drawn on day one. From 2022 onwards, the facility will be charged using synthetic LIBOR plus a margin. The facility has a 49 year term but final repayment is expected in 2024.

During 2021 the below related debt costs had been incurred by the Group.

Group	2021 £'000	2020 £'000
Interest and commitment fees payable	11,022	8,729
Other finance charges	1,837	5,594
Total finance costs	12,859	14,323

During 2021 the below related debt costs had been incurred by the Company.

Company	2021 £'000	2020 £'000
Interest and commitment fees payable	8,577	6,832
Other finance charges	1,103	5,210
Total finance costs	9,680	12,042

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.

During 2021 the below changes occurred for the Group:

Group	Total £'000
At 1 January 2021	273,539
Drawdown of interest bearing borrowings	27,000
Repayments of interest-bearing borrowing	(34,375)
Finance costs	12,859
Interest paid on financing activities	(11,366)
At 31 December 2021	267,657

During 2021 the below changes occurred for the Company:

Company	Total £'000
At 1 January 2021	167,348
Drawdown of interest bearing borrowings	27,000
Repayments of interest-bearing borrowing	(12,000)
Finance costs	9,678
Interest paid on financing activities	(8,844)
At 31 December 2021	183,182

During 2020 the below changes occurred for the Group:

Group	Total £'000
At 1 January 2020	206,792
Drawdown of interest bearing borrowings	359,648
Repayments of interest-bearing borrowing	(289,013)
Finance costs	14,323
Interest paid on financing activities	(18,211)
At 31 December 2020	273,539

During 2020 the below changes occurred for the Company:

Company	Total £'000
At 1 January 2020	130,741
Drawdown of interest bearing borrowings	312,500
Repayments of interest-bearing borrowing	(272,752)
Finance costs	12,042
Interest paid on financing activities	(15,183)
At 31 December 2020	167,348

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

2021 Group Financial instrument	< 1 year £'000	1 – 5 years £'000	More than 5 years £'000	Total £'000
Credit facility	49,435	185,545	35,000	269,980
Interest and commitment fees payable	(96)	(2,944)	717	(2,323)
Total exposure	49,339	182,601	35,717	267,657

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

2021 Company Financial instrument	< 1 year £'000	1 – 5 years £'000	More than 5 years £'000	Total £'000
Credit facility	15,000	170,000	-	185,000
Interest and commitment fees payable	72	(1,890)	-	(1,818)
Total exposure	15,072	168,110	-	183,182

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

2020 Group Financial instrument	< 1 year £'000	1 – 5 years £'000	Total £'000
Credit facility	20,865	256,490	277,355
Interest and commitment fees payable	9,691	18,189	27,880
Total exposure	30,556	274,679	305,235

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

2020 Company Financial instrument	< 1 year £'000	1 – 5 years £'000	Total £'000
Credit facility	-	170,000	170,000
Interest and commitment fees payable	7,310	16,448	23,758
Total exposure	7,310	186,448	193,758

18. DEEMED LOAN

The Company has two deemed loans as at 31 December 2021 (two as at 31 December 2020). Deemed loans can only relate to the Company as they relate to loans originated by the Company and subsequently sold to a special purpose entity. Although the loans are not legally owned by the Company, the Company maintains the economic benefit of the underlying assets and therefore does not meet the criteria to derecognise as the economic exposure associated with the rights inherent in the asset are maintained. As the requirements of derecognition have not been met the Company has a deemed loan liability to the special purpose entity. As at the 31 December 2021 the Company had the below deemed loans:

Opening as at 1 January 2021 £'000	(Redemptions)/Novations £'000	Closing as at 31 December 2021 £'000
103,719	(21,393)	82,326
103,719	(21,393)	82,326

As at the 31 December 2020 the Company had the below deemed loan:

Opening as at 1 January 2020 £'000	(Redemptions)/Novations £'000	Closing as at 31 December 2020 £'000
78,612	25,107	103,719
78,612	25,107	103,719

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 2021	31 December 2020
No. Issued, allotted and fully paid ordinary shares of £0.01 each	35,259,741	35,259,741
Cost £'000	352	352

The table below shows the movement in shares during the period to 31 December 2021:

	Shares in issue at the beginning of the period	Buyback of Ordinary Shares	Shares in issue at the end of the period
Ordinary Shares	35,259,741	-	35,259,741
Treasury Shares	4,190,178	-	4,190,178

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.

