# Annual Financial Report

**POLLEN STREET SECURED LENDING PLC**

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Pollen Street Secured Lending PLC

29 May 2020

POLLEN STREET SECURED LENDING PLC

Annual Financial Report for the year ended to 31 December 2019

The Directors are pleased to present the Annual Financial Report of Pollen Street Secured Lending plc (the "Company") for the year ended 31 December 2019, a copy of the Company's Annual Report will shortly be available to view and download from the Company's website https://pollenstreetsecuredlending.com. Neither the contents of the Company's website nor the contents of any website accessible from hyperlinks on the Company's website (or any other website) is incorporated into or forms part of this announcement.

The information set out below does not constitute the Company's statutory accounts for the year ended 31 December 2019 but is derived from those accounts. Statutory accounts for the year ended 31 December 2019 will be delivered to the Registrar of Companies in due course. The report of the auditor for the year ended 31 December 2019 contains no qualification or statement under Section 498(2) or (3) of the Companies Act 2006.

## Strategic Report

### Investment Objective

The investment objective of Pollen Street Secured Lending plc (the "Company") and its subsidiaries (together, the "Group") is to provide shareholders with an attractive level of dividend income through exposure to investments in alternative finance and related instruments. The Company wants to achieve investment diversification across originators, geographies, loan asset classes and credit grades and allow shareholders to access equity assets that are aligned with the Company's Investment Policy. The policy was



| | | |
|---|---|---|
| NET ASSET VALUE (CUM INCOME) (£'000)[1] | 718,245 | 733,449 |
| NET ASSET VALUE (EX INCOME) (£'000)[2 3] | 703,198 | 721,711 |
| MARKET CAPITALISATION (£'000)[4] | 617,539 | 610,229 |
| **PER SHARE METRICS** | | |
| SHARE PRICE (AT CLOSE)[5] | 830.0p | 802.0p |
| NAV PER SHARE (CUM INCOME) | 965.4p | 963.9p |
| NAV PER SHARE (EX INCOME)[3] | 945.1p | 948.5p |
| INTERIM DIVIDENDS PAID[6] | 48.0p | 48.0p |

| | | |
|---|---|---|
| ITD TOTAL NAV PER SHARE RETURN[3,9,10] | 26.8% | 20.5% |
| CONTINUING PORTFOLIO[11] | 93% | 84% |
| LEGACY PORTFOLIO[12] | 7% | 16% |
| ONGOING CHARGES[13] | 1.5% | 1.4% |

1 NET ASSET VALUE (CUM INCOME): The value of investments, cash and other assets, including current year revenue, less liabilities.

2 NET ASSET VALUE (EX INCOME): The value of investments and cash and other assets, excluding current year revenue, less liabilities.

3 ALTERNATIVE PERFORMANCE MEASURES: Reconciliations to amounts appearing in the financial statements can be found on page 142.

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

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

6 INTERIM DIVIDENDS: dividends relating to 2019 financial year were paid in June 2019, September 2019, December 2019 and March 2020. Dividends relating to 2018 financial year were paid in June 2018, September 2018, December 2018 and March 2019.

7 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.

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

9 ITD: inception to date - excludes issue costs.

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

11 CONTINUING PORTFOLIO: portfolio of platforms that the Group has originated through in 2018 and 2019 calculated based on NAV exposure to investment assets as a percentage of total NAV before deducting topco debt, excluding cash, working capital and equity positions.

12 LEGACY PORTFOLIO: portfolio of platforms that the Group has not originated through in 2018 and 2019 (predominately Consumer platforms) calculated based on NAV exposure to investment assets as a percentage of total NAV before deducting topco debt excluding cash, working capital and equity positions.

13 ONGOING CHARGES: 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





**THE COMPANY IS AN INVESTMENT TRUST FOCUSING ON SPECIALIST LENDING**

The Company is a FTSE 250 company listed on the London Stock Exchange and dedicated to investing in credit assets originated by non-bank lending platforms and other originators of alternative credit assets globally. The Company believes that this asset class has the potential to provide attractive returns for investors on a risk-adjusted basis

**MANAGED BY POLLEN STREET CAPITAL, A DEDICATED INVESTOR IN FINANCIAL AND BUSINESS SERVICES BUSINESSES**

PSC Credit Holdings LLP (the "Investment Manager") serves as the Company's investment manager. The Investment Manager is a member of the Pollen Street Capital group ("PSC"). PSC is an investment management group focused on investing in financial and business services. The Investment Manager has positioning together with the advancements in data and technology and a change in customer behaviour provide an opportunity for non-bank lenders to offer high quality products to those markets that are not well served by the large banks.

**PARTNERING WITH STRONG ORIGINATORS**

Specialist players offer attractive products based upon expertise and understanding of particular sectors and target customer groups. These players are often better at servicing specialist markets based upon focus, expertise, efficiency and entrepreneurialism. In many cases, they also share risk by putting their own balance sheet capital at risk. The Investment Manager aims to partner with the highest quality originators in order to access exciting investment opportunities in direct lending assets and, where there is an aligned strategic opportunity, certain minority equity stakes.

**6.0 to 8.0 PER CENT PER ORDINARY SHARE PER ANNUM TARGET DIVIDEND, PAYABLE QUARTERLY**

The Company targets the payment of dividends which equate to a net yield of 6.0 to 8.0 per cent per ordinary share per annum on the issue price for the Company's IPO placing, payable in quarterly instalments (the "Target Dividend") based upon the average number of non-treasury shares in issue during a given period. Investors should note that the Target Dividend, including its declaration and payment dates, is a target only and not a profit forecast.

## How the Business Works

**SPECIALIST LENDING PARTNERS**

The Investment Manager, on behalf of the Group, actively identifies sub-segments of the consumer, property and small and medium-sized enterprises ("SMEs") lending market that it believes deliver attractive risk adjusted returns. It then targets origination partners through which to originate Credit Assets. The Investment Manager adopts three principles when selecting partners - control, alignment and partnership. It seeks to work with high quality partners with diversity across asset class and geography to build a high quality portfolio with attractive returns with controlled risk.

**RIGOROUS CREDIT PROCESS**

The Investment Manager has a rigorous investment process to provide a consistent approach to risk-based pricing to ensure the weighted risk adjusted return provides an attractive level of dividend income with an acceptable risk profile for shareholders of the Company. The Investment Manager is of the belief that, irrespective of origination source or the convenience of the product to the borrower, credit performance will vary depending on the quality of verification, underwriting, servicing and the ability to construct diversified portfolios of selective loans. The Investment Manager conducts rigorous due diligence on each origination partner and a continuous program of compliance monitoring and retains tight control of underwriting standards across all partners.

**STRUCTURING CAPABILITIES**

The Investment Manager is focused on assessing opportunities in a variety of forms and lending structures, that provides significant protection should the credit performance of the underlying assets deteriorate ensuring that the direct or indirect exposure subscribed to in each case offers suitable risk adjusted returns for investors. The exposure may be direct lending to the borrower but in other cases, the Investment Manager has partnered up with originators and provided financing that sits senior to the originator's position allowing the Company to benefit from first loss protection on its capital. The Investment Manager will assess the best risk-adjusted return in each case. It will also place significant focus on ensuring that debt financing can be sourced in an efficient and low-cost way to enhance returns where appropriate.

**CAPITAL PRESERVATION AND INCOME STABILITY**

The Investment Manager is focused on delivering a combination of strong income with relatively low duration and volatility. The Investment Manager has partnered with high quality originators across target customer groups, asset classes and geography. In that way, the exposure to any single loan asset or market is reduced. This provides strong risk mitigation across the portfolio. The diversification across tens of thousands of individual credit assets and the short duration of the overall portfolio should allow the Company to deliver a level of stability in its income and protect the Company from capital losses.



December 2019.

The Company's original strategy was to acquire interests in assets originated by peer-to-peer lenders.

Pollen Street Capital was appointed as Investment Manager in 2017 and the strategy was changed to focus on alternative lending assets, which is a considerably larger market. This offered access to credit assets with more downside protection. On 18 September 2019, the name of the Company was changed from P2P Global Investments plc to Pollen Street Secured Lending plc to better reflect the new strategy.

and is reducing on a monthly basis. Further, the legacy equity portfolio has also been reduced to £23.6 million at 31 December 2019 (£32.6 million 31 December 2018).

This has been delivered at the same time as repositioning the Company to have more downside protection through a combination of increased seniority of lending and increased security packaging. Property backed and structured lending now make up over 66 per cent of credit asset NAV.

In March 2020, the World Health Organisation recognised as a pandemic an outbreak of a new virus that causes coronavirus disease 2019 ("COVID-19"). COVID-19 has caused severe disruption to businesses and economic activity which has been reflected in recent fluctuations in global stock markets and noted in recent months by our peer group. The Board considers the emergence and spread of COVID-19 to be a non-adjusting post balance sheet event. Given the inherent uncertainties, it is not possible at this time to provide a quantitative estimate of the impact of this on the Company. We provide further commentary on the Company's approach in these circumstances below. The Company will continue to monitor portfolio developments closely and keep shareholders updated accordingly.

**INVESTMENT PERFORMANCE AND DIVIDENDS**

The Company delivered a Net Asset Value ("NAV") return of 5.25 per cent (2018: 5.21 per cent) and paid dividends of 48.0 pence (2018: 48.0 pence) per ordinary share in relation to the 2019 calendar year. The dividend payments were fully covered by revenue earnings and the special distributable reserve was not utilised. The dividend return was 4.8 per cent (2018: 4.8 per cent) on the original issue price.

The impairment charge for the year was £18.0 million (2018: £35.7 million), which is 50 per cent lower than the prior period. The key driver of this is UK consumer lending which has seen the impairment charge reduce from £12.3 million to £2.7 million which is a 78 per cent reduction. The significant reduction shows the continued progress that has been made in transitioning the portfolio to a lower risk position.

**SHARE PRICE AND BUYBACKS**

The Company's share price (at 31 December 2019) was 830 pence, representing a discount to NAV of 14.0 per cent. The discount to NAV was in the range of 10.8 per cent to 16.3 per cent over the course of the year. As part of its revised investment strategy, the Company has continued with its share buyback program and during 2019 1,686,112 ordinary shares in issue were repurchased (2018: 3,747,148 shares) at an average price of 823.4 pence per ordinary share (2018: 800.4 pence per ordinary share).

**RISK MANAGEMENT AND OVERSIGHT**

The Board plays a key role in supporting and challenging the Group's long-term strategic planning. This includes a rigorous assessment of both the risks and opportunities presented by the evolving market environment and considering the interests of key stakeholders. The oversight is exercised through the board's committee structure and further information is provided in each board committee report.

During 2019, the Directors considered the application of the new Corporate Governance Code to the Company and introduced a series of measures to strengthen the governance arrangements. In addition, the Board considered the Company culture and stakeholder engagement. Further detail on how the Board has regard to its various stakeholders is set out on pages 19 and 20.

**BOARD COMPOSITION**



appropriate size of the Board.

**OUTLOOK**

The COVID-19 virus has had a major impact on the markets in which the Company operates. In response the Company has adopted a prudent strategy with the focus being on managing the existing portfolio and ensuring that cash collections remain robust. The Manager is not proposing to re-invest the vast majority of cash generated by the portfolio in new investments for the foreseeable future and expects the Company to generate significant cash over the coming months as loans amortise and repay.

Management Agreement. Discussions regarding a possible cash offer are continuing but there can be no certainty that a firm offer will be made.

In these difficult and unprecedented circumstances, protecting shareholders' interests remains the Board's key priority. Therefore the Board is reviewing all of its strategic options including the possible cash offer, the timing and process for the appointment of a new Investment Manager, the bringing forward of the Company's Continuation Vote (currently to be proposed at the 2021 Annual General Meeting), and the appropriate use of the cash currently being generated by the portfolio. The Board will consult with shareholders on these matters at the appropriate time. The Board will continue to monitor the Company's dividend policy in the context of the market environment and portfolio performance

Simon King

*Chairman*

29 May 2020

[1] Run-off investment credit assets less debt but before the PSSL topco facility and deferred Castlehaven cash as a percentage of total investment assets

### Investment Manager's Report

The Investment Manager is a member of the Pollen Street Capital group ("Pollen Street"). Pollen Street is an independent asset manager that has £2.5 billion (2018: £2.6 billion) of assets-under-management ("AUM") across private equity and credit strategies. The Group was formed in 2013 and possesses a strong and consistent track record within the financial and business services sectors.

Pollen Street has significant experience in lending markets with £1.6 billion of AUM within its credit strategies. It works with the specialty finance market, which the Investment Manager believes is underserved by the banking industry, capital markets and more generalist credit funds. The strategy is supported by changes in the focus of mainstream lenders together with the implementation of new models that utilise data, analytics and technology more effectively. It provides an opportunity to deliver better products to borrowers while generating attractive risk adjusted returns for investors.

The platforms are typically better than mainstream lenders at servicing their markets based upon focus, expertise, efficiency and entrepreneurialism. In many cases, they also share the risk exposure with their own balance sheet and capital. The Investment Manager partners with the highest quality originators in order to access exciting investment opportunities in direct lending assets and, where there is an aligned strategic opportunity, certain minority equity stakes.

This Investment Manager provides the Company with access to an established network of specialist lenders, market leading underwriting capabilities and strategic insight into the optimal collection strategy. The relationship with the platforms extends beyond Pollen Street being simply providers of capital. Pollen Street leverages its expertise to enable the platforms it partners with to outperform across all stages of the credit cycle. The relationships and expertise created are difficult to replicate and help provide more stable and attractive returns. The Investment Manager is deeply involved in the underwriting decisions, the customer journey, and collections.

**2019 HIGHLIGHTS**

2019 has been a successful year for the Company. The Investment Manager has:

- Doubled earnings per share over the last two years, from 20.7 pence per share in 2017 to 46.8 pence per share in 2019;
- Delivered the target NAV return of 6.0 per cent pa in every month between August 2019 and December 2019, prior to the effect of the one-off write down of the Zopa equity position, which occurred in November; and
- Repositioned the portfolio to have better downside protection and less volatile returns.

**FINANCIAL PERFORMANCE**

The successful implementation of the strategy has seen the Company increase profit after tax by 13



The NAV per share (cumulative of income) is 965 pence per ordinary share at 31 December 2019, which, including dividends declared or paid, is equivalent to a NAV return of 26.8 per cent since inception (taking into account 2.49 per cent reduction for the introduction of IFRS 9 on 1 January 2018). Additionally, the share price of the Company at 31 December 2019 was 830.0 pence per share, representing a 14.0 per cent discount to NAV (cumulative of income).

The Investment Manager is acutely aware of the continued dislocation between the current share price and the underlying value of the portfolio. On this basis the Company continued its share buyback program throughout 2019, with 1,686,112 (2018: 3,747,148) ordinary shares in issue being repurchased at an average price of 823.4 pence per ordinary share (2018: 800.4 pence) which contributed 0.32 per cent to the NAV return. As well as being accretive to NAV, it is expected to assist in reducing the magnitude of the discount.

volatile impairments. This has been achieved through the disposal of nonperforming loans, which have been executed at a modest premium to the carrying value, active management of collections and ordinary amortisation.

Secondly, the legacy equity portfolio has also been managed down to £23.6 million at 31 December 2019 (£32.6 million 31 December 2018). This was achieved through the sale of two positions this year totalling £12.1 million with an additional sale completing in Q1 2020. We continue to look to realise these equity positions where possible.

Thirdly, on the 23 August 2019 the Investment Manager executed a sale of the Company's interests in Castlehaven Finance, which is an alternative development and bridging finance lender in Ireland, to Avenue Capital Group. The transaction was completed at a modest premium to the Company's holding and removed the company's exposure to the relatively highly geared Irish development and bridging finance market.

Finally, we have been prudent in our underwriting of new deals over the course of the year. New originations have been focused on more secured asset classes with structural protection in the form of either the platform equity covering the first loss or the customer equity covering the first loss. These assets exhibit lower volatility and a better coverage ratio of income to expected credit losses and has allowed for a steady reduction of the cost and complexity of the facilities in place. Further the Investment Manager has ensured the Company maintains its diversification across US and UK geographies. Consequently, we have modestly reduced the leverage of the Company over the period to £302 million at 31 December 2019 (£378 million, 31 December 2018).

**Portfolio**

The continuing portfolio consists of 23 per cent SME lending, 33 per cent consumer lending, 41 per cent of real estate lending and 3 per cent equity. The majority of the Consumer loan exposure is in the form of structured loans where the originator has first loss equity ahead of the Company's exposure. The remainder is exposure to unsecured loans in markets that have demonstrated consistent and attractive risk adjusted margins. This portfolio consists of UK, European, US and Australasian assets. The SME portfolios are domestically focused and reflect the underlying performance of the UK economy and our credit risk appetite. The Real Estate sector has been underwritten with conservative LTVs to high credit quality underlying borrowers and proven management teams.

**OUTLOOK**

The outbreak of COVID-19 has caused major disruption across the globe. The principal effects of the outbreak in the UK started in March and therefore it has not had a material effect on the financial year under review. We have seen that a number of the structured borrowers have asked for temporary amendments to their facility to reflect the regulatory guidance on forbearance requests as well as a deterioration in underlying economic conditions. We are assessing these individually.

Given the uncertain economic environment the Investment Manager has adopted a prudent approach with the focus on the existing portfolio and ensuring cash collections remain robust as the appropriate strategies are in place. The Investment Manager continues to have faith in the strength of the performance of the asset class despite the unprecedented conditions. The portfolio and underlying asset security benefits from much of the portfolio being asset backed with 66 per cent at year end benefiting from some structural protection, while a significant majority of the underlying assets are amortising and generate strong levels of cash. The Company is well diversified with the underlying loan portfolios being highly granular with low concentration risk. The portfolio has demonstrated in 2019 that it delivers strong yields with high levels of bad debt coverage.

The Investment Manager is not proposing to re-invest the cash generated by the portfolio in new investments for the foreseeable future. In the structured portfolio where the Company provides finance to nonbank lenders, the Investment Manager is working with the borrowers to help them navigate the difficult environment whilst ensuring most of the cash generated by their portfolio is utilised to repay loans due to the Company. We expect the Company to generate significant cash over the coming months as the loans amortise and repay.

The monthly newsletter includes the latest information about the performance of the Group.

### Top Ten Holdings

As at 31 December 2019

| Investment | Investment Type | Country | Sector | Value as at 31 Dec-19 £'000 | % of Net assets |
|---|---|---|---|---|---|
| Rapid Financial Services, LLC | Structured | USA | SME | 49,506 | 6.9% |
| Limited | | Kingdom | | | |
| Zorin Real Estate Loan | Secured Loan to underlying borrower | United Kingdom | Property | 20,544 | 2.9% |
| SPV Naga Funding | Structured | United | Property | 18,432 | 2.6% |

| | | | | | |
|---|---|---|---|---|---|
| IWOCA Limited | Structured | United Kingdom | SME | 16,356 | 2.3% |
| Creditfix Limited | Structured | United Kingdom | Consumer | 15,551 | 2.2% |
| Zorin Real Estate Loan | Secured Loan to underlying borrower | United Kingdom | Property | 13,926 | 1.9% |

As at 31 December 2019, the value of the top 10 assets totalled £245,113,010 (2018: £166,028,417) which equated to 34.2 per cent (2018: 22.63 per cent) of net assets.

### Business Review

The strategic report on pages 3 to 29 has been prepared to help shareholders assess how the Group and Company works and how it has performed. The strategic report has been prepared in accordance with the requirements of Section 414 A to 414 D of the Companies Act 2006 (the "Act"). The business review section of the strategic report discloses the Group's and Company's key risks and uncertainties as identified by the Board, the key performance indicators used by the Board to measure the Group and Company's performance, the strategies used to implement the Group's and Company's objectives, its environmental, social and ethical policy and future developments.

**KEY INFORMATION**

Pollen Street Secured lending plc (the "Company") is a closed-ended investment company incorporated and domiciled in the United Kingdom on 6 December 2013 with registered number 08805459. On the 18 September 2019 the Company was renamed from P2P Global Investments plc to Pollen Street Secured Lending plc. The Company is a publicly listed company and commenced operations on 30 May 2014. The registered office is 6th Floor, 65 Gresham Street, London, EC2V 7NQ, United Kingdom.

**PRINCIPAL ACTIVITY**

The Company carries on business as an investment trust and its principal activity is investing in small size private credit assets across SME, consumer (secured and unsecured), real estate and trade finance asset classes through strategic partnerships which encompass marketplace lending platforms, balance sheet lenders and other non-bank loan originators. The Company invests in the USA, Europe and Australasia and actively seeks opportunities in other markets. 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, please see: http://www.theaic.co.uk/guide-to-investment-companies.

**PERFORMANCE REVIEW**

The Group's NAV as at 31 December 2019 was £718.2 million (2018: £733.4 million) (cum income). Reduction in NAV was driven by share buybacks with improved underlying performance meaning all dividend payments were fully covered by earnings and the special distributable reserve was not utilised. Profit after taxation for the year after tax was £34.8 million (2018: £30.7 million). The improved performance over 2019 is driven by the Investment Manager's continued progress on repositioning the portfolio away from predominately unsecured US and UK consumer mainstream Platforms that were



million of ECL from the sale of Castlehaven and a UK consumer portfolio.

These releases have been offset by an increase in the ECL charge which was £18.0 million. The key driver of the charge is the Stage 3 provision on defaulted loans, with UK SME contributing a charge of £9.8 million, Consumer UK £4.9 million and US consumer £3.8 million. These have been offset by releases in Stage 1 and 2 as loans roll through to defaulted status.