21. INVESTMENTS IN SUBSIDIARIES

On 20 June 2019 the Group incorporated Sting Funding Limited ("Sting"), a limited Company incorporated under the law of England and Wales. The company is registered at 1 Bartholomew Lane, London, United Kingdom, EC2N 2AX. The Group is considered to control Sting through holding 100 percent of the issued shares. As a result, the financial statements for the years ended 31 December 2020 and 31 December 2021 are prepared on a consolidated basis. Sting became active on 28 August 2019 when it drew down on a debt facility backed by commercial and second charge residential mortgages.

The Company also consolidates a structured entity, Bud Funding Limited ("Bud"), a limited company incorporated under the law of England and Wales. The company is registered at 1 Bartholomew Lane, London, United Kingdom, EC2N 2AX. The Company is considered to control Bud through its exposure to the variable returns of the vehicle through holding of a junior note issued by it and by way of control exerted through its involvement in the initial creation of Bud and in the absence of another entity now having control. Bud was incorporated on 2 November 2020 and the junior note was funded on 2 December 2020, at which point the control began.

The assets of the subsidiaries are credit assets that are included as part of the impairment policies of the group and no impairment triggers have been identified for the subsidiaries.

22. INVESTMENTS IN ASSOCIATES

As at 31 December 2021, the Company has no associates. In the prior year, the Company disposed of its investment in Allium in August 2020 with no gain or loss recognised on disposal.

23. NET ASSET VALUE PER ORDINARY SHARE

	31 December 2021	31 December 2020
Net asset value per ordinary share pence	1,019.1p	1,013.1p
Net assets attributable £'000	359,342	357,232

The net asset value per ordinary share as at 31 December 2021 is based on net assets at the year-end of £359.3 million and on 35,259,741 ordinary shares in issue at the year-end. The net asset value per ordinary share as at 31 December 2020 is based on net assets at the year-end of £357.2 million and on 35,259,741 ordinary shares in issue at the year-end.

24. CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

As at 31 December 2021 there were no contingent liabilities or capital commitments for the Group (2020: None). The Group had £90.0 million (2020: £95.3 million) of undrawn committed structured credit facilities as at 31 December 2021 and £113.7 million (2020: £48.2 million) of undrawn commitments in relation to secured real estate loans.

25. 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:

Directors – The remuneration of the Directors is set out in the Directors' Remuneration Report on pages 53 to 56. 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 2021, there was £nil (2020: £nil) payable to the Directors for fees and expenses.

Joanne Lake was appointed as a Director on 1 January 2021 and is a Director of Morses Club plc ("Morses"), an entity for which the Company previously provided a facility.

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 on Note 5 to the financial statements.

During the year the Group paid £9.72 million (2020: £8.24 million) of fees and at 31 December 2021, there was £4.47 million (2020: £3.34 million) payable to the Investment Manager.

The Group considers all transactions with the Manager or companies that are controlled by the Manager as related party transactions.

Oplo Group Limited ("Oplo", formerly 1st Stop Group) is an English based consumer lender and was owned by funds managed by an affiliate of the Investment Manager. During the year the Group provided a structured facility to Oplo that is secured on a granular pool of consumer loans. As at 31 December 2021 the structured facility was £29.7 million drawn (31 December 2020: £35.0 million). The Group also had a forward flow facility in place with Oplo in which the Group provided £26.7 million in 2021 (31 December 2020: £22.3 million) with the total pool of loans having an outstanding balance of £47.6 million as at 31 December 2021 (31 December 2020: £30.0 million). The company also invested £2m in Tandem Bank Limited.

Shawbrook Group PLC ("Shawbrook") is a specialist SME and consumer lending and savings bank. Shawbrook is 50 percent owned by funds that are managed by the Investment Manager. During the Year the Company sold its Shawbrook bond holdings. The bonds were acquired in the secondary market in 2020 from an unrelated third party at an arm's length price. The exposure at 31 December 2021 was £0m (31 December 2020: £11.4m). During the year, the Company carried out FX transactions with Lumon Risk Management LTD ("Lumon", formerly Infinity International Limited) in relation to Euro and USD derivative transactions. Lumon is owned by a fund that is managed by an affiliate of the Investment Manager. The exposure as at 31 December 2021 is disclosed in Note 12.

During the year, the Company sold holdings in related parties Freedom, Deko and Bumblebee portfolios which consisted of £9 million of assets. The Company also sold a portfolio of Avant loans for £18 million.

26. ULTIMATE CONTROLLING PARTY

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

27. SUBSEQUENT EVENTS

On 23 February 2022, a dividend of 20.0 pence per ordinary share was approved for the final quarter of 2021.

4 Shareholders' Information

Directors, Portfolio Manager and Advisers

Directors
Robert Sharpe
Jim Coyle
Richard Rowney
Joanne Lake
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 Advisers and Brokers
Liberum Capital Limited
Level 12, Ropemaker Place
25 Ropemaker Place
London EC2Y 9LY
England

Cenkos Securities plc
6.7.8 Tokenhouse Yard
London EC2R 7AS
England

Custodian
Sparkasse Bank Malta PLC
101 Townsquare
Sliema SLM3112
Malta

Website
http://www.honeycombplc.com/

Share Identifiers
ISIN: GB00BYZV3G25
Sedol: BYZV3G2
Ticker: HONY

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

Depositary
Indos Financial Limited
The Scalpel, 18th Floor, 52 Lime Street
London EC3M 7AF
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 020 7954 9552 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: GB00BYZV3G25
- 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 Group's Consolidated 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.

5

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 Group's assets less the total value of its liabilities. For valuation purposes, it is common to express the NAV on a per share basis.
Ongoing Charges	Ongoing charges is calculated as a percentage of annualised ongoing charge over average reported NAV. 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 NAV per share, the Company's shares are said to be trading at a premium. The premium is shown as a percentage of the NAV.
Discount	If the share price of the Company is lower than the NAV per share, the Company's shares are said to be trading at a discount. The discount is shown as a percentage of the NAV.
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.
Alternative Investment Fund ("AIF")	An AIF, as defined in the AIFM Directive 2011/61/EU on Alternative Investment Fund Managers.
London Inter-Bank Offered Rate ("LIBOR")	The interest rate participating banks offer to other banks for loans on the London market.
Sterling Overnight Interbank Average Rate (SONIA)	The effective overnight interest rate paid by banks for unsecured transactions in the British sterling market
Structured Loan	Credit Asset whereby the Group typically has senior secured loans to speciality finance companies, whereby the security on our investment comprises the assets originated by the speciality finance company and the company provides the 'first loss' in the form of 'real capital' whilst the Company provides the senior capital. Corporate guarantees also typically taken
Whole Loan	Credit Assets whereby the Group is exposed to the whole loan
Direct Portfolio	Portfolios of loans owned directly by the Group, typically secured on property
AIFM	An Alternative Investment Fund Manager, as defined in the AIFM Directive. Pollen Street Capital Limited undertakes this role on behalf of the Company.
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

The 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. APMs are not considered to be a substitute for IFRS measures but provide additional insight on the performance of the business.