The outbreak of COVID-19 has caused major disruption across the globe. The principal effects of the outbreak in the UK and US occurred in March and therefore it has not had a material effect on the financial year under review. However, by end of Q1 2020 we have started to see some requests for forbearance.

The Investment Manager continues to have faith in the strength of the performance of the asset class despite the unprecedented conditions. The Group is well diversified with the underlying loan portfolios if economic expectations deteriorate further. However, the overall effect of this cannot be quantified reliably because the impact of the UK government's various support initiatives and the US government's COVID-19 Stimulus Bill is not yet known, but they are expected to reduce the potential expected credit loss impact. The Investment Manager has adopted a prudent approach with the focus on the existing portfolio and ensuring cash collections remain robust as the appropriate strategies are in place. The legacy book continues to run off, whilst performance of this book has been poor to date and it is expected that impairments will increase over the coming months, the loans are now well seasoned.

The longer-term financial impact of coronavirus is not yet clear and given the significant change in the operating environment and economic expectations the Investment Manager is proposing to re-invest the cash generated by the portfolio very selectively during this period of uncertainty with the majority of cash going to reduce net debt.

The Board considers the emergence and spread of COVID-19 to be a non-adjusting post balance sheet event.

The ultimate impact of COVID-19 is not clear however the economic outlook has materially changed, the Group has updated its estimate of ECL to allocate 100 per cent of the weight to the downside scenario. This scenario was set as a downside in the Q4 2019 review of the impairment model and is broadly consistent with the economic outlook indicated by our third-party economic advisers. This revised outlook resulted in an impairment charge of £2.0 million in the NAV calculation for 31 March 2020 that was released on 5 May 2020.

**STRATEGIC AND INVESTMENT POLICY**

The Company's investment objective is to provide shareholders with an attractive level of dividend income and capital growth through investment in the acquisition of:

(i) loans to consumers, loans to SMEs and other counterparties, corporate loans, real estate loans and advances and loans against corporate trade receivables and other assets, together with related investments ("Credit Assets"); and

(ii) equity assets that are aligned with the Company's strategy and that present opportunities to enhance the Company's returns from its investments ("Equity Assets").

The Group may invest in Credit Assets and Equity Assets relating to a broad range of sectors, provided that such investment is in accordance with the Company's investment strategy.

When the Group has incurred borrowings in line with its borrowing policy, the Group will target the payment of dividends which equate to a yield of 6.0 - 8.0 per cent per ordinary share per annum on the issue price for the Company's IPO placing, based upon the average number of non-treasury 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 linked to these Credit Assets have the potential to provide attractive returns for investors on a risk-adjusted basis, and that changes in the focus of mainstream lenders together with the implementation of new models that make the best use of data, analytics and technology, provide an opportunity to deliver attractive products to borrowers while generating attractive returns for the Company.

The Group enters into loan origination and service agreements with selected third parties, originators, platforms and partners. The Group and the Investment Manager also actively seek opportunities to acquire portfolios from third parties and make investments in loans to specialist lenders.

**ASSET ALLOCATION AND RISK DIVERSIFICATION**

Credit Assets invested in by the Group will consist of debt obligations, both secured and unsecured, 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, loans against corporate trade receivables and other assets, as well as loans secured against real estate and investments in loans to specialist lenders to provide structured finance for consumer, SME and other counter party lending.

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

(i) investment, or acquisition of interests, in Credit Assets, whether offered to the Group by origination platforms that allow non-bank capital to: (a) lend or advance capital to consumers, SME borrowers or corporate borrowers; and/or (b) advance capital against corporate trade receivables ("Platforms") or by other third parties;

(ii) investment, or acquisition of interests, in loans (which may be secured or unsecured) to specialist lenders for the purpose of providing structured finance to those specialist lenders, secured against (amongst other things) granular portfolios of Credit Assets; and

(iii) the acquisition by the Group of interests in portfolios of Credit Assets from third parties.

The Group may undertake such investments directly, or through its subsidiaries or special purpose vehicles ("SPVs"). It is also possible that the Group may 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



**PLATFORM RESTRICTIONS**

The Group will not invest more than 33.0 per cent of Gross Assets via any single Platform or single counterparty. This limit may be increased to 66.0 per cent of Gross Assets via any single Platform or single counterparty, provided that where this limit is so increased in respect of any Platform or counterparty, the Group does not invest an amount which is greater than 25.0 per cent (by value) of the total loan origination or investment of the preceding calendar year via such Platform or counterparty.

**ASSET CLASS RESTRICTIONS**

The Group will not invest more than 20.0 per cent of Gross Assets, at the time of investment, via any single investment fund investing in Credit Assets. The Group will not invest, in aggregate, more than 60.0 per cent of Gross Assets, at the time of investment, in other investment funds that invest in Credit Assets.

The Group will not invest more than 10.0 per cent of its Gross Assets, at the time of investment, in other listed closed-ended investment funds, whether managed by the Investment Manager or not, except that this restriction shall not apply to investments in listed closed-ended investment funds which themselves have stated investment policies to invest no more than 15.0 per cent of their gross assets in other listed closed-ended investment funds.

The following apply, in each case at the time of investment by the Group, to both Credit Assets acquired by the Group directly and on a look-through basis to any Credit Assets held by another investment fund which is managed by the Investment Manager, the Sub-Manager or their affiliates in which the Group invests (proportionate to the percentage interest the Company has in such investment fund). It is intended that:

- No single consumer loan shall exceed 0.25 per cent of Gross Assets;
- No single SME loan shall exceed 5.0 per cent of Gross Assets;
- No single advance or loan against a trade receivable asset shall exceed 5.0 per cent of Gross Assets;
- No single corporate loan shall exceed 5.0 per cent of Gross Assets; and
- No single facility, security or other interest backed by a portfolio of loans, assets or receivables (excluding any borrowing ring-fenced within any SPV which would be without recourse to the Company) shall exceed 20 per cent of Gross Assets.

At any given time, not more than 50.0 per cent of Gross Assets will be maintained in SME Credit Assets and not more than 50.0 per cent of Gross Assets will be maintained in trade receivable assets (taking into account both Credit Assets acquired by the Group directly and, on a look-through basis, any Credit Assets held by another investment fund managed by the Investment Manager, the Sub-Manager or their affiliates in which the Company invests (proportionate to the percentage interest the Group has in such investment fund)).

**OTHER RESTRICTIONS**

The Group may invest in cash, cash equivalents and fixed income instruments for cash management purposes and with a view to enhancing returns to Shareholders or mitigating credit exposure. However, for cash management purposes the Group will only invest in fixed income instruments of investment grade.

The Group will not invest in collateralised debt obligations.



investment fund in which the Company invests or any SPV that may be established by the Company in connection with obtaining leverage against any of its assets or any issuer vehicle of facilities, securities or other interests backed by a portfolio of Credit Assets).

The aggregate leverage of the Company, whether incurred directly or indirectly through a subsidiary or an SPV established by the Company (in each case calculated at the time of drawdown under any facility the

The Company may seek to securitise portfolios of Credit Assets and may establish one or more SPVs in connection with any such securitisation. The Company may also use SPVs in connection with obtaining leverage against Credit Assets to seek to protect the levered portfolio from group level bankruptcy or financing risks. The Company may also, in connection with seeking such leverage or securitising its loans, seek to assign existing assets to one or more SPVs and/or seek to acquire loans using an SPV.

**HEDGING**

Fluctuations in interest rates are influenced by factors outside the Group's control and can adversely affect the Group's results of operations and profitability in a number of ways. 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 LIBOR). The Group expects that its borrowings will typically 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 full or 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 Company to discharge its obligations could have a material adverse effect on the Company's results, operations and financial condition.

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.

**CASH MANAGEMENT**



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. As at 31 December 2019, the Group held 9.9 per cent (2018: 9.4 per cent) of its portfolio in cash.

**BUSINESS MODEL**

- changes to the Company's capital structure or its status as an investment company, investment trust and a listed public limited company;
- the effectiveness and implementation by the Investment Manager of the investment policy of the Company and the appointment, amendment or removal of the Company's third-party service providers;
- an effective system of oversight over the Company's risk management and corporate governance; and
- premium and discount management.

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.

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 2022. Please see the viability statement on page 28 for more detail.

**DIRECTORS' DUTIES**

**Section 172 of the Companies Act 2006**

Under Section 172 of the Companies Act 2006 ("S.172") the Directors have a general duty to act in a way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its shareholders. S.172 also requires directors, in making their decisions and choices and in setting policies and strategy, to have regard to a non-exhaustive list of factors, comprising:

- the likely long-term consequences of any decision;
- the interests of the Company's employees (the Company has no other than its Directors who are all non-executives);
- the need to foster the Company's business relationships with suppliers, customers and others;
- the impact of the company's operations on the community and the environment;
- the desirability of the Company's to maintain a reputation for high standards of business conduct; and
- the need to act fairly between members of the Company.

Fulfilling this duty naturally supports the Company 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 pertinent information when they first join the Board as well as receive regular and ongoing updates and training on the relevant matters. The Directors also have continued access to the advice and services of the



This includes reasonably satisfying itself that relevant systems and controls in place remain effective and appropriate and that the Manager puts in place appropriate policies including whistleblowing procedures, Anti-Bribery and Anti-Corruption and reports to the Board on these matters when necessary.

**Decision-making**

realisations, acquisitions and pipeline; 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.

**Stakeholders**

The Board aims to recognise and understand the needs and priorities of the Company's stakeholder and these are taken into account during all its discussions and as part of its decision-making. As the Company is an externally managed investment firm, the Company does not have any employees (other than its Directors who are all non-executives ) or customers, nor does it have a direct impact on the community or environment in the conventional sense. The description of the way the Company operates on page 6 explains the various stakeholders in the lending market involved in the investment strategy of the Company. The table below explains why these stakeholders are considered important to the Company and the actions taken to ensure that their interests are taken into account.

**SHAREHOLDERS**

**Importance**

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

A resolution to continue the life of the Company is put to the shareholders every five years. Having last been approved by shareholders in 2016, the next vote is scheduled to take place at the Company's 2021 AGM.

**Board Engagement**

The Company's shareholders at 31 December 2019 consist of institutional investors, professional and professionally advised and knowledgeable investors. The Board is committed to maintaining open channels of communication and engagement with shareholders, in a manner which they find most meaningful to gain an understanding of the views of shareholders. These include:

- **Annual General Meeting ("AGM")** - In normal circumstances the Group welcomes and encourages attendance and participation from shareholders at the AGM. Shareholders have the opportunity to meet the Directors and Investment Manager and to address questions to them directly. The Board values any feedback and questions it may receive from shareholders ahead of and during the AGM and will endeavour to take action, when appropriate;
- **Publications** - The Annual Report and Half-Year results are made available on the Company's website and the Annual Report is circulated to shareholders. These reports provide shareholders with a clear understanding of the Company's portfolio and financial position. This information is



assistance from the Investment Manager, the Chairman seeks meetings with shareholders who might wish to meet with him;
- **Working with external partners** - the Investment Manager and the Broker maintain an active dialogue with shareholders and potential investors at scheduled meetings or analyst briefings following financial results and provide the Board with regular updates at Board meetings or more frequently if required

**OTHER STAKEHOLDERS**

*The Manager*

are aligned with the Company's strategy and that present opportunities to enhance the Group's returns from its investments ("Equity Assets").

**Engagement**

Maintaining a constructive and effective working relationship with the Manager is crucial as the Board and the Manager both aim to continue to achieve attractive returns in line with its investment objective. The following are important elements in the effective collaboration with the Manager:

- Encouraging open discussion with the Manager;
- Adopting a tone of constructive challenge;
- Drawing on Board Members' individual experience and knowledge to support the Manager in its monitoring the portfolio of investments; and
- That the Board and the 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 and the Broker*

**Importance**

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

**Engagement**

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

*Lenders*

**Importance**

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

**Engagement**

The Company aims to demonstrate to lenders that it is a well-managed business, capable of consistently delivering long-term returns.



**Engagement**

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

**CULTURE**

The Board strives to ensure that its culture is in line with the Company's purpose, values and strategy. The Company has a number of policies and procedures in place to assist with maintaining a culture of good governance including those relating to Directors' conflicts of interest and Directors' dealings in the Company's shares. The Board assesses and monitors compliance with these policies as well as the general culture of the Board during Board meetings and in particular through the annual performance evaluation process which is undertaken by each Director (for more information see the performance evaluation section on page 38).

The Board seeks to appoint the best possible service providers and evaluates their service on a regular basis as described on pages 23 and 24. The Board considers the culture of the Manager and other service providers, including their policies, practices and behaviour, through regular reporting from these stakeholders and in particular during the annual review of the performance and continuing appointment of all service providers.

**PREMIUM/DISCOUNT MANAGEMENT**

The Company may seek to address any significant discount to NAV at which its Ordinary Shares may be trading by purchasing its own Ordinary Shares in the market on an ad hoc basis.

The Directors have the authority to make market purchases of up to 14.99 per cent of the Ordinary Shares. The maximum price (exclusive of expenses) which may be paid for an Ordinary Share must not be more than the higher of (i) 5.0 per cent above the average of the mid-market values of the Ordinary Shares for the five Business Days before the purchase is made, or (ii) the higher of the price of the last independent trade and the highest current independent bid for the Ordinary Shares. Ordinary Shares will be repurchased only at prices below the prevailing NAV per Ordinary Share, which should have the effect of increasing the NAV per Ordinary Share for remaining Shareholders. A renewal of the authority to make market purchases will be sought from Shareholders at each AGM of the Company. Purchases of Ordinary Shares will be made within guidelines established from time to time by the Board. Any purchase of Ordinary Shares would be made only out of the available cash resources of the Company. Ordinary Shares purchased by the Company may be held in treasury or cancelled.

Purchases of Ordinary Shares may be made only in accordance with the Companies Act 2006 ("the Act"), the Listing Rules and the Disclosure and Transparency Rules.



**CORPORATE AND OPERATIONAL STRUCTURE**

**Corporate structure**

There have been several changes in the structure of the Group in 2019. The Group's entered into several new debt facilities in 2019, including its third SME unsecured lending securitisation in April 2019 which resulted in a cheaper cost of funding for the Company. Small Business Origination Loan Trust 2019-1 DAC which will enhance the Company's returns. The Company ceased purchasing loans from Funding Circle in Q4 2018 as part of the strategy to focus on asset secured lending. The Company incorporated CH Mercury Note Issuer DAC ("CH") in November 2018 which became active in February 2019 when a pool of development and bridging finance loans were transferred in as well as asset specific leverage which resulted in a cheaper cost of funding for the Company. CH was consolidated in the financial statements for the period from February to August 2019 and then unwound in August 2019.

During the period, all remaining loans from P2P BL-2 PLC ("P2P BL-2"), P2P BL-3 Limited ("P2P BL-3") and Marketplace Originated Consumer Assets 2016-1 PLC ("MOCA 2016") were novated out of these Companies to Pollen Street Secured Lending plc and these Companies are not in the process of liquidation. The Company consolidated P2P BL-2 in the financial statements for the period January to September 2019, P2L BL-3 for the period January to April 2019 and MOCA 2016 for the period January to August 2019.

The Company also controls and consolidates a number of trusts ("Trusts") through its control of Eaglewood SPV I LP (the "SPV" or the "Subsidiary") and Eaglewood Income Fund I, LP (the "Eaglewood Fund"). The SPV and Eaglewood Fund control a Trust if they are exposed to, or have the rights to, variable returns from their involvement with the Trust and have the ability to affect those returns through its power over the Trust. During the year, the SPV became the sole beneficial owner of an LLC; PSC 2019P LLC.

**Operational and portfolio management**

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

- PSC Credit Holdings LLP is the Company's investment manager and Alternative Investment Fund Manager ("AIFM") for the purposes of the Alternative Investment Fund Managers Directive ("AIFMD");
- Link Asset Services acts as the Company's registrar;
- Link Company Matters Limited acts as the Company Secretary;
- Citco Fund Services (Ireland) Limited is the Company's administrator and external valuer;
- Citco Custody (UK) Limited acts as the Company's depositary and custodian; and
- Liberum Capital Limited acts as the Company's corporate broker and financial adviser.

## Principal Risks and Uncertainties

The Group is exposed to a number of potential risks and uncertainties which could have a material impact on the Group performance and could cause actual results to differ materially from expected and/or



The register, its method of preparation and the operation of the key controls in the Investment Manager's systems of internal control are reviewed and reported on to the Board on a regular basis. In order to gain a more comprehensive understanding of the Investment Manager's risk management processes and how these apply to the Group's business, the Board periodically receives on-site presentations from the Investment Manager.

that would threaten its business model, future performance, solvency and liquidity. Those principal risks have been described below together with an explanation of how they are managed and mitigated. The Board will continue to assess these risks on an ongoing basis.

**OPERATIONAL RISKS**

**Third-Party Service Providers**

The Group has no employees (other than its Directors who are all non-executives) and relies on the services provided by third parties. Accordingly, it is dependent on the control systems of third parties such as the Investment Manager, the depositary and the fund administrator, who maintain the Group's assets and accounting records.

In addition, the Group predominantly uses originators and third-party servicers to acquire and service loans. Accordingly, it is dependent on the originators' credit underwriting and control systems and collection capabilities.

The security of the Group's assets, dealing procedures, accounting records and adherence to regulatory and legal requirements depend on the effective operation of the systems of the third-party service providers.

Failure by any service provider, or originator, to carry out its obligations to the Group in accordance with the terms of its appointment could have a materially adverse effect on the operation of the Group.

The Group is reliant on the Investment Manager's relationships with originators. Should the Investment Manager cease to continue to be investment manager there is a risk that the Group will not be able to successfully pursue its investment management objective and policy.

Resilient IT systems and associated infrastructure are essential for maintaining high service levels to the Group by the originators and other third-party service providers. These service levels are at risk from cyber-attack, component failure or unplanned disasters.

Mitigation

The Company has appointed third party service providers who are experienced in their field and have a reputation for high standards of business conduct.

Due diligence is undertaken before contracts are entered into with third party service providers and originators and oversight of the performance of these parties is conducted by the Investment Manager and reported to the Board periodically.

In order to gain a more comprehensive understanding of the Investment Manager's internal processes,



Company's key service providers. The Board reviews arrangements that the Investment Manager has put in place to ensure that back up loan servicers are available and able to take on the Group's loans. The Investment Manager has a robust cyber security and disaster recovery ("DR") policy. The Investment Manager also assesses cyber security and DR of the Group's third-party service providers and Platforms. The Board regularly reviews these arrangements.

**Reliance on key individuals**

The Group relies 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.

<u>Mitigation</u>

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 of a 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.

**Fluctuations in the market price of Issued Shares**

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

<u>Mitigation</u>

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 its shares in the market with the intention of enhancing the NAV per ordinary share, however there can be no assurance that any purchases will take place or that any purchases will have the effect of narrowing any discount to NAV at which the Company's ordinary shares may trade.

In the first instance, the Company's Board and Investment Manager believe the best defence against the share price trading at a discount to NAV is an attractive dividend policy, with quarterly distributions driven from the pursuit of attractive risk adjusted returns in Credit Assets and Equity Assets.

With regard to repurchasing shares, the Board may use its discretion during periods of market dislocation



**Achievement of the Investment Objective**

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

<u>Mitigation</u>

The Group's investment decisions are delegated to the Investment Manager. Performance of the

The Board has set investment restrictions and guidelines which the Investment Manager monitors and reports on quarterly to the Board. The Board also receives from the Investment Manager a quarterly explanation of portfolio allocation decisions, large exposures, leverage levels and any changes in leverage and the rationale for the composition of the investment portfolio.

**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 Company's shares when the value of the Company's underlying assets is rising, it will have the opposite effect where the underlying asset value is falling. In addition, in the event that the Company's income falls for whatever reason, the use of borrowings will increase the impact of such a fall on the Company's return and accordingly will have an adverse effect on the Company's ability to pay dividends to shareholders. There is a risk that the Company will breach the covenants set by the lender which could have an adverse effect of the Company continuing as a going concern.

<u>Mitigation</u>

The Investment Manager and the Board closely monitors the level of gearing of the Group. The Group has a maximum limitation on borrowings of 1.5 times of NAV (calculated at the time of draw down) which the Investment Manager may affect at its discretion when conditions and opportunities exist to enhance investment returns. All covenants are monitored on a monthly basis and any Group wide transactions are appraised against their impact on any debt related covenant.

**Exposure to Credit Risk**

As a lender to small businesses, property lenders and individuals, the Group is exposed to credit losses if customers or counterparties are unable to repay loans and outstanding interest and fees or through fraud. 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 the Group to invest in Credit Assets. Additionally, competition could serve to reduce yields and lower the volume of loans generated by the Group.

The outbreak of COVID-19 has caused major disruption across the globe. At the time of writing the portfolio has not seen a material impact in payment performance yet albeit some end borrowers have requested and been granted payment holidays. However, given the Group's UK and US focus, its



known, but they are expected to reduce the potential expected credit loss impact. The Investment Manager has adopted a prudent approach with the focus on the existing portfolio and ensuring cash collections remain robust as the appropriate strategies are in place. The legacy book continues to run off, whilst performance of this book has been poor to date and it is expected that impairments will increase over the coming months, the loans are now well seasoned.

Origination rates and performance of the underlying assets of the Group are closely monitored on an ongoing basis by the Investment Manager and the Board and are reviewed in detail at each Board meeting.

The Group has focused on increasing its exposure to structured lending and lending with asset backing, which both mitigate the credit risk through the provision of collateral or structural protection in the form of either the platform equity covering the first loss or the customer equity covering the first loss.

In relation to Covid-19 the impact is being mitigated where possible through the Investment Manager proposing not to re-invest the cash generated by the portfolio in new investments until there is more visibility on the impact of the lockdown restrictions on performance and a return to some level of normality in the economy. In the structured portfolio where the Group provides finance to non-bank lenders, the Investment Manager is working with the borrowers to help them navigate the difficult environment whilst ensuring most of the cash generated by their portfolio is utilised to repay the Group's loan.

**Interest Rate Risk**

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 LIBOR) and expects that its borrowings will be typically 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 subject the Group to interest rate risk.

Following the recommendations of the Financial Stability Board, a fundamental review and reform of the major interest rates benchmarks, including Interbank offered rate ("Ibors"), are underway across the world's largest financial markets. In some cases, the reform will include replacing interest rate benchmarks with alternative risk-free rates ('RFRs'). This replacement process is at different stages, and is progressing at different speeds, across several major currencies.

Mitigation

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

With the Ibor transition there is inherent uncertainty as to the basis, method and timing of transition and their implications on the participants in the financial markets. Until there is market acceptance on the form



The current Covid-19 outbreak has seen the Bank of England lower interest rates on 19 March 2020 to 0.1 per cent, the lowest they have been in its 325-year history. The Board will continue to monitor this development.

**Foreign Exchange Rate Risk**

Brexit has been a driver for exchange rate volatility and the devaluation of Sterling. The Group's policy is to hedge exchange rate risk where appropriate. This in turn can create liquidity risk due to the potential for forward foreign exchange contracts to hedge the currency exposure of the Group's non-Sterling 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 Investment Manager as part of this monitoring ensures it has the required liquidity to cover any cash margin calls.

**Liquidity of Investments**

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

Mitigation

The Group has established investment restrictions on the extent to which it can invest in Equity Assets, such that no more than 10.0 per cent of the net proceeds of any placing are invested in Equity Assets. Compliance with these restrictions is monitored by the Investment Manager on an ongoing basis and by the Board quarterly.

**REGULATIONS**

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

**Tax**

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

Mitigation

At all times, the Company intends to conduct its affairs so as to enable it to qualify as an investment trust for the purposes of Chapter 4 of Part 24 of the Corporation Tax Act 2010. Both the Board and the Investment Manager are aware of the requirements, which are to be fulfilled in any accounting period for the Company to maintain its investment trust status. The conditions required to satisfy the investment trust criteria are monitored by the compliance function of the Investment Manager.



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 to terminate

The Group utilises an established framework to monitor its portfolio for emerging risks, supporting organisational readiness for external volatility.

This incorporates 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 Audit and Risk Committee and the Board.
- Bottom-up: Emerging risks identified at a business level and escalated, where appropriate by the Investment Manager, via risk updates into the Audit and Risk Committee and the Board.
- Emerging risks are monitored by the Group Audit and Risk Committee on an ongoing basis, with agreed actions tracked to ensure the Group's preparedness should an emerging risk crystallise.
- The most significant emerging risk is the ongoing outbreak of the COVID-19. We are monitoring the situation carefully as it evolves. The Group's business model aims to ensure that it is able to continue to trade and support its clients in all economic conditions.

**GOING CONCERN**

The Directors have reviewed the financial projections of the Group from the date of this report, which have been updated to take into account the economic disruption caused by the COVID-19 pandemic. These show that the Group will be able to generate sufficient cash flows in order to meet its liabilities as they fall due and for the foreseeable future, and that all relevant conditions such as covenants under the Group's external borrowings will be met over that period

The Directors have considered the risks arising of economic disruption caused by the COVID-19 pandemic. The Investment Manager has performed suitable stress tests which show that even on a severe but plausible basis the Group is expected to be able to meet its liabilities for the foreseeable period.

There are a number of other developments which are relevant to the future of the Group and Company, and which may affect the continued use of going concern accounting principles.

The Directors of the Company announced on 25 February 2020 that the Company was in discussions regarding a possible offer by Waterfall Asset Management LLC ("Waterfall") for the acquisition of the entire share capital of the Company. They also announced that the possible offer was supported by the largest shareholder of the Company at that time. The offer period has since been extended, and on 19 May 2020, a further extension to 16 June 2020 was announced. The intentions of Waterfall, as to their plans for the Company should an offer be made and be successful, have not been announced. The announcement made by the Company on 19 May 2020, indicated also that The Board is also reviewing all options in the event that the possible offer does not proceed.

In addition, Article 167 of the Company's Articles of Association stipulates that at the Annual General Meeting to be held in 2021 the Directors shall propose an ordinary resolution that the Company continues to operate as an investment company (the "continuation vote"). If this resolution does not receive approval



The potential consequences of the possible offer, and the continuation vote, are conditions that indicate the existence of a material uncertainty which may cast significant doubt about the Group's and Company's plans or ability to continue as a going concern. The Group and Company financial statements do not include the adjustments that would result if the Group and Parent Company were no longer to be considered a going concern.

In accordance with UK Corporate Governance Code, published by the Financial Reporting Council in July 2018 (the "UK Code"), the Directors have assessed the prospects of the Group over the two-year period to the Annual General Meeting ("AGM") in 2022.

The Directors of the Company announced on 25 February 2020 that the Company was in discussions regarding a possible offer by Waterfall Asset Management LLC ("Waterfall") for the acquisition of the entire share capital of the Company. They also announced that the possible offer was supported by the largest shareholder of the Company at that time. The offer period has since been extended, and on 19 May 2020, a further extension to 16 June 2020 was announced. The intentions of Waterfall, as to their plans for the Company should an offer be made and be successful, have not been announced. The announcement made by the Company on 19 May 2020, indicated also that The Board is also reviewing all options in the event that the possible offer does not proceed. The Directors have assumed for the purposes of this viability statement that if a firm offer were to be made and be successful, that the Group would continue to operate and be able to meet its obligations, based on its current financial position over the period.

The Directors will be required by the Articles of Association to put a proposal for the continuation of the Group at the 2021 AGM, and note that, based on the current position, performance and prospects of the Group they have no reason to believe that shareholders will vote against continuation. However, the outcome of the continuation vote cannot at this stage be determined with any certainty and therefore this is a key assumption. If this resolution does not receive approval from a majority of shareholders, the Articles stipulate that the Directors shall, within three months of the date of the resolution, put forward proposals to shareholders to the effect that the Company be wound up or similarly restructured.

The Directors note that, even if there were to be a firm offer made, and that offer were to be successful, or there were to be a vote against continuation at the 2021 AGM, the Group would be likely to continue to operate for at least a year thereafter, due to the Group's investments not comprising readily realisable securities.

In their assessment of the viability of the Group, the Directors have considered each of the Group's principal risks and uncertainties and mitigating factors are detailed on pages 23 to 24. The Directors have also considered the Group's revenue and expenditure projections, working capital requirements, which have been updated to take into account the economic disruption caused by the COVID-19 pandemic, and as noted above) the fact that the Group's investments do not comprise readily realisable securities which can be sold to meet funding requirements if necessary.

Analysis has also focused on the risks in delivery of the business model, including consideration of the



to that effect issued on 25th February 2020) could result in financial consequences for the Company arising from the exercise by third parties of rights to terminate loan and other facilities that are currently in place. It is not considered that such consequences, if they occur, will be of an amount that could not be accommodated within the available resources of the Company at the relevant time or call into question the Board's view on Going concern or viability in this Report.

**Key Performance Indicators (KPIs)**

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:

- The movement in Net Asset Value per ordinary share (please see page 4);
- Dividend per share (please see page 4);
- The share price premium/(discount) to NAV (please see page 4);
- The movement in the share price (please see page 4);
- Ongoing charges ratio (please see page 4); and
- Annual NAV per share return (please see page 4).

**APPROVAL**

The Strategic Report was approved by the Board of Directors on 29 May 2020 and signed on its behalf by:

**Simon King**

Chairman

## Directors' Report

**Board of Directors**

SIMON KING
*Chairman of the Board*, the Nomination Committee, Insider Committee and Management Engagement Committee*
*Appointed: 12 February 2014*

Simon has many years of experience of managing investment companies and trusts. He is currently Chief Investment Officer of Vermeer Partners, a private wealth management company. Following a career in stockbroking, Simon joined Gartmore Fund Managers in 1994 and in 2000, he became a Senior Investment Manager on Gartmore's UK Equities team. He established, managed and co-managed a series of funds including the Gartmore UK Focus Fund, the Alphagen Avior Hedge Fund and the Alphagen Octanis Hedge Fund. From 2009 to 2012, Simon worked at Premier Asset Management where he managed UK unit trusts. Simon was also previously a part time Director at Numis Asset Management. Simon brings a wealth of experience in the areas of fund management, regulation and adherence to investment mandates.

MICHAEL CASSIDY
*Chairman of the Audit Committee*
*Appointed: 12 February 2014*

Michael has had over 40 years' experience as a qualified lawyer, principally engaged in investment work for a large pension fund and most recently as a consultant to DLA Piper. He had a career in City Local Government, with senior roles at Guildhall including Leader of the Council and Planning Chairman, and also the Museum of London and Property Investment Board. He has also been a non-executive director of British Land and Crossrail and is currently the Chairman of Ebbsfleet Urban Development Corporation. He was awarded CBE in 2004 for services to the City of London.



Mahnaz was Head of Markets, Europe and America at Australia and New Zealand Bank Group. She was also previously Managing Director of Citi EMEA Banking, having joined in 2013 after 19 years at UBS, where she co-headed the EMEA Debt Capital Markets business, leading a team responsible for bond and loan origination, securitisation, liability management, derivatives and pension risk management. She was chosen as one of Financial News' Top 100 Women in Finance in 2010, 2013 and 2015. Mahnaz has previously served on the British Business Bank's investment committee, which provides capital to non-traditional SME loan providers, including peer-to-peer

| |
|---|
| David has nearly 30 years' experience within financial services, beginning his career with Halifax Building Society. He is currently a non-executive director of Leeds Building Society where he is Chair of the Board Risk Committee. Previously he was Chief Executive of Sainsbury's Bank and has held non-executive directorships with The Scottish Government, Amicus Finance plc and was chairman of the Business and Oversight Board at The Law Society of England and Wales. During his career, he has developed a wealth of knowledge in retail financial services and has a strong understanding of risk management. |
| * Simon King was appointed as Chairman of the Board, with effect from 1 January 2020 following Stuart Cruickshank's retirement.<br>** Mahnaz Safa was appointed as Senior Independent director following Simon King's appointment as Chairman, with effect from 1 January 2020 |

**PREVIOUS DIRECTORS**

STUART CRUICKSHANK

Mr Cruickshank was appointed in 2014 as non-executive Director, Chairman of the Company, the Nomination Committee and Insider Committee and a member of the Audit Committee, Management & Engagement Committee, Risk Committee and Remuneration Committee. Mr Cruickshank resigned as a member of the Audit Committee, Risk Committee and Remuneration Committee with effect from 13 June 2019 and resigned as non-executive Director, Chairman of the Company, the Nomination Committee and Insider Committee with effect from 1 January 2020.

## Report of the Directors

The Directors of Pollen Street Secured Lending plc (Reg: 08805459) present their annual report and audited financial statements of the Company and its subsidiaries (together, the "Group") for the year ended 31 December 2019.

**DIRECTORS**

The Directors in office at the date of this report are shown on page 30.

### Directors Remuneration and Interests

The remuneration and beneficial interests of the Directors in the securities of the Company are set out in the Directors' Remuneration Report on pages 49 to 52.

**DIVIDENDS AND SHARE BUYBACKS**

No final dividend is being recommended. The Company's policy is to pay dividends on a quarterly basis, as set out in the Company's prospectus dated 30 June 2015. The dividends paid or payable in respect of the year ended 31 December 2019 are set out in Note 22 to the financial statements. A reconciliation of movements in reserves is presented in the Consolidated and Parent Company Statement of Changes in Shareholders' Funds on pages 70 and 71 of the financial statements. The Company may make



The Company continued its share buyback program in 2020 and as at 28 May 2020, 12,303,792 shares are held in treasury.

**AUDIT INFORMATION**

As required by section 418 of the Companies Act 2006, the Directors who held office at the date of the Annual Report confirm that, so far as they are aware, there is no relevant audit information of which the Company's Auditors is unaware; and each Director has taken all the steps that he ought to have taken as

The Group's anticipated future developments and outlook are discussed in more detail in the Chairman's Statement on pages 7 and 8 and the Investment Manager's Report on pages 9 to 11.

**AUDITORS**

The Company's independent auditors, PricewaterhouseCoopers LLP ("PwC") have indicated their willingness to continue in office as Auditor of the Company for the forthcoming financial year, and resolutions for their re-appointment and for the Audit Committee to determine their remuneration will be proposed at the forthcoming AGM.

The Audit Committee has carefully considered the auditors' appointment, as required in accordance with its terms of reference, and, having regard to its effectiveness and the services it has provided the Company during the year under review, has recommended to the Board that the independent auditors be appointed at the forthcoming 2020 AGM. In reaching its decision, the Audit Committee considered the points detailed on page 46 of the Audit Committee's report.

**FINANCIAL RISK MANAGEMENT**

The principal risks and the Company's policies for managing these risks are set out in Note 8 to the financial statements and pages 23 and 24 of the Strategic Report.

**SUBSEQUENT EVENT**

An interim dividend of 12 pence per Ordinary Share was declared by the Board on 24 February 2020 in respect of the three-month period to 31 December 2019, which was paid on 27 March 2020 to shareholders on the register as of 5 March 2020.

An interim dividend of 12 pence per Ordinary Share was declared by the Board on 4 May 2020 in respect of the three-month period to 31 March 2020, which will be paid on 19 June 2020 to shareholders on the register as of 15 May 2020.

The Company continued its share buyback program in 2020 and as at 28 May 2020, 12,303,792 shares are held in treasury.

The Company received an approach to acquire all of its issued share capital at 900 pence per share from Waterfall Asset Management, LLC ("Waterfall"), subject to confirmatory due diligence and certain other standard conditions.

The Board announced on 25 February 2020 that it served 12 months' notice in writing on the Manager to terminate the Investment Management Agreement ("IMA").

In March 2020, the World Health Organisation recognised an outbreak of a new virus that causes



The Investment Manager continues to have faith in the strength of the performance of the asset class despite the unprecedented conditions. The Group is well diversified with the underlying loan portfolios being highly granular with low concentration risk. It has maintained a close and proactive engagement with all platform partners and forbearance has been applied sensitively and proportionately. The Investment Manager believes that the company is well positioned to perform solidly throughout the crisis.

COVID-19 Stimulus Bill is not yet known, but they are expected to reduce the potential expected credit loss impact. The Investment Manager has adopted a prudent approach with the focus on the existing portfolio and ensuring cash collections remain robust as the appropriate strategies are in place. The legacy book continues to run off, whilst performance of this book has been poor to date and it is expected that impairments will increase over the coming months, the loans are now well seasoned.

The longer-term financial impact of coronavirus is not yet clear and given the significant change in the operating environment and economic expectations the Investment Manager is proposing to re-invest the cash generated by the portfolio very selectively during this period of uncertainty with the majority of cash going to reduce net debt.

The Board considers the emergence and spread of COVID-19 to be a non-adjusting post balance sheet event.

The NAV for 31 March 2020 was released on 5 May 2020 and included a £2.0 million one-off provision arising from the change to the economic scenarios due to the COVID-19 situation.

As at 27 May 2020, the Company's latest published NAV per Ordinary Share as at 31 March 2020 was 963.0 pence and the latest share price was 708.0 pence per share.

**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.

**REQUIREMENTS OF THE LISTING RULES**

Listing Rule 9.8.4 requires the Group to include specified information in a single identifiable section of the Annual Report or a cross reference table indicating where the information is set out.

| 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 Group publishes a monthly NAV statement. The Group also published an interim report and unaudited financial statements for the period from 1 January 2019 to 30 June 2019. It did not constitute a profit forecast or profit estimate in accordance with listing rule 9.2.18. |
| 9.8.4 (4) - incentive schemes | The Company has no incentive schemes in operation. |



| | |
|---|---|
| relate to companies that are part of a group of companies | undertaking of the Company and Company is not a subsidiary undertaking of another company. |
| 9.8.4 (10) - contract of significance | During the year under review, there were no contracts of significance subsisting to which the Company is a party and in which a Director of the |

| | |
|---|---|
| 9.8.4 (12) and (13) - waiving dividends | During the year under review, there were no arrangements under which a shareholder has waived or agreed to waive any dividends or future dividends, |
| 9.8.4 (14) | The Company has complied with this given that there is no controlling shareholder under LR 9.2.2AD and therefore no FCA notification required. |

#### CORPORATE GOVERNANCE

The Corporate Governance Statement on pages 36 to 44 forms part of the Report of the Directors.

#### ARTICLES OF ASSOCIATION

Any amendments to the Company's Articles must be made by special resolution passed at a general meeting.

#### ANNUAL GENERAL MEETING

The AGM will be held on 30 June 2020 and explanations of the business proposed at the AGM will be contained in the Notice of the AGM, which is being posted to shareholders with this Annual Report.

### GENERAL MEETING

The Board may convene a general meeting of the shareholder at whatever time it deems necessary or when such a meeting is required under applicable laws or regulations. Under the principles of the Association of Investment Companies Code of Corporate Governance (the "AIC Code") notice of that general meeting should be sent to shareholders 14 days in advance.

### ALTERNATIVE INVESTMENT FUND MANAGERS DIRECTIVE

In accordance with the AIFMD, the Company has appointed PSC Credit Holdings LLP to act as the Company's AIFM for the purposes of the AIFMD. The AIFM ensures that the Company's assets are valued appropriately in accordance with the relevant regulations and guidance. Citco Custody (UK) Limited acts as the Company's Depositary and Citco Fund Services (Ireland) Limited provides custody services to the Company as required by the AIFMD.

### DONATIONS

The Company made no political or charitable donations during the year under review to organisations either within or outside the EU (2018: none).

### ANTI-BRIBERY AND CORRUPTION POLICY



The Company is required by law to provide details of environmental matters (including the impact of the Company's business on the environment), employee, human rights, social and community issues (including information about any policies it has in relation to these matters and the effectiveness of those policies). The Company does not have any employees other than its Directors which are all independent non-executive Directors. As an investment trust, the Company does not have any direct impact on the environment. The Company aims to minimise any detrimental effect that its actions may have by adhering 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. During the period, the Board considered the Energy Savings Opportunity Scheme ("ESOS") reporting requirement and confirmed that it had no energy reporting responsibilities.

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

**MODERN SLAVERY ACT**

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

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

**BOARD DIVERSITY**

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

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

The Board consists of four non-executive Directors, one of whom is female. The Board seeks to appoint new Directors on the basis of merit as a primary consideration, with the aim of bringing an appropriate range of skills and experience to the Board.

By order of the Board

Link Company Matters Limited

*Company Secretary*

29 May 2020

**Corporate Governance Statement**

**STATEMENT OF COMPLIANCE**



Governance Code issued by the Financial Reporting Council ("FRC") in July 2018 and applicable for the year under review (the "UK Code"), as well as setting out additional principles and recommendations on issues that are of specific relevance to investment trusts.

The Board considers that reporting against the principles and recommendations of the AIC Code (which incorporates the Corporate Governance Code), provides better information to shareholders.

the UK Code and the related disclosure requirements contained in the Listing Rules. The UK Code is available on the FRC website www.frc.org.uk.

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

**The role of the Chief Executive**

For the reasons set out in the AIC Guidance, and as explained in the UK Code, the Board considers that the post of Chief Executive is not relevant for the Company, being an externally managed investment company.

**Executive Directors' Remuneration**

As the Board has no executive Directors, it is not required to comply with the principles of the AIC Code in respect of executive Directors' remuneration.

**Internal Audit Function**

The Group delegates all of its day-to-day operations to third parties and has no employees, other than its Directors who are all non-executives. These third parties have their own internal audit function and the Board has therefore determined that there is no need for the Group to have its own internal audit function, but this is reviewed on an annual basis. The Directors consider semi-annually the principal risks relating to the operations of the Group. Such a review includes the consideration of whether the Company's third parties have adequate internal controls in place.

**Chairman's Membership of the Audit Committee**

Simon King is also a member of the Audit Committee. The Board believes that it is appropriate for Mr King to be a member of the Audit Committee, given the size of the Board and Mr King's relevant financial experience. The Board is also satisfied that the combined knowledge and experience of its members within the Company's sector enable the Committee to exercise its duties effectively.

**Tenure of the Chair Policy**

During the period, the Board has determined and approved a policy governing Board members' tenure and reappointment. The Board does not feel that it would be appropriate to set a specific tenure limit for individual Directors or the Chairman of the Board or its Committees. In line with the supplementary AIC guidance, the Board has opted to take a more flexible approach to chair tenure to manage succession. Accordingly, the Board will seek to recruit a new Director promptly when appropriate so as to regularly to bring the challenge of fresh thinking into the Board's discussions.



high standards of corporate governance and effective internal controls.

**Composition of the Board**

During the year to 31 December 2019, the Board consisted of five independent non-executive Directors. Following the retirement of Stuart Cruickshank, with effect from 1 January 2020, the Board consists of four independent non-executive Directors. Biographies of the Directors in office at the date of this report are and are appointed for an initial three-year term which is then extended for a further three-year term. The Board believes that a stable Board composition is fundamental to run the Company properly. The Board has not stipulated a maximum term of any directorship, however the Board has approved a Policy governing Board members' tenure and reappointment which provides that the Board intends to maintain a broad range of experience in the Board, with Directors who have served a range of periods on the Board of the Company. This is likely to result in an average tenure of around 6-9 years, thus ensuring that on each occasion that the Board enters into new investment commitments at least half the members have direct personal experience of negotiating previous commitments with the Manager.