Premium / (Discount) to NAV per share

	31 December 2021	31 December 2020
NAV per share (Cum income)	1,019.1p	1,013.1p
Share Price at Close	945.0p	942.5p
Premium / (Discount)	(7.3)%	(7.0)%

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 2021	31 December 2020
NAV per share (Cum income) at year end	1,019.1p	1,013.1p
Opening NAV per share (Cum income)	1,013.1p	1,014.9p
Dividends per share paid in the year	80.0p	80.0p
Annual Nav per Share Return	8.5%	7.7%

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

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

	31 December 2021	31 December 2020
NAV per share (Cum income)	1,019.1p	1,013.1p
Opening NAV per share (Cum income) at inception	982.0p	982.0p
Dividends per share paid since inception	452.9p	372.9p
ITD NAV per Share Return	49.9%	41.1%

The ITD NAV per share return is calculated by taking the total of the closing NAV per share (cum income) at year end and adding the dividend per share paid since inception and subtracting the opening NAV per share (Cum Income) at inception, divided by the NAV per share (cum income) at inception.

Debt to Equity

	31 December 2021 (£'000)	31 December 2020 (£'000)
Net Asset Value	359,342	357,232
Interest Bearing Borrowings	267,657	273,539
Debt to Equity ratio	74.5%	76.6%
Cash and cash equivalents	12,948	62,548
Net Debt to Equity Ratio	70.9%	59.1%

Debt to equity ratio is calculated as the Group's interest-bearing debt divided by the net asset value expressed as a percentage. Net Debt to equity ratio is calculated as the Group's interest-bearing debt less cash and cash equivalents, divided by the net asset value expressed as a percentage.

Dividend Return

	2021	2020
Dividend declared (pence per share)	80.0	80.0
IPO issue price (pence per share)	1,000.0	1,000.0
Dividend Return	8.0%	8.0%

Dividend return is calculated as the total declared dividends for the period divided by IPO issue price.

Ongoing Charges

	2021 (£'000)	2020 (£'000)
Auditors' remuneration	319	287
Administrator's fees	179	148
Directors' fees	227	200
Management Fee	6,349	5,942
Other costs	1,417	908
Average NAV	360,793	373,853
Ongoing Charges	2.3%	2.0%

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. Average NAV is calculated as the average of the previous 12 months published monthly NAV's. 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.

NAV Return Bridge

	2021 £'000
Monthly Average Credit Assets	586,074
Monthly Average NAV Excluding Leverage	629,929
Monthly Average NAV	360,793

Monthly Average Credit Assets is the mean of the aggregate of the credit assets at amortised cost, credit assets held at fair value through profit or loss and derivative assets and liabilities held at fair value through profit or loss for each month end from 31 December 2020 to 31 December 2021, inclusive.

Monthly Average NAV Excluding Leverage is the mean of the net assets of the Group, excluding interest bearing borrowings, for each month end 31 December 2020 to 31 December 2021, inclusive.

Monthly Average NAV is the mean of the net assets of the Group for month end from 31 December 2020 to 31 December 2021 inclusive.

	2021	
Investment Yield	9.5%	Investment yield is calculated as Interest Income on credit assets at amortised cost, plus Income/(loss) on credit assets at fair value through profit and loss, less third party servicing, divided by Monthly Average Credit Assets, excluding one-off charges.
Impairments and write-offs	0.1%	Impairments and write-offs is calculated as credit impairment release over Monthly Average Credit Assets
Credit asset return	9.6%	Credit asset return is a sub-total of the above
Equity and working capital	(0.8%)	The impact of equity and working capital is calculated as the Statement of Comprehensive Income amounts above plus Income / (Loss) on equity assets at fair value through profit and loss divided by Monthly Average NAV Excluding Leverage, less the impact of items already disclosed above
Effect of leverage	2.9%	Effect of leverage is calculated as the above Statement of Comprehensive Income amounts above plus finance costs divided by Monthly Average NAV, less the impact of items already disclosed above
Investment Manager fees	(2.7%)	Calculated as Management fee and Performance fee divided by Monthly Average NAV
Fund Opex	(0.5%)	Calculated as Fund expenses, divided by Monthly Average NAV
NAV return	8.5%	Calculated as a sub-total of the above