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

No individuals other than the Committee chairman and its members are entitled to be present at Committee meetings unless invited to attend by its members. The Board has a formal schedule of matters specifically reserved to it to ensure effective control of strategic, financial, operational and compliance issues.

There is an agreed procedure for Directors to take independent professional advice if necessary and at the Company's expense. This is in addition to the access to Link Company Matters Limited as Company Secretary for advice.

The rules concerning the appointment and replacement of Directors are contained in the Company's Articles of Association (the "Articles") and the Act.

The Company has taken out Directors' and Officers' Liability Insurance at what is considered to be an appropriate limit of liability, such cover is to be maintained for the full term of each Director's appointment. Save for such indemnity provisions in the Company's Articles and in the Directors' letters of appointment, there are no qualifying third-party indemnity provisions in force.

**Board Operation**

The Board holds formal meetings on a quarterly basis and additional ad-hoc meetings are held when necessary. Attendance at the quarterly Board and committee meetings is displayed in the table on page 38 under the heading "Meetings".

**Responsibilities of the Chair and Senior Independent Director & Chairman**

In accordance with Provision 6.2.8 of the AIC Code, during the period the Board reviewed and approved a memorandum setting out the responsibilities of the Chairman and the Senior Independent Director. This document is available on the Company's website.



of reference for each of its Committees which were reviewed and updated during the period, in accordance with the AIC Code. The terms of reference are available on the Company website, https://pollenstreetsecuredlending.com or upon request from the Company Secretary.

An outline of the remit of each of the Audit, Management Engagement, Nomination, Remuneration, and Risk Committees and their activities during the year are set out on pages 45 to 54. A brief overview of the

Regulations in July 2016 and has responsibility for identifying price sensitive information and determining on a timely basis the disclosure treatment of such information.

The Insider Committee is chaired by Simon King.

**The Chairman and Senior Independent Director**

During the financial period, Mr Cruickshank was the Chairman and was deemed by his fellow Board members to be independent and to have no conflicting relationships. He considered himself to have sufficient time to commit to the Company's affairs.

During the financial period, Mr King was the Senior Independent Director of the Company and provided an alternative channel for shareholder communications and leading the annual evaluation of the Chairman by the Independent Directors

With Effect from 1 January 2020, Simon King was appointed as the Chairman, and is considered by his fellow Board members to be independent and to have no conflicting relationships. He considers himself to have sufficient time to commit to the Company's affairs.

With effect from 1 January 2020, Mahnaz Safa was appointed as the Senior Independent Director of the Company, providing an alternative channel for shareholder communications and leading the annual evaluation of the Chairman by the Independent Directors.

**Independence of Directors**

The Board has reviewed the independence of each Director in accordance with the guidance set out under provision 13 of the AIC Code. Each of the Directors is considered to be independent and free from any business or other relationship that could materially interfere with the exercise of their independent judgement. There are no relationships or circumstances relating to the Company that are likely to affect their judgement.

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 expert experience to properly fulfil their role and are sufficiently independent.

**Meetings**

The Board of Directors meets at least six times a year and more often if required. The table below sets out the Directors' attendance at scheduled Board and Committee meetings during the year to 31 December 2019.

**Management**



| | | | | | | |
|---|---|---|---|---|---|---|
| D Fisher | 29 | 3 | 2 | 3 | 2 | 2 |
| S King | 29 | 3 | 2 | 5 | 2 | 2 |
| M Safa | 28 | 3 | 2 | 5 | 2 | 2 |

*Resigned from the Board, with effect from 1 January 2020 and resigned from the Audit Committee, Risk Committee and Remuneration Committee with effect from 13 June 2019.

**Board Performance Evaluation**

The Directors are aware of the need to continually monitor and improve performance and recognise this can be achieved through regular Board evaluation, which provides a valuable feedback mechanism for improving Board effectiveness. In addition to regular discussions in the course of Board meetings, a formal performance evaluation of the Board, its Committees and the Chairman was carried out during the year.

Following the externally facilitated evaluation conducted in 2018 in accordance with the AIC code, it was considered appropriate to conduct an internal Chairman led evaluation of the Board, individual Directors the performance of its Committees during 2019.

The 2019 evaluation was comprised of a three-stage process. For the first stage, detailed questionnaires specifically designed to assess the strengths and independence of the Board and the Chairman, individual Directors and the performance of its Committees were circulated and completed. In the second stage, the Chairman met with each of the Directors, facilitated by the Company Secretary, to discuss their responses to the questionnaire to explore and to identify common themes and actions required to improve performance. In the final stage, the results of the questionnaire and interviews would be combined in a paper and would be reported to and discussed by both the Nomination Committee and the Board.

**Director Induction**

The Board, or the Investment Manager upon request of the Board, shall 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.

**Appointment and Re-election of Directors**

In accordance with the provisions of the Company's Articles, the Directors are required to retire at the first Annual General Meeting following their appointment and thereafter, at each Annual General Meeting, each Director will retire and, if appropriate, seek re-election after each three years' service.

Beyond these requirements, the Board has agreed a policy whereby all Directors will seek annual re-election at the Company's Annual General Meeting, in line with the recommendations of the AIC Code. In accordance with this policy, all the Directors who are in office at the date of this Report will stand for re-election at the forthcoming AGM. The Board considers that, following the board performance evaluations conducted during 2019, all of the current Directors contribute effectively to the operation of the Board and the strategy of the Company. The Board therefore believes that it is in the best interests of shareholders



overall responsibility for the Company's activities, including the review of investment activity and performance and the control and supervision of all suppliers of services to the Company including the Investment Manager. The Board is also responsible for the Company's system of internal and financial controls and for ensuring that commercial risks and financing needs are properly considered and that the obligations of a public limited company are adhered to.

The Investment Manager is responsible for the discretionary management of the Company's portfolio of investments manages the Company's investment portfolio within guidelines set by the Board. The Investment Manager is in frequent contact with the Board and supplies the Directors with regular updates on the Company's activities and detailed reports at each Board meeting.

The existing sub-management agreement, pursuant to which the Investment Manager has delegated certain elements of its responsibilities and functions to Pollen Street capital (US) LLC, continues in force.

Details of the management fees are set out in Note 12 to the financial statements.

By notice dated 25 February 2020, the Company served 12 months' notice in writing on the Investment Manager to terminate the Investment Management Agreement with effect from 25 February 2021.

The Board keeps the performance of the Investment Manager under continual review and it is the current opinion of the Directors that the continuing appointment of the Investment Manager for the balance of the notice period referred to above is in the interests of the shareholders as a whole.

**CONFLICTS OF INTEREST**

The Company's Articles 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. 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. A process has been developed to identify any of the Directors' potential or actual conflicts of interest. This includes each Director completing a detailed conflict of interest questionnaire. The matters disclosed in the questionnaires are reviewed by the Board following the Directors' appointments and annually thereafter and, if considered appropriate, authorised in accordance with the Act and the Articles. There were no actual or potential conflicts of interest which were required to be authorised by the Board during the period under review.

**STEWARDSHIP RESPONSIBILITIES AND THE USE OF VOTING RIGHTS**

Pursuant to its Investment Policy, the Company may invest (in aggregate) up to 10.0 per cent of gross assets (at the time of investment) in the listed or unquoted securities issued by one or more Platforms.

The Investment Manager, in the absence of explicit instruction from the Board, is empowered to exercise discretion in the use of the Company's voting rights. The UK Stewardship Code (the "Stewardship Code") applies on a 'comply or explain' basis. Although the Investment Manager broadly supports the objectives of the Code, it has determined that it will not commit to the Code's principles because the investment strategies it employs do not generally involve listed equities. In the event of a material change to any



Limited, which is responsible for ensuring that the Board and Committee procedures are followed and that applicable regulations are complied with.

**SHARE CAPITAL & SHAREHOLDERS**

As at 31 December 2019, there were 86,306,803 ordinary shares of £0.01 each in issue, of which 11,904,514 were held by the Company as treasury shares. Therefore, the total number of voting rights in

12,303,792 ordinary shares were held by the Company as treasury shares.

**Purchase of Own Shares**

At the AGM held on 6 June 2019 ("2019 AGM"), the Directors were granted the authority to buyback up to 11,735,994 ordinary shares, representing 14.99 per cent of the ordinary shares in issue as at the date of the notice. As part of its discount management strategy to opportunistically buyback shares where it believes such a purchase would be accretive over and above the long term attractions of investing in its loan and equity portfolios and is in the best long term interest of all shareholders to do so. The Board utilised the authority granted at the AGM 2019 to buyback shares. The Company appointed Liberum Capital Limited ("Liberum") to manage the share buyback program (the "Program"). During the term of the Program, Liberum are authorised to independently of and without influence of the Company, effect purchases of ordinary shares from time to time, within certain pre-agreed parameters. Further details on the Company's Discount Management Policy are contained on the Company's website, https://pollenstreetsecuredlending.com.

Since the authority granted at the 2019 AGM on 6 June 2019, the Company has bought back 588,450 ordinary shares (2018: 1,751,727) at an average price of 834.0 pence per ordinary share (2018: 795.7 pence per ordinary share). At 31 December 2019, the unused authority to buyback ordinary shares as granted by shareholders at the Company's 2019 AGM, was therefore 11,147,544 ordinary shares (2018: 9,984,267). The nominal value of ordinary shares repurchased during this period was £5,884.50 (2018: £17,517.27), being 0.7 per cent of the issued ordinary share capital at 31 December 2019 (2018: 2.03 per cent). In total for the period from 1 January 2019 up to and including 31 December 2019, the Company bought back 1,686,112 ordinary shares (1 January to 31 December 2018: 3,747,148). The nominal value of these ordinary shares repurchased during the year was £16,861.12 (2018: £37,471.48) being 2.0 per cent of the issued ordinary share capital at 31 December 2019 (2018: 4.3 per cent). Further information on the buybacks undertaken during the year can be found in Note 21 to the financial statements.

From 31 December 2019 to 28 May 2020, the Company has repurchased a further 399,278 ordinary shares to hold in treasury, with a nominal value of £0.01 and being 0.5 per cent of the issued ordinary share capital at 31 December 2019. The total consideration for these repurchases was £2,873,479.

The buybacks described above were utilised both to manage the share price discount to NAV and to be accretive for shareholders. The average price paid was approximately a 14.7 per cent discount to year end NAV (2018: 20.4 per cent discount to year end NAV). The impact of the buyback activity for the year ended 31 December 2019 was an enhancement of 3.1 pence to NAV per ordinary share (2018: 7.5 pence to NAV per ordinary share ) and 0.7 pence to earnings per ordinary share (2018: 1.9 pence to earnings per



when:

1. a person acquires an interest in shares which (taken together with shares in which he and persons acting in concert (as defined in the Code) with him are interested) carry 30.0 per cent or more of the voting rights of a company subject to the Code; or

2. any person who, together with persons acting in concert with him, is interested in shares which in aggregate carry not less than 30.0 per cent of the voting rights of a company subject to the Code, but does not hold shares carrying more than 50.0 per cent of the voting rights of the company, and such person, or any persons acting in concert with him, acquires an interest in any

resulting increase in the percentage of shares carrying voting rights in which a person or group of persons acting in concert is interested will be treated as an acquisition for the purposes of Rule 9. However, Note 1 to Rule 37.1 states that a person who comes to exceed the limits in Rule 9.1 in consequence of a company's redemption or purchase of its own shares will not normally incur an obligation to make a mandatory offer unless that person is a director, or the relationship of the person with any one or more of the directors is such that the person is, or is presumed to be, acting in concert with any of the directors. A person who has appointed a representative to the Board of the company, and investment managers of investment trusts, will be treated for these purposes as a director.

The Panel on Takeovers and Mergers (the "Panel") must be consulted in advance in any case where Rule 9 of the Code might be relevant. The Company has consulted with the Panel in relation to its buyback program and, following discussions during February 2017, the Panel confirmed on an ex-parte basis that the funds managed by Invesco Asset Management Limited ("Invesco") would not be obliged to make a mandatory offer for the Company under Rule 9 of the Code in the event of an increase to Invesco's percentage shareholding in the Company caused by repurchases by the Company of its own shares.

### Share Issues

At the AGM held on 6 June 2019, the Directors, in accordance with Section 551 of the Act, were granted the authority to allot ordinary shares up to an aggregate nominal value of £75,091.61, representing approximately 10.0 per cent of the issued ordinary share capital at the time. No shares have been issued under this authority. The Directors will seek approval to renew this authority at the Company's AGM to be held on 30 June 2020.

There are no restrictions concerning the transfer of securities in the Company or on voting rights; no special rights with regard to control attached to securities; no agreements between holders of securities regarding their transfer known to the Company; and no agreements which the Company is party to that might affect its control following a successful takeover bid.

**Substantial Shareholdings**

The Company has been informed of the following notifiable interests of 3 per cent or more in the Company's voting rights as at 31 December 2019:

| Shareholder | Number of ordinary shares | % of voting rights |
|---|---|---|
| Quilter plc | 12,084,295 | 16.19% |
| Invesco Limited | 18,271,712 | 24.49% |
| JPMorgan Chase & Co | 3,912,472 | 5.28% |



**RELATIONS WITH SHAREHOLDERS**

All shareholders have the opportunity to attend and vote, in person or by proxy, at the AGM. The Notice of the AGM, which has been sent out within this Report, contains separate resolutions in respect of each answer shareholders' questions 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. The section of this report, entitled 'Shareholder Information', is intended to provide information which would be useful to shareholders. General enquiries about the Company should be directed to the Company Secretary.

**INTERNAL CONTROL REVIEW**

The Board is responsible for ensuring the maintenance of a robust system of internal control and risk management and for reviewing the effectiveness of the Company's overall internal control arrangements and processes following recommendations from the Risk Committee.

The Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company and for reviewing the effectiveness of the Company's system of internal controls including financial, operational, compliance and risk management. The Company has established a risk register consisting of the key risks and controls in place to mitigate those risks. This risk register provides a basis for the Audit Committee and the Board to regularly monitor the effective operation of the controls and to update the register when new risks are identified.

The Board has reviewed the effectiveness of the Investment Manager's, Administrator's and the Depository's system of internal control and risk management to ensure the safekeeping and accurate valuation on the Group's assets. For the year under review, the Board has not identified any significant failings or weaknesses in the internal control systems.

Risk is inherent in the Company's activities, but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. The Company is exposed to market risk (which includes currency risk, interest rate risk and other price risk), credit risk and liquidity risk arising from the financial instruments held by the Company. These risks are further disclosed in Note 8 to the financial statements.

As the Company has no employees, other than its Directors who are all non-executives, it does not have a whistleblowing policy and procedure in place. The Audit Committee reviews the whistleblowing procedures of the Investment Manager to ensure that the concerns of their staff may be raised in a confidential manner.

The following are the key components which the Company has in place to provide effective internal control:



Company's activities and review its performance;

- Contractual arrangements with the Investment Manager and other third-party service providers are in place which specifically define their roles and responsibilities to the Company;
- The services and controls of the Investment Manager and other third-party service providers are subject to review by the Management Engagement Committee on an ongoing basis. Regular reports are provided to the Board by the Administrator and the Depositary; and
- The Investment Manager's Management Committee and compliance departments continually review the Investment Manager's controls and procedures and report to the Audit Committee.

**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 £19.4 million, split £10.6 million into variable and £8.8 million in fixed remuneration. During the year, the average number of beneficiaries at the Group which includes the AIFM were 77 and the aggregate amount of remuneration paid in relation to the Senior Management of the firm was £6.4 million. Fixed remuneration is amounts paid as salaries. Variable remuneration is amounts paid under bonus arrangements and distributions. The AIFM does not consider that any individual member of staff of the AIFM has the ability to materially impact the risk profile of the Company.

**Other disclosures**

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

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

**Periodic disclosure (FUND 3.2.5 and 3.2.6)**

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

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

The current risk profile of the Group is set out in the Strategic Report: Principal Risks and Uncertainties on pages 23 and 24 and in note 8 Financial instruments and associated risks.

The Company is permitted to be leveraged and 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.

| As a percentage of net asset value | Gross method | Commitment method |
|---|---|---|
| Maximum level of leverage | 350% | 250% |
| Leverage as at 31 December 2019 | 235% | 136% |



the permitted leverage limits within the reporting period and no changes to maximum level of leverage employed by the Group.

**Other matters**

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

**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 2019.

**SUMMARY**

The Committee operates within a clearly defined Terms of Reference, a copy of which is available from the Company's website.

**MEMBERSHIP OF THE AUDIT COMMITTEE**

The Audit Committee comprises all Directors, is chaired by Michael Cassidy and meets at least twice a year. The AIC Code stipulates that the Chairman of the Company should not be a member of the Audit Committee. However, the Board believes that it is appropriate for Mr King to be a member of the Audit Committee, given the size of the Board and Mr King's relevant financial experience. The Board is also satisfied that the combined knowledge and experience of its members within the Company's sector enable the Committee to exercise its duties effectively. Representatives of the Auditors, PricewaterhouseCoopers LLP ('PwC') also attend meetings of the Committee at least twice a year.

**THE ROLE OF THE AUDIT COMMITTEE**

The primary role of the Audit Committee is to monitor the integrity of the financial statements of the Company, keep under review the internal controls, manage the relationship with the external auditor and monitor the external audit process including the independence and objectivity of the external auditor.

**MATTERS CONSIDERED IN THE YEAR**

The Audit Committee met twice during the year under review and during those meetings it has:

- reviewed the internal controls and risk management systems of the Company and its third-party service providers;
- considered the requirement for an internal audit function;
- considered the prospects for the Company and concluded on the viability of the Company over the two-year period to the AGM in 2022;
- assessed the appropriateness of the Group's provision for credit losses under IFRS 9;
- approved the audit plan with the Auditors, including the principal areas of focus and the Auditors' fees;
- reviewed the Group's Audited Annual Report and Financial Statements for the year ended 31 December 2018 and advised the Board accordingly;
- reviewed the Group's half-year financial statements for the period ended 30 June 2019 and advised the Board accordingly;
- met with the Auditor without the presence of the Investment Manager;



**INTERNAL AUDIT**

The Board has considered the need for an internal audit function and it 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. An internal audit function specific to the Company is therefore

The breakdown of fees between audit services and non-audit services for the year ended 31 December 2019 are provided in Note 12 of the financial statements. The fees for the non-audit service work carried out by PwC were 7.0 per cent of the audit fee (2018: 7.0 percent) and related to assurance services in relation to the Group. The Committee considered that engaging PwC to provide these services was in the best interests of the Company due to their expertise and their knowledge and understanding of the business. To maintain the external auditor's independence and objectivity, an independent partner was appointed to lead on these services.

**EXTERNAL AUDIT**

The Committee monitors the Company's relationship with the Auditor and has discussed and considered their independence and objectivity. The Committee is satisfied that PwC are independent considering the term of appointment to date and have been reassured that no conflicts arose during the year and will continue to monitor this position.

The Audit Committee has met with the audit partner and reviewed and assessed PwC's performance to date. The review has involved an examination of the auditor's 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. Following completion of the external audit, the Committee obtains feedback on the conduct of the audit. The Auditor is also invited to attend Committee meetings and also meets with the Committee and its Chairman without the presence of the Investment Manager.

The Committee recommends to the Board that, subject to shareholders' approval at the 2020 AGM, PwC be re-appointed as the Auditor for the Company.

The Company has complied throughout 2019 with the provisions of The Statutory Audit Services Order 2014, issued by the Competition and Markets Authority.

**SIGNIFICANT AREAS CONSIDERED BY THE AUDIT COMMITTEE**

After discussion with the Investment Manager and the Auditors, the Committee determined that the key risks in relation to the Company's financial statements and how they were addressed were:

| Issue Considered | How the Issue was Addressed |
|---|---|
| The risk of material misstatement due to the valuation of unquoted investments | The valuation is in accordance with the accounting policy set out in Note 2 of the financial statements. Fair Value has been assessed across all unquoted equity positions; the Valuation Committee has determined that the Investment Manager has followed the agreed valuation policy and that the valuations for the unquoted equity investments are reasonable and |
| | business model, the Company's two-year business plan 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 28. |

| | |
|---|---|
| | Company has been extended to 16 June 2020. The intentions of Waterfall, as to their plans should an offer be made and be successful, have not been announced. The Directors have assumed for the purposes of going concern and the longer term viability that if a firm offer were to be made and be successful, that the Group would continue to operate and be able to meet its obligations, based on its current financial position over the period. In addition, Article 167 of the Company's Articles of Association stipulates that at the AGM to be held in 2021 the Directors shall propose an ordinary resolution that the Company continues to operate as an investment company (the "continuation vote"). The outcome of the continuation vote cannot at this stage be determined with any certainty.<br><br>The potential consequences of the possible offer, and the continuation vote, are conditions that indicate the existence of a material uncertainty which may cast significant doubt about the Group's and Company's plans or ability to continue as a going concern. The Group and Company financial statements do not include the adjustments that would result if the Group and Parent Company were no longer to be considered a going concern. |
| The risk of material misstatement of expected credit losses under IFRS 9 - Financial instruments | The Committee views credit provisioning as the key accounting judgement area for the Company. As in previous years, it received presentations from the Investment Manager explaining key judgement areas, consistency of approach and the Company's business mix. After challenging the Investment Manager, the Committee concluded that the provisioning approach and key judgements were reasonable. The Investment Manager also reviews impairment performance on a monthly basis and reviews its impairment policy for appropriateness and accuracy on a regular basis to ensure they meet the accounting policy set out in Note 2 of the financial statements. As the Group enters the 2020 financial year, the Committee will continue to monitor this area closely given the expected material impact of Covid-19 on expected credit losses. |



| | |
|---|---|
| | to be a non-adjusting post balance sheet event. |
| Retention of Investment Trust Status | The Committee receives a report from the Company's administrators and Investment Manager confirming if the Company has remained compliant with the requirements to maintain its Investment Trust status. HMRC approved the investment status of the Company. The Directors regularly |

For and on behalf of the Audit Committee

**Michael Cassidy**

*Audit Committee Chairman*

29 May 2020

## Risk Committee Report

As Chairman of the Risk Committee, I am pleased to present the report for the year ended 31 December 2019. Full details of the number of committee meetings and attendance by individual committee members can be found on page 38.

**SUMMARY**

The Committee operates within a clearly defined Terms of Reference, a copy of which is available from the Company's website.

**MEMBERSHIP AND ROLE OF THE RISK COMMITTEE**

The Risk Committee comprises all Directors and is chaired by David Fisher and meets at least twice a year. Senior representatives of the Manager also attend meetings of the Committee to present risk related management information. The Board is satisfied that the combined knowledge and experience of its members enables the Committee to exercise its duties effectively. The Board is ultimately responsible for the risk management of the Company. It seeks to achieve an appropriate balance between mitigating risk and generating attractive risk-adjusted returns for shareholders. Integrity and responsibility are embedded in the Company's approach to risk management.

**MATTERS CONSIDERED IN THE YEAR**

The Risk Committee met twice during the year under review and during those meetings it has:

- reviewed the internal controls and risk management systems of the Company and its third-party service providers;
- assessed the principal risks of the Company and how they are managed and mitigated;
- received and review risk related management information;
- monitored the Group's risk appetite;
- reviewed the policies and process for identifying and assessing business risks and the management of those risks by the Company;
- received regular reports from key service providers on their own controls;
- monitored and ensured adherence to best practice in corporate governance; and



For and on behalf of the Risk Committee

**David Fisher**

*Risk Committee Chairman*

29 May 2020

Reports) (Amendment) Regulations 2008 (as amended). An ordinary resolution for the approval of the Directors' Remuneration Report will be put to shareholders at the forthcoming Annual General Meeting.

Full details of the number of attended committee meetings by individual committee members can be found on page 38.

**STATEMENT FROM THE CHAIRMAN OF THE REMUNERATION COMMITTEE**

**Remuneration Committee**

The Remuneration Committee is chaired by Mahnaz Safa and consists of all the Directors. It is the responsibility of the Committee to determine the remuneration of each Director and to consider the skills, competence and independence of candidates in the context of the overall Board composition and to nominate candidates to the Board. No Director is involved in deciding their own remuneration.

During the year under review, the Committee met five times and reviewed and considered:

- market remuneration trends against a comparison of its peer group;
- the size, composition and structure of the Board, time commitment required of the Directors and the leadership and succession needs of the Company;
- the level of the Directors' fees;
- the level of Directors' fees in relation one-off projects in order for the Board to discharge their duties in relation to one-off projects; and
- The Board have also considered and agreed upon a formal policy for the approval of Directors' expenses.

**VOTING AT ANNUAL GENERAL MEETING**

The Directors' Remuneration Report for the year ended 31 December 2018 and the Directors' Remuneration Policy was approved by shareholders at the AGM's held on 6 June 2019 and 15 June 2018 respectively. The votes cast by proxy were as follows:

| | AGM held on 6 June 2019 Directors' Remuneration Report | | AGM held on 15 June 2018 Directors' Remuneration Policy | |
|---|---|---|---|---|
| | **Number of votes** | **% of votes cast** | **Number of votes** | **% of votes cast** |
| For | 56,796,778 | 99.97 | 35,397,446 | 99.20 |
| Against | 19,126 | 0.03 | 286,552 | 0.80 |
| Total votes cast | **56,815,904** | **100.00** | **35,683,998** | **100.00** |
| Number of votes withheld | 1,148 | - | 998 | - |

**DIRECTORS' REMUNERATION POLICY**



level of fees the Committee considers the amount of time expected to be spent on the Company's affairs and each Director's associated responsibilities to the Company. It also takes into account the remuneration of Directors of other investment companies of similar size and/or mandate and gives due regard to the limits set out in the Company's Articles of Association, which prohibits the total aggregate annual fees payable to the Directors in respect of any financial year to exceed £500,000.

performance-related benefits. There are no pension arrangements in place for the Directors of the Company. No Director has a service contract with the Company and as such is not entitled to compensation payments upon termination of their appointment or loss of office.

Under the Articles, if any Director is called upon to perform extra or special services of any kind, he or she is entitled to receive such sum as the Board may think fit for expenses, and also such remuneration as the Board may think fit, either as a fixed sum or as a percentage of profits or otherwise, and such remuneration may, as the Board shall determine, be either in addition to or in substitution for any other remuneration he or she may be entitled to receive.

Directors are also entitled to receive all expenses properly incurred by them in attending general meetings or separate meetings of the holders of any class of shares or meetings of the Board or Committees of the Board or otherwise in or with a view to the performance of their duties.

Fees of any new Director appointed will be on the above basis. Fees payable in respect of subsequent periods will be determined following an annual review. Any views expressed by shareholders on the fees being paid to Directors would be taken into consideration by the Board.

**TOTAL REMUNERATION PAID TO EACH DIRECTOR (AUDITED)**

The Directors who served during the year earned the following remuneration set out in the table below. The highest paid director for the year was Stuart Cruickshank £64,000 (2018: Stuart Cruickshank £49,000).

| **Directors Remuneration** | **Total Remuneration 2019** £** | **Total Remuneration 2018 £** |
|---|---|---|
| Stuart Cruickshank* | 64,000 | 49,000 |
| Simon King | 50,000 | 40,000 |
| Michael Cassidy | 50,000 | 40,000 |
| Mahnaz Safa | 50,000 | 40,000 |
| David Fisher | 50,000 | 27,897 |
| **Total Remuneration** | **264,000** | **196,897** |

*Stuart Cruickshank resigned from the Board, with effect from 1 January 2020.

**The total remuneration was increased by £10,000 for Directors and £15,000 for the Chairman as a result of additional work undertaken for one-off projects during the financial period. The base Directors' fee was unchanged during the financial period.

The table below sets out a breakdown of Director's remuneration for 2019:



| | | |
|---|---|---|
| Fee work in relation to one off project | 15,000 | |
| Simon King | | **50,000** |
| Directors fee | 40,000 | |
| Fee work in relation to one off project | 10,000 | |
| Michael Cassidy | | **50,000** |

| | | |
|---|---|---|
| Fee work in relation to one off project | 10,000 | |
| David Fisher | | **50,000** |
| Directors fee | 40,000 | |
| Fee work in relation to one off project | 10,000 | |
| **Total Remuneration** | **264,000** | **264,000** |

Following the 31 December 2019 year end, the Board's remuneration for the year ending 31 December 2020 was reviewed in April 2020 and it was agreed that no changes would be made to the Directors' fees. As part of the review it was agreed to make a payment to each Director of £15,000 and £25,000 to the Chairman in respect of one-off project work already undertaken in respect of the year ending 31 December 2020.

**RELATIVE IMPORTANCE OF SPEND ON PAY**

The table below shows the total amount paid out in remuneration and distribution to shareholders for the financial years 2019 and 2018.

| | 2019 | 2018 | Change (%) |
|---|---|---|---|
| Total Directors' Remuneration (£) | 264,000 | 196,897 | 34.1% |
| Total Dividend Payments (£) | 35,832,443* | 36,920,472** | (2.9)% |
| Cost of Shares repurchased | 13,886,947 | 29,990,884 | (53.7)% |
| Shares Repurchased | 1,686,112 | 3,747,148 | (55.0)% |

* This figure includes the interim dividends to 31 March 2019, 30 June 2019, 30 September 2019 and 31 December 2019 which were paid to ordinary shareholders on 14 June 2019, 30 September 2019, 13 December 2019 and 27 March 2020 respectively.

** This figure includes the interim dividends to 31 March 2018, 30 June 2018, 30 September 2018 and 31 December 2018 which were paid to ordinary shareholders on 18 June 2018, 19 September 2018, 19 December 2018 and 27 March 2019 respectively

**DIRECTORS' SERVICE CONTRACTS**

No Director has a service contract with the Company and as such is not entitled to compensation payments upon termination of their appointment or loss of office.

A letter of appointment was issued to the Directors at the beginning of their term of office which details



Directors' remuneration.

**DIRECTORS' INTERESTS (AUDITED)**

There is no requirement under the Company's Articles or letters of appointment for Directors to hold shares in the Company. The interests of the Directors (who served during the year) in the shares of the Company, at the end of the year under review were as follows:

| Director | No. of ordinary shares of £0.01 each |
|---|---|

| | |
|---|---|
| Mahnaz Safa | - |

There have been no other changes to the Directors' share interests between 31 December 2019 and the date of this report.

On behalf of the Board

**Mahnaz Safa**

*Chairman of the Remuneration Committee*

29 May 2020

### Nomination Committee Report

Full details of the number of committee meetings and attendance by individual committee members can be found on page 38.

New appointments will be identified against the requirements of the Company's business and the need to have a balanced Board with the best range of skills and experience to complement existing Directors. Appointments will be made on merit, taking into account the benefits of diversity, including gender.

The Board acknowledges the benefits of greater diversity, including gender diversity and remains committed to ensuring that the Company's directors bring a wide range of skills, knowledge, experience, backgrounds and perspectives. The Board decided it would not be appropriate to set targets as all appointments must be made on merit. It established the following measurable objectives for achieving diversity on the Board:

- All Board appointments will be made on merit, in the context of the skills, knowledge and experience that are needed for the Board to be effective;
- Long lists of potential non-executive directors should include diverse candidates of appropriate merit; and
- Only engage executive search firms who have signed up to the voluntary Code of Conduct on gender diversity and best practice.

**MEMBERSHIP AND ROLE OF THE NOMINATION COMMITTEE**

The Nomination Committee is chaired by Simon King and consists of all the Directors. The Board is satisfied that the combined knowledge and experience of its members enables the Committee to exercise its duties effectively. The Committee is primarily responsible for keeping the composition of the Board under review and to lead the process for appointments to the Board and its Committees. It is also responsible for keeping the structure, size and composition of the Board under regular review, and for making recommendations to the Board with regard to any changes necessary. The Committee also



diversity, including gender diversity, for the Company. The Board acknowledges the benefits of greater diversity, including gender diversity and remains committed to ensuring that the Company's directors bring a wide range of skills, knowledge, experience, backgrounds and perspectives. There has been no further recruitment of Directors post year end as the Board have decided not to appoint another Director.

**MATTERS CONSIDERED IN THE YEAR**

Company;

- agreed the appointment of Mahnaz Safa as the Senior Independent Director;
- undertook a performance evaluation of the Board, its Committees and individual Directors; and
- reviewed and agreed upon the decision to not appoint another Director

On behalf of the Board

**Simon King**

*Chairman of the Nomination Committee*

29 May 2020

### Management Engagement Committee Report

**MEMBERSHIP AND ROLE OF THE COMMITTEE**

All of the Directors are members of the Committee and the Board is satisfied that the combined knowledge and experience of its members enables the Committee to exercise its duties effectively.

Full details of the number of committee meetings and attendance by individual committee members can be found on page 38.

The Management Engagement Committee is primarily responsible for reviewing the appropriateness of the continuing appointment of the Investment Manager, ensuring the terms and conditions of the Investment Manager's continuing appointment align with the investment policy and investment objective of the Company.

**PERFORMANCE OF INVESTMENT MANAGER**

The Committee keeps under review the performance of the Investment Manager and the level and terms of the management fee. Following a formal review carried out by the Committee, on 25 February 2020, the Board announced that it had served 12 months' notice on the Manager to terminate the Investment Management Agreement.

On behalf of the Board

**Simon King**

*Chairman of the Management Engagement Committee*

29 May 2020

### Management Report and Statement of Directors' Responsibilities



Report of the Directors (pages 32 to 35). 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 the Group and Company Financial statements in accordance with applicable United Kingdom law and those International Financial Reporting necessary for shareholders to assess the Company's performance, business model and strategy. In preparing the Financial statements, the Directors are required to:

• select suitable accounting policies in accordance with IAS 8: 'Accounting Policies, Changes in Accounting Estimates and Errors' and then apply them consistently;

• present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;

• provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance;

• state that the Company has complied with IFRS, subject to any material departures disclosed and explained in the financial statements;

• make judgements and estimates that are reasonable and prudent; and

• prepare the financial statements on a going concern basis unless it is inappropriate to assume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group 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 Group and Company's Financial statements and Directors' Remuneration Report comply with the Companies Act 2006. They are also 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.

Responsibility Statements under the Disclosure Guidance and Transparency Rules Each of the Directors confirms that to the best of his or her knowledge:

• the Group and Company's Financial statements, prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, Financial position and profit or loss of the Company;

• the Strategic Report (comprising the Chairman's Statement, Manager's Report, top ten largest Holdings, Analysis of Investment Portfolio by Sector and Business Model and Strategy) and the Report of the Directors include a fair review of the development and performance of the business and the position of the Company together with a description of the principal risks and uncertainties that it faces;



• having assessed the principal risks and other matters discussed in connection with the Viability Statement, it is appropriate to adopt the going concern basis in preparing the Financial statements.

The Annual Report and Accounts were approved by the Board and the above responsibility statement was signed on its behalf by:

**Simon King**

## Financial Statements

**Consolidated Statement of Financial Position**

AS AT 31 DECEMBER 2019

| Group | Notes | 31 December 2019 £'000 | 31 December 2018 £'000 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 9 | 70,884 | 106,358 |
| Cash pledged as collateral | 10 | 3,970 | - |
| Investment assets at fair value through profit or loss | 4 | 24,357 | 35,156 |
| Derivative financial instruments | 5 | 3,586 | 2,103 |
| Credit assets at amortised cost | 4 | 912,091 | 959,147 |
| Interest receivable | 13 | 12,149 | 23,200 |
| Prepaid expenses and other assets | | 13,895 | 3,327 |
| **Total Assets** | | **1,040,932** | **1,129,291** |
| | | | |
| **Liabilities** | | | |
| Management fees payable | 12 | (1,202) | (1,226) |
| Performance fees payable | 12 | (6,541) | (6,462) |
| Accrued expenses and other liabilities | | (9,382) | (9,361) |
| Cash received as collateral | 5 | (720) | (782) |
| Derivative financial instruments | 5 | (2,643) | - |
| Borrowings | 14 | (302,199) | (378,011) |
| **Total liabilities** | | **(322,687)** | **(395,842)** |
| | | | |
| **Net assets** | | **718,245** | **733,449** |
| | | | |
| **Equity attributable to Shareholders of the Company** | | | |
| Called up share capital | 21 | 863 | 863 |



| | | | |
|---|---|---|---|
| **Total shareholders' funds** | | **718,245** | **733,449** |
| | | | |
| **Net Asset Value per Ordinary share** | 20 | **965.35p** | **963.94p** |

and signed on its behalf by:

**Simon King**
*Chairman*

29 May 2020

**Company Statement of Financial Position**

AS AT YEAR ENDED 31 DECEMBER 2019

| Company | Notes | 31 December 2019 £'000 | 31 December 2018 £'000 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | 9 | 49,481 | 72,762 |
| Cash pledged as collateral | | 3,970 | - |
| Investment assets at fair value through profit or loss | 4 | 240,834 | 170,444 |
| Derivative financial instruments | 5 | 3,509 | 2,103 |
| Credit assets at amortised cost | 4 | 620,831 | 724,621 |
| Interest receivable | 13 | 9,914 | 22,241 |
| Prepaid expenses and other assets | | 11,869 | 5,715 |
| **Total Assets** | | **940,408** | **997,886** |
| **Liabilities** | | | |
| Management fees payable | 12 | (840) | (1,021) |
| Performance fees payable | 12 | (6,541) | (6,462) |
| Accrued expenses and other liabilities | | (7,692) | (6,595) |
| Cash received as collateral | | (720) | (782) |
| Derivative financial instruments | 5 | (2,643) | - |
| Borrowings | 14 | (67,966) | (97,388) |
| Deemed Loan | 15 | (135,761) | (152,189) |
| **Total liabilities** | | **(222,163)** | **(264,437)** |



| | | | |
|---|---|---|---|
| Called-up share capital | 21 | 863 | 863 |
| Share premium account | 21 | 27,792 | 27,792 |
| Capital reserves | | (2,950) | 1,693 |
| Revenue reserve | | 15,373 | (7,723) |
| Special distributable reserve | 21 | 677,167 | 710,824 |

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 after taxation of the Company for the year ended 31 December 2019 was £34,823,000 (2018: £30,727,000).

There have been presentational changes to the Company Statement of Financial position please see note 25 for details.

The financial statements on pages 66 to 136 were approved by the Board of Directors on 29 May 2020 and signed on its behalf by:

**Simon King**

*Chairman*

29 May 2020

**Consolidated Statement of Comprehensive Income 2019**

FOR THE YEAR ENDED 31 DECEMBER 2019

| Group | Notes | Revenue £'000 | Capital £'000 | Total £'000 |
|---|---|---|---|---|
| Interest Income on credit assets at amortised cost | 6 | 99,415 | - | 99,415 |
| Losses on equity assets at fair value through profit and loss | 6 | - | (4,647) | (4,647) |
| Credit impairment losses | 11 | (18,003) | - | (18,003) |
| Third Party Servicing Costs | | (9,648) | - | (9,648) |
| **Net operating income before financing and fund costs** | | **71,764** | **(4,647)** | **67,117** |
| Finance costs | 14 | (14,691) | - | (14,691) |
| Management fee | 12 | (7,272) | 4 | (7,268) |
| Performance fee | 12 | (6,541) | - | (6,541) |
| Other Fund expenses | 12 | (3,794) | - | (3,794) |
| **Total fund expenses** | | **(17,607)** | **4** | **(17,603)** |

| | | | | |
|---|---|---|---|---|
| **Profit after tax** | 7 | **39,466** | **(4,643)** | **34,823** |
| **Profit per Ordinary Share (basic and diluted)** | 7 | 53.04p | (6.24)p | 46.80p |

*The total column of this statement represents the Group's Consolidated Statement of Comprehensive Income, prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. The supplementary revenue and capital columns are both prepared under guidance published by the Association of Investment Companies ("AIC"). All items in the above Statement derive from continuing operations. There is no other comprehensive income.*

There have been presentational changes to the Consolidated Statement of Comprehensive Income please see note 25 for details.

**Consolidated Statement of Comprehensive Income 2018**

FOR THE YEAR ENDED 31 DECEMBER 2018

| **Group** | **Notes** | **Revenue £'000** | **Capital £'000** | **Total £'000** |
|---|---|---|---|---|
| Interest Income on credit assets at amortised cost | 6 | 120,903 | - | 120,903 |
| Income on equity assets at fair value through profit and loss | 6 | - | (1,725) | (1,725) |
| Credit impairment losses | 11 | (35,696) | - | (35,696) |
| Third Party Servicing Costs | | (13,680) | - | (13,680) |
| **Net operating income before financing and fund costs** | | **71,527** | **(1,725)** | **69,802** |
| Finance costs | 14 | (18,355) | - | (18,355) |
| Management fee | 12 | (7,476) | 1 | (7,475) |
| Performance fee | 12 | (6,462) | - | (6,462) |
| Other Fund expenses | 12 | (6,783) | - | (6,783) |
| **Total fund expenses** | | **(20,721)** | **1** | **(20,720)** |

| | | | | |
|---|---|---|---|---|
| **Profit after tax** | 7 | **32,451** | **(1,724)** | **30,727** |
| **Profit per Ordinary Share (basic and diluted)** | 7 | 41.77p | (2.22)p | 39.55p |

*The total column of this statement represents the Group's Consolidated Statement of Comprehensive Income, prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. The supplementary revenue and capital columns are both prepared under guidance published by the Association of Investment Companies ("AIC"). All items in the above Statement derive from continuing operations. There is no other comprehensive income.*

There have been presentational changes to the Consolidated Statement of Comprehensive Income please see note 25 for details.

**Consolidated Statement of Changes in Shareholders' Funds**

FOR THE YEAR ENDED 31 DECEMBER 2019

| **Group** | **Called up share capital £'000** | **Share premium £'000** | **Capital reserve £'000** | **Revenue reserve £'000** | **Special distributable reserve £'000** | **Total £'000** |
|---|---|---|---|---|---|---|
| **Net assets attributable to Shareholders at the beginning of the year** | **863** | **27,792** | **1,693** | **(7,723)** | **710,824** | **733,449** |
| Re-allocation in relation to initial application of IFRS 9 | - | - | - | 19,641 | (19,641) | - |
| Profit after tax | - | - | (4,643) | 39,466 | - | **34,823** |
| Dividends declared and paid | - | - | - | (36,011) | - | **(36,011)** |

FOR THE YEAR ENDED 31 DECEMBER 2018

| Group | Called up share capital | Share premium | Capital reserve | Revenue reserve | Special distributable reserve | Total |
|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **Net assets attributable to Shareholders as originally presented** | 863 | 27,792 | 3,417 | (835) | 758,618 | **789,855** |
| Changes on initial application of IFRS 9 | - | - | - | (19,641) | - | **(19,641)** |
| **Updated balance at 1 January 2018** | **863** | **27,792** | **3,417** | **(20,476)** | **758,618** | **770,214** |
| Amounts paid on buyback of Ordinary Shares | - | - | - | - | (30,171) | **(30,171)** |
| Profit after tax | - | - | (1,724) | 32,451 | - | **30,727** |
| Dividends declared and paid | - | - | - | (19,698) | (17,623) | **(37,321)** |
| **Net assets attributable to** | **863** | **27,792** | **1,693** | **(7,723)** | **710,824** | **733,449** |



FOR THE YEAR ENDED 31 DECEMBER 2019

| Company | Called up share capital | Share premium | Capital reserve | Revenue reserve | Special distributable reserve | Total |
|---|---|---|---|---|---|---|

| | | | | | | |
|---|---|---|---|---|---|---|
| **attributable to Shareholders at the beginning of the year** | **863** | **27,792** | **1,693** | **(7,723)** | **710,824** | **733,449** |
| Re-allocation in relation to initial application of IFRS 9 | - | - | - | 19,641 | (19,641) | - |
| Amounts paid on buyback of Ordinary Shares | - | - | - | - | (14,016) | **(14,016)** |
| Profit after tax | - | - | (4,643) | 39,466 | - | **34,823** |
| Dividends declared and paid | - | - | - | (36,011) | - | **(36,011)** |
| **Net assets attributable to Shareholders at the end of the year** | **863** | **27,792** | **(2,950)** | **15,373** | **677,167** | **718,245** |

FOR THE YEAR ENDED 31 DECEMBER 2018

| **Company** | **Called up share capital £'000** | **Share premium £'000** | **Capital reserve £'000** | **Revenue reserve £'000** | **Special distributable reserve £'000** | **Total £'000** |
|---|---|---|---|---|---|---|
| **Net assets attributable to Shareholders as** | 863 | 27,792 | 3,417 | (835) | 758,618 | **789,855** |



| | | | | | | |
|---|---|---|---|---|---|---|
| **Updated balance at 1 January 2018** | **863** | **27,792** | **3,417** | **(20,476)** | **758,618** | **770,214** |
| Amounts paid on buyback of Ordinary | - | - | - | - | (30,171) | **(30,171)** |

| | | | | | | |
|---|---|---|---|---|---|---|
| Dividends declared and paid | - | - | - | (19,698) | (17,623) | **(37,321)** |
| **Net assets attributable to Shareholders at the end of the year** | **863** | **27,792** | **1,693** | **(7,723)** | **710,824** | **733,449** |

**Consolidated Cash Flow Statement**

FOR THE YEAR ENDED 31 DECEMBER 2019

| | **31 December 2019** | **31 December 2018** |
|---|---|---|
| | **£'000** | **£'000** |
| **Cash flows from operating activities:** | | |
| Net profit after taxation | 34,823 | 30,727 |
| **Adjustments to reconcile profit after tax to net cash inflow / (outflow) from operating activities:** | | |
| Unrealised loss on equity assets | 5,927 | 1,361 |
| Realised (gain) on equity assets | (1,221) | - |
| (Increase) / decrease in cash pledged or received as collateral | (4,032) | 4,772 |
| (Increase) / decrease in interest receivable | 11,051 | (6,764) |
| (Increase) / decrease in prepaid expenses and other assets | (12,051) | 3,427 |
| Increase / (decrease) in accrued expenses and other liabilities | 2,719 | 4,522 |
| Changes in estimated credit losses | [illegible] | [illegible] |



| | | |
|---|---|---|
| Sale of equity assets | 3,686 | 7,866 |
| Net sale / (purchase) of loans | 31,429 | 181,117 |
| **Net cash inflow from capital expenditure and financial investments** | **35,115** | **188,893** |

| | | |
|---|---|---|
| Proceeds from debt issued | 315,285 | 287,575 |
| Principal payments on debt issued | (391,445) | (525,925) |
| (Decrease) / increase in interest payable | 379 | (1,226) |
| Amounts paid on buyback of Ordinary Shares | (14,016) | (30,171) |
| Dividends declared and paid | (36,011) | (37,321) |
| **Net cash (used in) by financing activities** | **(125,808)** | **(307,068)** |
| | | |
| Net change in cash and cash equivalents | (35,474) | (44,344) |
| Cash and cash equivalents at the beginning of the year | 106,358 | 150,702 |
| **Net cash and cash equivalents** | **70,884** | **106,358** |

**Company Cash Flow Statement**

FOR THE YEAR ENDED 31 DECEMBER 2019

| | **31 December 2019** | **31 December 2018** |
|---|---|---|
| | **£'000** | **£'000** |
| **Cash flows from operating activities:** | | |
| Net profit after taxation | 34,823 | 30,727 |
| | | |
| **Adjustments to reconcile profit after tax to net cash inflow / (outflow) from operating activities:** | | |
| Unrealised gain / (loss) on equity assets | (8,105) | 1,660 |
| Realised loss / (gain) on equity assets | (1,031) | 629 |
| Decrease / (increase) in interest receivable | 12,327 | (16,719) |
| Decrease in cash pledged and received as collateral | (4,032) | 2,970 |
| (Increase) in prepaid expenses and other assets | (7,559) | (2,337) |
| Decrease / (increase) in accrued expenses and other liabilities | 3,639 | (8,112) |



**Capital expenditure and financial investments**

| | | |
|---|---|---|
| Purchase of equity assets | (119,194) | (40,862) |
| Sale of equity assets | 57,940 | 172,965 |
| Net purchases and sales of money market funds | - | - |
| Net sale / (purchase) of credit assets | 88,463 | 196,704 |

| | | |
|---|---|---|
| **Net cash inflow from operating activities** | **56,169** | **153,040** |
| | | |
| **Cash flows from financing activities:** | | |
| Proceeds from debt issued | 36,845 | 97,259 |
| Principal payments on debt issued | (66,361) | (200,000) |
| (Decrease) / increase in interest payable | 93 | (1,089) |
| Amounts paid on buyback of Ordinary Shares | (14,016) | (30,171) |
| Dividends declared and paid | (36,011) | (37,321) |
| **Net cash (used in by) financing activities** | **(79,450)** | **(171,322)** |
| | | |
| Net change in cash and cash equivalents | (23,281) | (18,282) |
| Cash and cash equivalents at the beginning of the year | 72,762 | 91,044 |
| **Net cash and cash equivalents** | **49,481** | **72,762** |

## Notes to the Consolidated Financial Statements

### 1. GENERAL INFORMATION

Pollen Street Secured Lending plc (the "Company") is a closed-ended investment company incorporated and domiciled in the United Kingdom on 6 December 2013 with registered number 08805459. On the 18 September 2019 the Company was renamed from P2P Global Investments plc. The Company is a publicly listed company and commenced operations on 30 May 2014. The registered office is 6th Floor, 65 Gresham Street, London, EC2V 7NQ, United Kingdom.

The investment objective of the Company is to provide shareholders with an attractive level of dividend income and capital growth through exposure to investments in alternative finance and related instruments.

The Company's investment manager is PSC Credit Holdings LLP (the "Investment Manager"). Pollen Street Capital (US) LLC, an affiliate of the Investment Manager and an SEC registered investment adviser, was appointed as sub investment manager (the "Sub-Manager") to the Company. The Investment Manager has, pursuant to the Sub-Management Agreement, delegated certain of its responsibilities and functions, including those in relation to its discretionary management of the Company's portfolio of credit assets, to the Sub-Manager.

The Investment Manager is authorised as an Alternative Investment Fund Manager ("AIFM") under the Alternative Investment Fund Managers Directive ("AIFMD"). The Company is defined as an Alternative Investment Fund and is subject to the relevant articles of the AIFMD.

The Company invests, directly and indirectly, in consumer loans, small and medium sized enterprises ("SME") loans, advances against corporate trade receivables and/or purchases of corporate trade receivables ("Credit Assets") which have been originated via Platforms. The Company will typically seek to invest in Credit Assets with targeted net annualised returns of 5 to 15 per cent. The Company will seek to purchase Credit Assets directly (via Platforms or via other originators) and may also invest in such assets indirectly via funds, partnerships or special purpose vehicles (including those managed by the Investment Manager, the Sub-Manager or their affiliates) that it deems suitable with a view to enhancing Shareholder returns and providing diversification of the Company's assets.



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

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### a) Basis of preparation and consolidation

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

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

The adoption of this standard and interpretations does not have a material impact on the financial statements, given the nature of the Group's business being that it has no leases.

**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.

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

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

**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. 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. 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.

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

No associates are presented on the Statement of Financial Position using the equity accounting method as the Group elects to hold such investments at fair value through profit and loss. This treatment is permitted by International Accounting Standard ("IAS") 28 Investment in Associates and Joint Ventures, which also 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 Financial Instruments. 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 2 to the financial statements.

As at 31 December 2019, the Company controls four legal entities listed below as well as nine Trusts which are subsidiaries that the Company controls (together "the Group").

| Name of entity | Registered Office |
|---|---|
| Eaglewood SPV I LP | 747 Third Avenue, 19th Floor, New York, NY 10017, USA |
| Eaglewood Income Fund I, LP | 747 Third Avenue, 19th Floor, New York, NY 10017, USA |



| | |
|---|---|
| | DE, 19801, USA |
| SPV I Loan Trust | 500 Delaware Avenue, 11th Floor, Wilmington, DE 19801, USA |

| | |
|---|---|
| | DE 19801, USA |
| BFCL Trust | 500 Delaware Avenue, 11th Floor, Wilmington, DE 19801, USA |
| Eaglewood LC Trust | 500 Delaware Avenue, 11th Floor, Wilmington, DE 19801, USA |
| PSC 1803 Autoloan Trust | 1100 North Market Street Wilmington, DE 19801, USA |
| PSC Rocketloans Prime Consumer Loan Trust | 1100 North Market Street Wilmington, DE 19801, USA |
| PSC 2018F Loan Trust | 1100 North Market Street Wilmington, DE 19801, USA |
| PSC 2019P LLC | 1013 Centre Road, Suite 403-B, Wilmington DE 19805, USA |
| Small Business Origination Loan Trust 2019-1 DAC | 1st Floor, 1-2 Victoria Buildings, Haddington Road, Dublin 4, Ireland |

During 2019, the Company controlled four legal entities listed below as well as one Trust which were subsidiaries that the Company controlled at some point in the year, which however were not controlled at year end.

| Name of entity | Registered Office |
|---|---|
| CH Mercury Note Issuer DAC | Fourth Floor, 3 George's Dock, Dublin 1, Ireland |
| Marketplace Originated Consumer Assets 2016-1 PLC | 35 Great St. Helen's, London EC3A 6AP, United Kingdom |
| P2P BL-2 Limited | 35 Great St. Helen's, London EC3A 6AP, |



| | |
|---|---|
| | Wilmington, DE 19801, USA |

The Company invests in a special purpose vehicle, Eaglewood SPV I LP (the "SPV") and at 31 December 2019 is the sole Limited Partner in that SPV and controls it. The principal activity of Eaglewood SPV I LP is to invest in alternative finance investments and related instruments, including marketplace loans, which is aligned with the Company's investment objective. The Company's position with regards to the SPV is that of an investor where its maximum loss is restricted to its investment in the vehicle and in return for this receives a quarterly income distribution.

The Company also controls Marketplace Originated Consumer Assets 2017-1 PLC ("MOCA 2017") a public limited company incorporated under the Law of England and Wales. MOCA 2017 is a securitisation vehicle for UK consumer loans and operates in a pre-determined manner. The Company is considered to control MOCA 2017 by virtue of being its sponsor whilst having exposure to the variable returns of the vehicle through the holding of junior notes issued by it. MOCA 2017 was incorporated in November 2017. MOCA 2017 has issued senior debt, which is listed on Irish Stock Exchange.

The Company also controls Small Business Origination Loan Trust 2019-1 DAC ("SBOLT 2019") a public limited company incorporated in Ireland, SBOLT 2019 is a securitisation vehicle for unsecured loans made to small and medium-sized enterprises ("SMEs") incorporated in the UK and operates in a pre-determined manner. The Company is considered to control SBOLT 2019 from April 2019 by virtue of being its sponsor whilst having exposure to the variable returns of the vehicle through the holding of junior notes issued by it. SBOLT 2019 was incorporated in April 2019. SBOLT 2019 has issued senior debt, which is listed on Irish Stock Exchange.

The Company also controls a number of trusts ("Trusts") through its control of the SPV and the Eaglewood Fund. The SPV and the Eaglewood Fund control a Trust if they are exposed to, or have the rights to, variable returns from their involvement with the Trust and have the ability to affect those returns through its power over the Trust. As at 31 December 2019, the SPV is the sole beneficial owner of EW-PFL Trust, SPV I Loan Trust, Payoff Consumer Loan Trust, PSC 1803 Autoloan Trust, PSC Rocketloans Prime Consumer Loan Trust and PSC 2018F loan Trust while the Eaglewood Fund is the sole beneficial owner of Eaglewood LC Trust. During the year, the SPV became the sole beneficial owner of an LLC; PSC 2019P LLC.

During the period, P2P BL-3 PLC ("P2P BL-3"), a public limited company incorporated with limited liability under the Law of England and Wales was liquidated. The Company was previously considered to control P2P BL-3 by virtue of being its sponsor while having exposure to the variable returns of the vehicle through the holding of junior note issued by it. During the period all loans were novated from the Company as part of the liquidation process and therefore the Company is no longer exposed to variable returns from April 2019.

During the period, the Company controlled CH Mercury Note Issuer DAC ("CH") a public limited company incorporated in Ireland, CH is a special purpose vehicle for development and bridging finance loans. The Company was considered to control CH through holding 100 per cent of the issued shares. The Company was formed in November 2018 but only became active in February 2019. The pool of development and bridging finance loans were sold in August 2019 and CH was liquidated. CH was consolidated from February 2019 until August 2019.

During the period, Marketplace Originated Consumer Assets 2016-1 PLC ("MOCA 2016"), a public limited company incorporated under the Law of England and Wales is in the process of being liquidated. MOCA 2016 was a securitisation vehicle for UK consumer loans and operates in a pre-determined manner. The Company was previously considered to control MOCA 2016 by virtue of being its sponsor whilst having exposure to the variable returns of the vehicle through the holding of junior notes issued by it. During the period all loans were novated from the Company and it is in the process of liquidation therefore the Company is no longer exposed to variable returns from August 2019.

During the period, P2P BL-2 Limited ("P2P BL-2"), a public limited company incorporated with limited liability under the Law of England and Wales is in the process of liquidation. The Company was previously considered to control P2P BL-2 by virtue of being its sponsor while having exposure to the variable returns of the vehicle through the holding of junior note issued by it. During the period all loans were novated from the Company and it is in the process of liquidation therefore the Company is no longer exposed to variable returns from September 2019.

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

Intra-group balances and transactions, and any unrealised income and expenses (except for currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the Consolidated Financial Statements.

The consolidated financial statements have been prepared on a going concern basis under the historical cost convention, as modified by the valuation of investments and derivative financial instruments at fair value. The Directors consider that the Group and the Company have adequate financial resources to enable them to continue operations for a period of no less than 12 months from the reporting date. The Directors have reviewed the financial projections of the Group from the date of this report, which have been updated to take into account the economic disruption caused by the COVID-19 pandemic. These show that the Group will be able to generate sufficient cash flows in order to meet its liabilities as they fall due and for the foreseeable future, and that all relevant conditions such as covenants under the Group's external borrowings will be met over that period

There are a number of other developments which are relevant to the future of the Group and Company, and which may affect the continued use of going concern accounting principles.

The Directors of the Company announced on 25 February 2020 that the Company was in discussions regarding a possible offer by Waterfall Asset Management LLC ("Waterfall") for the acquisition of the entire share capital of the Company. They also announced that the possible offer was supported by the largest shareholder of the Company at that time. The offer period has since been extended, and on 19



Company be wound up or similarly restructured. The outcome of the continuation vote cannot at this stage be determined with any certainty.

The potential consequences of the possible offer, and the continuation vote, are conditions that indicate the existence of a material uncertainty which may cast significant doubt about the Group's and Company's plans or ability to continue as a going concern. The Group and Company financial statements do not include the adjustments that would result if the Group and Parent Company were no longer to be considered a going concern.

Notwithstanding this uncertainty, the Directors are satisfied that the going concern basis remains appropriate for the preparation of the financial statements.

**(b) Foreign currency**

ruling on that date. Profits or losses on exchange, together with differences arising on the translation of foreign currency assets, including loans at amortised cost, or liabilities, are taken to the capital return column of the Consolidated Statement of Comprehensive Income. Foreign exchange gains and losses arising on investments held at fair value are included within changes in fair value.

**(c) Presentation of Consolidated Statement of Comprehensive Income**

In order to better reflect the activities of an investment trust company and in accordance with the guidance set out by the AIC, supplementary information which analyses the Consolidated Statement of Comprehensive Income between items of revenue and capital nature has been presented alongside the Consolidated Statement of Comprehensive Income. Net profit on ordinary activities before finance costs and taxation in the revenue column is the measure the Directors believe appropriate in assessing the Group's compliance with certain requirements set out in section 1158 of the Corporation Taxes Act 2010.

In respect of the analysis between revenue and capital items presented within the Consolidated Statement of Comprehensive Income, all expenses and finance costs, which are accounted for on an accruals or effective interest rate basis as relevant, 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:

- realised gains and losses on the disposal of investments;
- unrealised gains and losses arising from the valuation of investments held at the year-end;
- 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.

**(d) Income**

For financial instruments measured at amortised cost the effective interest rate ("EIR") method is used to measure the carrying value of a financial asset or liability and to allocate associated interest income or expense over the relevant period. The EIR is the rate that exactly discounts estimated future cash payments or receipts 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.

In calculating the EIR, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, early redemption penalty charges) but does not consider future credit losses. The calculation includes all fees received and paid and costs borne that are an integral part of the EIR and all other premiums or discounts above or below market rates.

Once a financial asset or a group of similar financial assets becomes credit impaired, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss and is recognised over the period to which the expected cash flows relate.

Dividend income from investments is taken to the revenue column of the Consolidated Statement of Comprehensive Income on an ex-dividend basis.

Bank interest and other income receivable are accounted for on an accruals basis.

Fair value gains and losses arising from derivative instruments are credited or charged to the Consolidated Statement of Comprehensive Income.

**(e) Expenses**

Expenses are recognised on an accruals basis, on-going operational expenses are detailed in Note 12. The basis of calculation for the investment management and performance fees is set out in Note 12 to the financial statements.

Following a review of the Consolidated Statement of Comprehensive Income and Consolidated Statement of Financial Position and the associated knock on effect on the Cashflow Statement, the Directors have decided to re-present these statements for 2018 and incorporate them in 2019. The changes made to the face of these financial statements are to make them easier to read and understand for the end user and to tie in with how the Company Group monitors and reviews performance internally and externally in other outputs. There have been no changes to the basis on which the items are estimated or measured. This has involved third party servicing being split out on the face of the Consolidated Statement of Comprehensive Income given it is a material number and better



**(g) Taxation**

The tax payable is based on the taxable profit for the year. Taxable profit differs from profit as reported in the Consolidated 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 tax rates that have been enacted or substantively enacted at the reporting date.

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 Consolidated Statement of Comprehensive Income is the "marginal basis". Under this basis, if taxable income is capable of being offset entirely by expenses presented in the revenue return column of the Consolidated Statement of Comprehensive Income, then no tax relief is transferred to the capital return column.

are not liable for taxation on capital gains. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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 based on tax rates that have been enacted or substantively enacted at the reporting date.

Deferred tax is charged or credited in the Consolidated 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.

**(h) Financial assets and financial liabilities**

**(i) Financial assets**

***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.

IFRS 9 involves 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 they should be classified and measured: (a) 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 debt instruments or both); and (b) 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. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured as described further in this note.

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 impairment gains or losses, interest revenue and foreign exchange gains and losses on the investments 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 is included in 'Income' 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.

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 the Consolidated Statement of Comprehensive Income. This election is made on an investment by investment basis. 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.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. Financial assets measured at FVTPL are recognised in the Consolidated Statement of Financial Position 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



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 considered by the Group in determining the business model 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 Board;
- 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

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 to see if the contractual cash flows are consistent with a basic lending arrangement. 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.

The Group reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification that has taken place forms the start of the first reporting period following the change. Such changes are expected to be very infrequent.

***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 relate to loans originated by the Company and subsequently securitised in a special purpose entity to reduce the cost of borrowing. Although the loans are no longer legally owned by the Company, the Company maintains the economic risk and reward 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.

***Purchases and sales of financial assets***

Purchases and sales of financial assets are accounted for at trade date. Financial assets are derecognised when the rights to receive cash flows have expired or where the assets have been transferred and substantially all of the risks and rewards of ownership have been transferred.

***Impairment***

The impairment charge in the consolidated statement of comprehensive income 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 where there has been a change in credit risk, reasonable and supportable forecasts affecting collectability are also considered when determining the amount of impairment in accordance with IFRS 9.

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

The measurement of expected credit losses 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 EIR.



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.

costs observed; and

- For unsecured products, LGD's are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGD's are influenced by collection strategies, including contracted debt sales and price.

The main difference between Stage 1 and Stage 2 is the respective PD horizon. Stage 1 estimates use a maximum of a 12-month PD, while Stage 2 estimates use a lifetime PD. The main difference between Stage 2 and Stage 3 is Stage 3 is effectively the point at which there has been a default event. For financial assets in stage 3, entities continue to recognise lifetime ECL but they 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.

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 a significant increase in credit risk the following indicators are considered:

- Unsecured
  - Short-term forbearance; and
  - Extension of terms granted.
- Structured and Property
  - Significant increase in credit spread;
  - Significant adverse changes in business, financial and/or economic conditions in which the borrower operates;
  - Actual or expected forbearance or restructuring;
  - Actual or expected significant adverse change in operating results of the borrower;
  - Significant change in collateral value (secured facilities only) which is expected to increase the risk of default; and
  - 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. 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:

- Unsecured
  - Long-term forbearance;
  - Borrower deceased; and
  - Borrower insolvent.
- Structured and 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; and
  - Long-term forbearance or restructuring.

In assessing whether a borrower is credit impaired the following quantitative indicator is 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.

The criteria for determining whether credit risk has increased significantly varies by portfolio and includes a backstop based on delinquency. 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 non-real estate and non-structured lending as these assets typically show low recovery rates past this point. For structured and real-estate lending the key identifiable presumption for default occurring is a breach of covenant or another event of default (e.g. deterioration in underlying assets or corporate) and this is analysed on a case by case basis.

These criteria have been applied to all financial instruments held at amortised cost 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.

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.



most closely correlated with credit losses in the relevant portfolio. The Group has utilised macroeconomic scenarios for each relevant jurisdiction (the most important of which are the UK and the US) prepared and provided by Oxford Economics. Oxford Economics combines two decades of forecast errors with the quantitative assessment of the current and future risks facing the global and domestic economy to produce robust forward-looking distributions for the economy. Oxford Economics construct three 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) will depend on how many scenarios are chosen. Scenario probabilities must add up to 100 per cent so the more scenarios chosen, the smaller the section of the distribution, or bucket, each scenario represents and therefore the smaller the probability. This allows the probabilities to be calculated according to whichever subset of scenarios that the chosen scenarios are appropriately representative of the range of possible scenarios.

Other forward-looking considerations not otherwise incorporated within the above scenarios, such as the impact of any regulatory, legislative or political changes, have also been considered, but are not deemed to have a material impact and therefore no adjustment has been made to the ECL for such factors. This is reviewed and monitored for appropriateness on an annual basis. The impact of the downside scenario can be seen on page 121.

COVID-19 has caused disruption to businesses and economic activity which has been reflected in recent fluctuations in global stock markets. There are no comparable recent events which may provide guidance as to the effect of the spread of 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. The Board considers the emergence and spread of COVID-19 to be a non-adjusting post balance sheet event. Given the Group's UK and US focus, its performance is linked to the health of these economies. We expect the Group could experience further impairments and consequently reduced profits, particularly if economic expectations deteriorate further. However, the overall effect of this cannot be quantified reliably because the impact of the UK government's various support initiatives and the US government's COVID-19 Stimulus Bill is not yet known, but they are expected to reduce the potential expected credit loss impact. The Investment Manager has adopted a prudent approach with the focus on the existing portfolio and ensuring cash collections remain robust as the appropriate strategies are in place. The legacy book continues to run off, whilst performance of this book has been poor to date and it is expected that impairments will increase over the coming months, the loans are now well seasoned.

***Write offs***
The Group is not in possession of personal identifiable information on borrowers and therefore generally restricts itself to writing off on the basis of observed payment records (or lack thereof). The assumption is that even after a loan has been placed into default, there will likely be ongoing collections efforts. Also, any sales to debt collection agencies typically take some time to execute. Therefore, an unsecured consumer loan is normally written off when 120 days have elapsed without a payment being made, and the loan has been in a defaulted state throughout this period. Unsecured SME loans often have a lengthier legal process before collections can be made from any guarantors, so such a loan is written off when 240 days have elapsed without a payment being made, and the loan has been in a defaulted state throughout this period. Secured loans are written off when the proceeds from realising any available collateral have been received or where there is no realistic prospect of recovery and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of impairment losses recorded in the Consolidated Statement of Comprehensive Income.

When the Group becomes aware of special circumstances that make any further collections unlikely (such as fraud, insolvency, or deceased with no known executors or next of kin), a decision may be made to write off a loan earlier than after the periods indicated above.

***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;
- 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. Derivatives are also collateralised.

The Group's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been a focus on increasing the quality and quantity of the collateral held by the Group.

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.



***Modification of loans***
The Group 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

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 EIR (or credit-adjusted EIR 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 has not retained control.

The Group 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.

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

**(ii) Financial liabilities**
***Classification and subsequent measurement***

In both the current year 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. There were none in the year ended 31 December 2019 (2018: none);
- 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 Group recognises any expense incurred on the financial liability; and
- Financial liabilities are derecognised when the obligation is discharged, cancelled or has expired.

***Modification of a financial liability***
The Group sometimes renegotiates or otherwise modifies the contractual cash flows of its financial liabilities. 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:

- Whether the modification merely reduces the contractual cash flows;
- Whether any substantial new terms are introduced that substantially affects the risk profile of the liability;
- Significant extension of the term;
- Significant change in the interest rate;
- Change in the currency the liability is denominated in; and
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the liability.

If the terms are substantially different, the Group derecognises the original financial liability and recognises a 'New' liability at fair value and recalculates a new EIR for the liability. 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 liability and recognises a modification gain or loss in the Consolidated Statement of Comprehensive Income.

**(iii) Derivatives**



classified as a net asset or liability, as appropriate.

**(iv) Other receivables**
Other receivables do not carry any interest and are short-term in nature and are accordingly stated at their nominal value as reduced by estimated credit losses for irrecoverable amounts (if any). Given their short-term nature a lifetime ECL is not deemed material as expected life is less than a month.

**(i) Cash and cash equivalents**
Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments with a maturity of 3 months or less that are readily convertible to known amounts of cash and are subject to insignificant changes in fair value.

**(j) Current liabilities**
Current liabilities, other than derivatives, are not interest-bearing and are stated at the nominal value.

printing costs and stamp duties.

The Group's equity NAV per unit is calculated by dividing the equity less net assets attributable to the holder of redeemable shares divided by the total number of outstanding shares.

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

**(l) Capital reserves**
Capital reserve arising on investments sold includes:

- gains/losses on disposal of investments;
- exchange differences on currency balances and on settlement of loan balances;
- cost of own shares bought back; and
- other capital charges and credits charged to this account in accordance with the accounting policies above.

Capital reserve arising on investments held includes:

- increases and decreases in the valuation of investments held at the year end.

All of the above are accounted for in the Consolidated Statement of Comprehensive Income except the cost of own shares bought back which is accounted for directly against reserves, and reported in the Consolidated Statement of Changes in Shareholders' Funds.

**(m) 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 originations, portfolios, structured facilities and equity assets is afforded at an operational level, all are considered 'routes to market' for acquiring interests in credit assets, and thus act merely as indicators of the key drivers of financial performance and position of the Group. The four routes to market are not determinants of resource allocations, rather each investment opportunity is considered on its own merits. Additionally, there are no segment managers directly accountable for the individual routes to market. The Directors are of the opinion that the Group is engaged in a single segment of business.

**3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES**

The preparation of financial statements in conformity with IFRS adopted in the EU requires the Group to make judgements and estimates 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 consolidated 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 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 below as well as in the accounting policies section of the Notes.

The estimates of most significance to the financial statements, are in relation to EIR, expected credit losses and 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.

**ECL allowance for financial assets measured at amortised cost (estimate)**
The calculation of the Group's ECL allowances and provisions against loan commitments and guarantees under IFRS 9 involves the use of a significant degree of estimation. This includes the formulation and incorporation of multiple forward-looking economic conditions into ECL to meet the measurement objective of IFRS 9. The most significant areas are set out below.

***Definition of default***
The 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 Group has not rebutted the presumption in IFRS 9 that default occurs no later than when a payment is 90 days past due except for structured or real estate instruments. The definition has been rebutted in these cases based on the Group's historical loss experiences of these instruments and the underlying collateral available to the Group.

***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 expected



may have a material impact upon the size of the ECL allowance.

***Forward looking information***
The measurement of ECL's 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 determine stage allocation and calculate the related ECL allowance. This weighting scheme is deemed appropriate for the computation of unbiased ECL. Key scenario assumptions are set using the average of forecasts from external economists, Oxford Economics, 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

the current economic outlook. The key assumptions made, and the accompanying paths, represent our 'best estimate' of a scenario at a specified probability. Suitable narratives are developed for the Central scenario and the paths of the two outer scenarios. Using three scenarios will be insufficient in certain economic environments. Additional analysis may be requested at management's discretion, including the production of extra scenarios. We anticipate there will be only limited instances when the standard approach will not apply. The Base case, Upside and Downside scenarios are 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.

UK mild Upside scenario can be seen as an alternative base case in which the cyclical momentum in demand in the UK and other economies is stronger than currently thought, reflecting in part improved business, household and investor sentiment and more buoyant global trade. The scenario sees UK GDP growth rate rise to 2.3 per cent over the next five years. With a key driver being a swift resolution of ongoing Brexit uncertainty, especially should that entail a significant shift toward a "soft" Brexit where the UK opts to remain a member of the single market. Consequently, unemployment falls slightly to around 3.2 per cent.

Against this backdrop, gearing in the economy remains at comfortable levels and asset prices appreciate significantly. The benign probability of default and loss given default mean that loan losses are likely to remain well below long run averages.

The Company's UK Downside scenario sees UK GDP growth averaging 0.5 per cent per annum over the next five years. The UK enters recession during 2020, but the 1.6 per cent contraction in output is very mild by historical standards and the UK economy then gradually recovers.

In the scenario, unemployment rises to just above 6 per cent by 2022 Q4, wage growth slows and inflation falls well below target. Despite lower interest rates, increased unemployment introduces forced sellers into the residential property market. House prices fall sharply, by over 16 per cent peak-to-trough. While commercial property prices also fall, the peak to trough adjustment is around one third of the size of that seen for residential house prices. The relative magnitude of the falls in this scenario, reflect the relative valuation positions of the two markets - whereas aggregate UK house prices remain dear when compared to incomes, commercial property prices are more in line with fair value having peaked in end-2015.

| 2019 | Base | Upside | Downside |
|---|---|---|---|
| UK Real GDP Growth | 1.61% | 2.85% | (0.43)% |
| UK unemployment rate | 3.92% | 3.78% | 4.96% |
| UK HPI | 0.15% | 3.78% | (7.13)% |
| UK Base Rate | 1.86% | 2.60% | 0.52% |

| 2018 | Base | Upside | Downside |
|---|---|---|---|
| UK Real GDP Growth | 1.84% | 2.54% | 1.02% |
| UK unemployment rate | 4.02% | 3.34% | 5.30% |
| UK HPI | 2.32% | 5.08% | (0.86%) |
| UK Base Rate | 1.50% | 1.77% | 0.61% |

Please see Note 11 for sensitivity analysis.

**Valuation of unquoted investments (estimate)**
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. These are valued in accordance with the techniques set out in Note 2(h). The unquoted equity assets are valued on periodic basis using techniques including a market approach, costs approach and/or income approach. The valuation process is collaborative, involving the finance and investment functions within the Investment Manager with the final valuations being reviewed by the Audit



recognised and unrecognised assets and liabilities.

**Consolidation (judgement)**
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 such as MOCA 2017 and SBOLT 2019 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.

**4. FAIR VALUE MEASUREMENT**
Financial instruments measured and reported at fair value are classified and disclosed in one of the following fair value hierarchy levels based on the significance of the inputs used in measuring its fair

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.

Level 3 investment in a fixed income security issued by a fund is valued based on the NAV as calculated by the fund's Administrator at the balance sheet date. The constitutional and offering documentation of the fund sets out the valuation methodology, the applicable generally accepted accounting principles and the frequency, by which its assets are to be valued and the NAV are to be calculated. No adjustments have been determined to be necessary to the NAV as supplied by the Administrator as this reflects the fair value of the underlying investments under the relevant valuation methodology. The NAV is the value of all the assets of the fund less its liabilities to creditors (including provisions for such liabilities) determined in accordance with applicable accounting standards. The NAV of the fund is sensitive to movements in interest rates due to its investment in fixed rate loans.

The other investments in fixed income securities included within Level 3 of the hierarchy are valued based on, if available, recent transactions and otherwise broker quotes. The investments in unquoted equities are valued using several different techniques, primarily recent transactions and recent rounds of funding by the investee entities.

The Group's Level 2 positions are valued by the Administrator, acting in their capacity as the External Valuer, in accordance with the valuation policy. Fixed income positions are valued using prices from an independent market data provider. Forward foreign exchange contracts are valued using interpolated FX forward points from Bloomberg. The option contracts are valued using yield curves from Bloomberg.

The following table analyses within the fair value hierarchy the Group's assets and liabilities measured at fair value at 31 December 2019:

| **Group** | **Total £'000** | **Level 1 £'000** | **Level 2 £'000** | **Level 3 £'000** |
|---|---|---|---|---|
| **Investment assets at fair value through profit or loss** | | | | |
| Fixed income | 773 | - | - | 773 |
| Unquoted equities | 22,578 | - | - | 22,578 |
| Equities | 1,006 | 1,006 | - | - |
| **Total** | **24,357** | **1,006** | **-** | **23,351** |
| | | | | |
| **Derivative financial assets** | | | | |
| Forward foreign exchange contracts | 3,509 | - | 3,509 | - |
| Interest rate derivatives | 77 | - | 77 | - |



| | | | | |
|---|---|---|---|---|
| Forward foreign exchange contracts | (384) | - | (384) | - |
| Interest rate derivatives | (2,259) | - | (2,259) | - |
| **Total** | **(2,643)** | **-** | **(2,643)** | **-** |

| Group | Total £'000 | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 |
|---|---|---|---|---|
| **Investment assets at fair value through profit or loss** | | | | |
| Fixed income | 2,550 | - | - | 2,550 |
| Unquoted equities | 32,328 | - | - | 32,328 |
| Equities | 278 | 278 | - | - |
| **Total** | **35,156** | **278** | **-** | **34,878** |
| | | | | |
| **Derivative financial assets** | | | | |
| Forward foreign exchange contracts | 2,103 | - | 2,103 | - |
| **Total** | **2,103** | **-** | **2,103** | **-** |

The following table presents the movement in the Group's Level 3 positions for the year ended 31 December 2019.

| Group | Fixed income £'000 | | Unquoted equities £'000 | Total £'000 |
|---|---|---|---|---|
| Opening balance | 2,550 | 3 | 32,328 | 34,878 |
| Transfer | - | | - | - |
| Purchases | - | | - | - |
| Sales | - | | (2,834) | (2,834) |
| Distributions | (2,142) | | - | (2,142) |
| Realised gains | 234 | | 1,743 | 1,977 |
| Net change in unrealised gains / (losses) | 131 | | (8,659) | (8,528) |



| **31 December 2019** |
|---|

The following table presents the movement in the Group's Level 3 positions for the year ended 31 December 2018.

| Group | Fixed income £'000 | Unquoted equities £'000 | Total £'000 |
|---|---|---|---|

| | | | |
|---|---|---|---|
| Sales | - | - | - |
| Distributions | (7,587) | - | (7,587) |
| Realised (losses) | (2,500) | - | (2,500) |
| Net change in unrealised gains / (losses) | 537 | (655) | (118) |
| **Closing balance** | **2,550** | **32,328** | **34,878** |
| **Change in unrealised gains/(losses) on investments still held as at 31 December 2018** | **537** | **(655)** | **(118)** |

* On 1 January 2018 there was a reclassification of £54,819,000 from fixed income to loans at amortised cost on the adoption of IFRS 9.

The net change in realised/unrealised gains and losses is recognised within gains / (losses) on investments in the Consolidated Statement of Comprehensive Income.

Quantitative information regarding the unobservable inputs for the Group's Level 3 positions as at 31 December 2019 is given below:

| **Group** | **Fair value at 31 December 2019 £'000** | **Valuation technique** | **20% change in price £'000** |
|---|---|---|---|
| Unquoted equities | 17,832 | Recent transactions | 3,566 |
| Unquoted equities | 1,348 | Residual value | 270 |

| **Group** | **Fair value at 31 December 2019 £'000** | **Valuation technique** | **5% change in discount £'000** |
|---|---|---|---|
| Junior debt | 773 | Discounted cash flow | 22 |

| **Group** | **Fair value at 31 December 2019 £'000** | **Valuation technique** | **Multiple changed by 1 £'000** |
|---|---|---|---|



| **Group** | **Fair value at 31 December 2018 £'000** | **Valuation technique** | **20% change in price £'000** |
|---|---|---|---|
| Unquoted equities | 27,582 | Recent transactions | 5,516 |
| Unquoted equities | 1,348 | Residual value | 270 |

| | | | |
|---|---|---|---|
| Junior debt | 2,550 | Discounted cash flow | 48 |

| Group | Fair value at 31 December 2018 £'000 | Valuation technique | Multiple changed by 1 £'000 |
|---|---|---|---|
| Unquoted equities | 3,398 | Earnings multiple | 523 |

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

The following table presents the fair value of the Group's assets and liabilities (by class) not measured at fair value through profit and loss at 31 December 2019 but for which fair value is disclosed:

| Group | Amortised Cost Value £'000 | Fair Value Total £'000 | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and cash equivalents | 70,884 | 70,884 | 70,884 | - | - |
| Cash pledged as collateral | 3,970 | 3,970 | 3,970 | - | - |
| Credit assets at amortised cost | 912,091 | 911,313 | 23,973 | - | 887,340 |
| Interest receivable | 12,149 | 12,149 | - | 12,149 | - |
| Prepaid expenses and other assets | 13,895 | 13,895 | - | 13,895 | - |
| **Total** | **1,012,989** | **1,012,211** | **98,827** | **26,044** | **887,340** |
| **Liabilities** | | | | | |
| Management fees payable | (1,202) | (1,202) | - | (1,202) | - |
| Performance fees payable | (6,541) | (6,541) | - | (6,541) | - |
| Accrued expenses and other liabilities | (9,382) | (9,382) | - | (9,382) | - |
| Cash received as collateral | (720) | (720) | (720) | - | - |



disclosed:

| Group | Amortised Cost Value £'000 | Fair Value Total £'000 | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 |
|---|---|---|---|---|---|
| **Assets** | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Interest receivable | 23,200 | 23,200 | - | 23,200 | - |
| Prepaid expenses and other assets | 3,327 | 3,327 | - | 3,327 | - |
| **Total** | **1,092,032** | **1,092,032** | **106,358** | **26,527** | **959,147** |
| | | | | | |
| **Liabilities** | | | | | |
| Management fees payable | (1,226) | (1,226) | - | (1,226) | - |
| Performance fees payable | (6,462) | (6,462) | - | (6,462) | - |
| Accrued expenses and other liabilities | (9,361) | (9,361) | - | (9,361) | - |
| Cash received as collateral | (782) | (782) | - | (782) | - |
| Borrowings | (378,011) | (378,011) | - | (378,011) | - |
| **Total** | **(395,842)** | **(395,842)** | **-** | **(395,842)** | **-** |

The table below provides details of the credit assets at amortised cost held by the Group at 31 December 2019.

| **Group** | **Amortised cost before impairment £'000** | **Expected Credit Losses £'000** | **Amortised cost £'000** | **Carrying value £'000** |
|---|---|---|---|---|
| Credit assets at amortised cost | 964,926 | (52,835) | 912,091 | 912,091 |
| **Total** | **964,926** | **(52,835)** | **912,091** | **912,091** |

The table below provides details of the credit assets at amortised cost held by the Group at 31 December 2018.

| | **Amortised cost** | | | |
|---|---|---|---|---|
| Credit assets at amortised cost | 1,010,350 | (51,203) | 959,147 | 959,147 |
| Total | 1,010,350 | (51,203) | 959,147 | 959,147 |

| Company | Total | 1 | 2 | 3 |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| **Investment assets at fair value through profit or loss** | | | | |
| Investment in subsidiaries | 221,863 | - | - | 221,863 |
| Unquoted equities | 17,965 | - | - | 17,965 |
| Equities | 1,006 | 1,006 | - | - |
| **Total** | **240,834** | **1,006** | - | **239,828** |
| | | | | |
| **Derivative financial assets** | | | | |
| Forward foreign exchange contracts | 3,509 | - | 3,509 | - |
| **Total** | **3,509** | **-** | **3,509** | **-** |
| | | | | |
| **Derivative financial liabilities** | | | | |
| Forward foreign exchange contracts | (384) | - | (384) | - |
| Interest rate derivatives | (2,259) | - | (2,259) | - |
| **Total** | **(2,643)** | **-** | **(2,643)** | **-** |

The following table analyses within the fair value hierarchy the Company's assets and liabilities measured at fair value at 31 December 2018:

| Company | Total | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 |
| **Investment assets at fair value through profit or** | | | | |



| | | | | |
|---|---|---|---|---|
| **Total** | **170,443** | **278** | **-** | **170,165** |
| | | | | |
| **Derivative financial assets** | | | | |
| Forward foreign exchange contracts | 2,103 | - | 2,103 | - |

| Company | Unquoted equities £'000 | Investment in the SPV £'000 | Investment in P2P BL-3 £'000 | Total £'000 |
|---|---|---|---|---|
| Opening balance | 26,120 | 108,185 | 35,860 | 170,165 |
| Purchases | - | 119,194 | - | 119,194 |
| Sales | (1,199) | (19,887) | (35,860) | (56,946) |
| Net change in realised/ unrealised gains/(losses) | (6,956) | 14,371 | - | 7,415 |
| **Closing balance** | **17,965** | **221,863** | **-** | **239,828** |
| **Change in unrealised gains/ (losses) on investments still held as at 31 December 2019** | **(6,965)** | **6,324** | **-** | **(641)** |

The following table presents the movement in the Company's Level 3 positions for the year ended 31 December 2018.

| Company | Fixed income £'000 | Unquoted equities £'000 | Investment in the SPV £'000 | Investment in P2P BL-3 £'000 | Total £'000 |
|---|---|---|---|---|---|
| Opening balance | 57,319 | 26,603 | 269,055 | - | 352,977 |
| Transfer* | (54,819) | 301 | - | - | (54,518) |
| Purchases | - | - | 4,703 | 35,860 | 40,563 |
| Sales | - | - | (173,322) | - | (173,322) |
| **Change in unrealised gains/ (losses) on investments still held as at 31 December 2018** | **-** | **(784)** | **8,566** | **-** | **7,782** |

| Company | Fair Value at 31 December 2019 £'000 | Valuation technique | 20% change in price £'000 |
|---|---|---|---|
| Unquoted equities | 13,219 | Recent transactions | 2,644 |
| Unquoted equities | 1,348 | Residual value | 270 |
| Investment in subsidiaries | 221,863 | Net Asset Value | 44,373 |

| Company | Fair Value at 31 December 2019 £'000 | Valuation technique | Earnings multiple changed by 1 £'000 |
|---|---|---|---|
| Unquoted equities | 3,398 | Earnings multiple | 523 |

Quantitative information regarding the unobservable inputs for the Company's Level 3 positions as at 31 December 2018 is given below:

| Company | Fair Value at 31 December 2018 £'000 | Valuation technique | 20% change in price £'000 |
|---|---|---|---|
| Unquoted equities | 21,374 | Recent transactions | 4,275 |
| Unquoted equities | 1,348 | Residual value | 270 |
| Investment in subsidiaries | 144,045 | Net Asset Value | 28,809 |

| Company | Fair Value at 31 December 2018 £'000 | Valuation technique | Earnings multiple changed by 1 £'000 |
|---|---|---|---|
| Unquoted equities | 3,398 | Earnings multiple | 523 |

The Company's investment in subsidiaries is fair valued based on the NAV as calculated by the Administrator at the balance sheet date. The constitutional and offering documentation of the subsidiaries sets out the valuation methodology, the applicable generally accepted accounting



The investments in fixed income securities included within Level 3 of the above hierarchy are valued based on, if available, recent transactions and otherwise counterparty valuations.

The following table presents the fair value of the Company's assets and liabilities (by class) not measured at fair value through profit and loss at 31 December 2019 but for which fair value is disclosed:

| Company | Amortised Cost Value £'000 | Fair Value Total £'000 | Level 1 £'000 | Level 2 £'000 | Level 3 £'000 |
|---|---|---|---|---|---|

| | | | | | |
|---|---|---|---|---|---|
| Credit assets at amortised cost | 620,831 | 620,053 | 23,973 | - | 596,080 |
| Interest receivable | 9,914 | 9,914 | - | 9,914 | - |
| Prepaid expenses and other assets | 11,869 | 11,868 | - | 11,868 | - |
| **Total** | **695,286** | **695,286** | **77,424** | **21,782** | **596,080** |
| | | | | | |
| **Liabilities** | | | | | |
| Management fees payable | (840) | (840) | - | (840) | - |
| Performance fees payable | (6,541) | (6,541) | - | (6,541) | - |
| Accrued expenses and other liabilities | (7,692) | (7,692) | - | (7,692) | - |
| Cash received as collateral | (720) | (720) | (720) | - | - |
| Borrowings | (67,966) | (67,966) | - | (67,966) | - |
| Deemed loan | (135,761) | (135,761) | - | - | (135,761) |
| **Total** | **(219,520)** | **(219,520)** | **(720)** | **(83,040)** | **(135,761)** |

The following table presents the fair value of the Company's assets and liabilities (by class) not measured at fair value through profit and loss at 31 December 2018 but for which fair value is disclosed:

| **Company** | **Amortised Cost Value £'000** | **Fair Value Total £'000** | **Level 1 £'000** | **Level 2 £'000** | **Level 3 £'000** |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and cash equivalents | 72,762 | 72,762 | 72,762 | - | - |
| Cash pledged as collateral | - | - | - | - | - |
| Credit assets at amortised cost | 724,621 | 724,621 | - | - | 724,621 |
| Interest receivable | 22,241 | 22,241 | - | 22,241 | - |
| Prepaid expenses and other assets | 5,715 | 5,715 | - | 5,715 | - |
| **Total** | **825,339** | **825,339** | **72,762** | **27,956** | **724,621** |



| | | | | | |
|---|---|---|---|---|---|
| Accrued expenses and other liabilities | (6,595) | (6,595) | - | (6,595) | - |
| Cash received as collateral | (782) | (782) | - | (782) | - |
| Borrowings | (97,388) | (97,388) | - | (97,388) | - |
| Deemed loans | (152,189) | (152,189) | - | - | (152,189) |
| **Total** | **(264,437)** | **(264,437)** | **-** | **(112,248)** | **(152,189)** |

| Company | before impairment £'000 | impairment £'000 | cost £'000 | value £'000 |
|---|---|---|---|---|
| Credit assets at amortised cost | 651,289 | (30,458) | 620,831 | 620,831 |
| **Total** | **651,289** | **(30,458)** | **620,831** | **620,831** |

The table below provides details of the loans at amortised cost held by the Company at 31 December 2018.

| Company | Amortised cost before impairment £'000 | Accumulated impairment £'000 | Amortised cost £'000 | Carrying value £'000 |
|---|---|---|---|---|
| Credit assets at amortised cost | 754,386 | (29,765) | 724,621 | 724,621 |
| **Total** | **754,386** | **(29,765)** | **724,621** | **724,621** |

**Investments in subsidiaries measured at fair value**
The Company's investments in subsidiaries, measured at fair value, as at 31 December 2019 and 31 December 2018, consist of:

| Company | 31 December 2019 £'000 | 31 December 2018 £'000 |
|---|---|---|
| Investment in SPV partnership interest held at fair value | 221,863 | 108,186 |
| Investment in P2P BL-3 | - | 35,860 |

5. **DERIVATIVES**

Typically, derivative contracts serve as components of the Group's investment strategy and are utilised primarily to structure and hedge investments to enhance performance and reduce risk to the Group (the Group does not currently designate any derivatives as hedges for hedge accounting



underlying asset, or currency at a specified value and point in time based upon an agreed or contracted quantity. The realised/unrealised gain or loss is equal to the difference between the value of the contract at the onset and the value of the contract at settlement date/year end date and is included in the Consolidated Statement of Comprehensive Income.

As of 31 December 2019, the following forward foreign exchange contracts were included in the Group's Consolidated Statement of Financial Position as liabilities measured at fair value through profit or loss:

**Assets**

| Settlement date | Purchase | Purchase | Sale | Sale | Fair value |
|---|---|---|---|---|---|

| | | | | | |
|---|---|---|---|---|---|
| 08 January 2020 | GBP | 40,574 | EUR | (47,000) | 743 |
| 21 January 2020 | GBP | 56,893 | USD | (75,000) | 308 |
| 18 February 2020 | GBP | 64,528 | USD | (85,000) | 447 |
| 24 February 2020 | GBP | 53,576 | EUR | (62,000) | 948 |
| 24 February 2020 | GBP | 3,857 | USD | (5,000) | 88 |
| 6 March 2020 | GBP | 66,495 | USD | (87,000) | 936 |
| 23 March 2020 | GBP | 4,881 | EUR | (5,700) | 39 |
| | | | | | **3,509** |

**Liabilities**

| Settlement date | Purchase currency | Purchase amount £'000 | Sale currency | Sale amount £'000 | Fair value £'000 |
|---|---|---|---|---|---|
| 28 February 2020 | GBP | 16,279 | NZD | (32,700) | (360) |
| 28 February 2020 | GBP | 2,364 | AUD | (4,500) | (24) |
| | | | | | **(384)** |

As of 31 December 2018, the following forward foreign exchange contracts were included in the Group's Consolidated Statement of Financial Position at fair value through profit or loss:

**Assets**

| Settlement date | Purchase currency | Purchase amount £'000 | Sale currency | Sale amount £'000 | Fair value £'000 |
|---|---|---|---|---|---|
| 04 January 2019 | GBP | 204,118 | EUR | (227,000) | 362 |
| 04 January 2019 | GBP | 33,002 | NZD | (62,000) | 361 |
| 04 January | GBP | | | | |



All forward contracts held by the Group are held at the Company level, therefore no separate tables are presented for the Company.

**Interest Rate Hedges**
Interest Rate Hedges may be entered into by the Group in order to reduce its exposure to fluctuations in interest rate swaps. The realised/unrealised gain or loss is equal to the difference between the value of the contract at the onset and the value of the contract at settlement date/year end date and is included in the Consolidated Statement of Comprehensive Income.

As of 31 December 2019, the following interest rate hedging contracts were included in the Group's Consolidated Statement of Financial Position as liabilities measured at fair value through profit or loss:

| | | | | |
|---|---|---|---|---|
| Interest rate cap | USD | 105,000,000 | 15 February 2025 | 72 |
| Interest rate cap | GBP | 84,632,366 | 20 February 2022 | 1 |
| Interest rate cap | GBP | 130,028,366 | 15 May 2023 | 4 |
| | | | | **77** |

**Liabilities**

| Settlement date | Notional Currency | Notional Amount | Maturity Date | Fair value £'000 |
|---|---|---|---|---|
| Interest rate swap | GBP | 100,000,000 | 8 February 2020 | (133) |
| Interest rate swap | GBP | 100,000,000 | 14 December 2020 | (128) |
| Interest rate swap | GBP | 60,000,000 | 6 February 2021 | (197) |
| Interest rate swap | GBP | 25,000,000 | 4 May 2021 | (126) |
| Interest rate swap | GBP | 100,000,000 | 1 January 2021 | (1,186) |
| Interest rate floor | USD | 100,000,000 | 15 February 2025 | (489) |
| | | | | **(2,259)** |

As at 31 December 2018 there was nil value in the Group's consolidated Statement of Financial Position for interest rate hedging.

**Option contracts**
The option contracts presented in the tables in Note 5 are interest rate caps entered into by the Group. An interest rate cap is an interest rate agreement in which the seller agrees to compensate the buyer for the amount by which the reference rate exceeds a specified rate on a series of dates during the life of the contract. There were no option contracts open at 31 December 2019.

**Offsetting**
The Group may be eligible to present net on the Consolidated Statement of Financial Position, certain financial assets and financial liabilities according to criteria described in Note 2(h)(iii).

As at 31 December 2019 and 31 December 2018, none of the financial assets and financial liabilities met the eligibility criteria and therefore none were presented net on the Consolidated Statement of Financial Position. Accordingly, the amounts disclosed in the following tables as "Net amounts of recognised assets presented in the Consolidated Statement of Financial Position" are the same as the gross amounts.

The following tables provide information on the financial impact of netting for instruments subject to an enforceable master netting arrangement or similar agreement at 31 December 2019 and 31



| 31 December 2019 Derivatives held | Net amounts of recognised assets presented in the Consolidated Statement of Financial Position | Related amounts not eligible to be set-off in the Consolidated Statement of Financial Position | | Net amount £'000 |
|---|---|---|---|---|
| | | Financial instruments £'000 | Collateral received £'000 | |

| | | | | |
|---|---|---|---|---|
| Natwest Markets plc | 3,321 | 3,321 | (720) | 2,601 |
| **Total** | **3,586** | **3,586** | **(720)** | **2,866** |

**Financial assets and collateral received by counterparty**

| 31 December 2018 Derivatives held | Net amounts of recognised assets presented in the Consolidated Statement of Financial Position | Related amounts not eligible to be set-off in the Consolidated Statement of Financial Position | | |
|---|---|---|---|---|
| | | Financial instruments | Collateral received | Net amount |
| | £'000 | £'000 | £'000 | £'000 |
| **Counterparty** | | | | |
| Deutsche Bank | 2,103 | - | - | 2,103 |
| **Total** | **2,103** | **-** | **-** | **2,103** |

**Financial liabilities and collateral pledged by counterparty**

| 31 December 2019 Derivatives held | Net amounts of recognised liabilities presented in the Consolidated Statement of Financial Position | Related amounts not eligible to be set-off in the Consolidated Statement of Financial Position | | |
|---|---|---|---|---|
| | | Financial instruments | Collateral pledged | Net amount |
| | £'000 | £'000 | £'000 | £'000 |
| **Counterparty** | | | | |
| Deutsche Bank | (2,619) | (2,619) | 3,970 | 1,351 |
| Natwest Markets plc | (24) | (24) | - | (24) |
| **Total** | **(2,643)** | **(2,643)** | **3,970** | **1,327** |

**6. INCOME AND GAINS ON INVESTMENTS**

As of 31 December 2019, income and gains on investments were split as follows:



| | 31 December | 31 December |
|---|---|---|
| Interest income on loans at amortised cost | 104,799 | 118,539 |
| (Loss) / gain on IR swaps | (2,511) | (629) |
| Other income | 148 | 4,262 |
| | **99,415** | **120,903** |

| | | |
|---|---|---|
| (Loss) / gain on foreign exchange | 59 | (204) |
| **Total** | **(4,647)** | **(1,725)** |

* Header has been renamed from prior year financial statements please see note 25 for further information on the reclassification.

** Loss on foreign exchange also includes fair value movements on derivatives taken out to economically hedge fair value exposures.

Please see Note 2c for the basis on how income is allocated between the revenue and capital accounts.

Realised and unrealised gains and losses on financial instruments are shown in the table below:

| | **31 December 2019** | | |
|---|---|---|---|
| | **Gains £'000** | **Losses £'000** | **Total £'000** |
| Realised on financial instruments | 41,700 | (31,234) | 10,466 |
| Unrealised on financial instruments | 3,583 | (4,746) | (1,162) |

| | **31 December 2018** | | |
|---|---|---|---|
| | **Gains £'000** | **Losses £'000** | **Total £'000** |
| Realised on financial instruments | 20,745 | (22,020) | (1,275) |
| Unrealised on financial instruments | 5,895 | (6,345) | (450) |

**7. EARNINGS PER SHARE**

Basic earnings per share is calculated using the number of shares held at year end, excluding the number of shares purchased by the Company and held as treasury shares.

| | **31 December 2019** | **31 December 2018** |
|---|---|---|
| Group profit for year (£'000) | 34,823 | 30,727 |



potential.

**8. FINANCIAL INSTRUMENTS AND ASSOCIATED RISKS**

**Management of risk**

The general risk analysis undertaken by the Board and its overall policy approach to risk management are set out in the Strategic Report on pages 23 and 24. This note is incorporated in accordance with IFRS 7 and refers to the identification, measurement and management of risks potentially affecting the value of financial instruments.

The Group's financial instruments may comprise:

- Loans;

The sensitivity analysis in this note is used by management to measure the Group and Company's exposure to these risks. The Board reviews and agrees policies for managing each of these risks, which are summarised below. These policies have remained unchanged since the beginning of the accounting period.

The investment objective and operating environment of the Subsidiaries are consistent with that of the Company. Therefore the risks and uncertainties detailed below are applicable to both the Company and the Group.

In seeking to implement the investment objectives of the Group while limiting risk, the Group is subject to the investment limits restrictions set out in the Credit Risk section of this note.

**Market risk**

Market risk is the risk of loss arising from movements in observable market variables such as foreign exchange rates, equity prices and interest rates. The Group is exposed to market risk primarily through its Financial Instruments.

The Investment Manager regularly reviews the investment portfolio and industry developments to ensure that any events which may impact the Group are identified and considered. This also ensures that any risks affecting the investment portfolio are identified and mitigated to the fullest extent possible.

**Market 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. The Group is exposed to price risk primarily through its exposure from investments in money market funds, fixed income products and equities. Refer to Note 4 for further details on the sensitivity of the Group's Level 3 investments to price risk.

The value of certain investments held by the Group is determined by market forces and there is accordingly a risk that market prices can change in a way that is adverse to the Group's performance. COVID-19 has caused disruption to businesses and economic activity which has been reflected in recent fluctuations in global stock markets. There are no comparable recent events which may provide guidance as to the effect of the spread of 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. The Board considers the emergence and spread of COVID-19 to be a non-adjusting post balance sheet event and the pricing of the group's equity investments have not been updated for this. The Group has adopted a number of investment restrictions which are set out in the prospectus which limit the exposure of the Group to market risk.

**Interest rate risk**

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

The Group is exposed to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows.

Loans held by the Group at amortised cost, with a fixed interest rate, are not exposed to interest rate changes. Fixed income securities with fixed interest rates are exposed to fair value interest rate risk. As at 31 December 2019, the Group had nil per cent (2018: nil per cent) of the total assets classified as bonds with a fixed interest rate.

Financial instruments with a floating interest rate that resets as market rates change are exposed to cash flow interest rate risk. As at 31 December 2019, the Group had 6.81 per cent (2018: 9.42 per cent) of total assets classified as cash and cash equivalents and nil per cent (2018: nil per cent) of fixed income securities with floating interest rates. As at 31 December 2019, if interest rates had increased/decreased by 1 per cent with all other variables held constant, the change in the value of future expected interest cash flows of these assets would have been £709,000 (2018: £1,064,000). 1 per cent is considered to be a reasonably possible movement in interest rates.

The Group has entered into various borrowing facilities which are subject to a variable interest rate. As at 31 December 2019, the Group had £302,199,000 (2018: £378,011,000) drawn down under these facilities. Please see Note 14 for further details. A 1 per cent increase/decrease, with all other variables held constant, the change in the value of future expected cash flows of these liabilities with a floating rate would have been £7,917,000 (2018: £3,144,000).

The Group does not intend to hedge interest rate risk on a regular basis. However, where it enters into floating-rate liabilities against fixed-rate loans, it may at its sole discretion seek to hedge out the interest rate exposure, taking into consideration amongst other things the cost of hedging and the



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 any other currency in which the Group's assets may be denominated, in particular US Dollars and Euros.

**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 below table presents the net exposure to foreign currency at 31 December 2019. The table includes forward foreign exchange contracts at their notional exposure value and excludes all GBP

| | | | | |
|---|---|---|---|---|
| Australian Dollar | 2,194 | (239) | (2,387) | (432) |
| Euro | 101,003 | (1,238) | (97,302) | 2,463 |
| US Dollar | 232,041 | (38,232) | (189,993) | 3,816 |
| New Zealand Dollar | 16,011 | (1,669) | (16,639) | (2,297) |

If the GBP exchange rate simultaneously increased/decreased by 10 per cent against the above currencies, the impact on profit would be an increase/decrease of £355,000. 10 per cent is considered to be a reasonably possible movement in foreign exchange rates. The total GBP exposure as of 31 December 2019 is £408,375,000.

The below table presents the net exposure to foreign currency at 31 December 2018. 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.

| | | | Forward | Net exposure after |
|---|---|---|---|---|
| | Total asset | Total liability | Contract | forward contract |
| | £'000 | £'000 | £'000 | £'000 |
| Australian Dollar | 30,615 | (305) | (29,075) | 1,235 |
| Euro | 227,656 | (4,542) | (203,756) | 19,358 |
| US Dollar | 116,132 | (39,259) | (62,811) | 14,062 |
| New Zealand Dollar | 36,641 | (1,744) | (32,641) | 2,256 |

If the GBP exchange rate simultaneously increased/decreased by 10 per cent against the above currencies, the impact on profit would be an increase/decrease of £3,691,000. 10 per cent is considered to be a reasonably possible movement in foreign exchange rates. The total GBP exposure as of 31 December 2018 is £368,226,000.

**Liquidity risk**

Liquidity risk is defined as the risk that the Group may not be able to settle or meet its obligations on time or at a reasonable price. Ordinary shares are not redeemable at the holder's option.

The Investment Manager manages the Group's liquidity risk through active capital management, including monitoring of covenant conditions, amortising cash flows, monitoring of debt requirements and monitoring and forecasting of cash flows.

Financial liabilities consisting of forward foreign exchange contracts, cash received as collateral, dividends and interest payable, broker fees payable, and accrued expenses and other liabilities are all due within three months.

The liquidity profile of the Group's borrowings is detailed in Note 14.

The outbreak of COVID-19 has seen the manager speak to its clients daily and actively reviewing the impact on the portfolio to ensure the correct actions are being taken to mitigate the impact where possible. As part of this the manager is not proposing to re-invest the cash generated by the portfolio in new investments until there is more visibility on the impact of the lockdown restrictions on performance and a return to some level of normality in the economy. In the structured portfolio where the Company provides finance to non-bank lenders, the manager is working with the borrowers to help them navigate the difficult environment whilst ensuring most of the cash generated by their portfolio is utilised to repay our loan.



payments under any loans it acquires through a Platform only if the corresponding borrower through that Platform (borrower member) makes payments on the loan.

Consumer loans are typically unsecured obligations of borrowers. They are not secured by any collateral, not guaranteed or insured by any third party and not backed by governmental authority in any way. Secured consumer loans will be secured against collateral. SME loans are typically not secured against collateral but are backed by personal guarantees of the business' director(s). Real estate loans and structured facilities are secured against collateral. The Group must rely on the collection efforts of the Platforms and their designated collection agencies and has no direct recourse against borrower members.

The Platforms undertake the primary credit risk assessment when originating loans or receivables. The investment manager, in selecting Platforms from which to acquire loan exposures, conducts detailed initial due diligence on, including but not limited to, their credit risk assessment processes, their operational systems and controls plus their ongoing viability. It also conducts due diligence on and Europe) and credit bands in order to ensure diversification and to seek to mitigate concentration risks.

The outbreak of COVID-19 has caused major disruption across the globe. At the time of writing the portfolio has seen some request for payment holidays. The impacts of the UK government's various support initiatives and the US government's COVID-19 Stimulus Bill are yet unknown, but are expected to reduce the potential expected credit loss impact. Depending on the evolution of the COVID-19 situation, this could result in a severe economic downturn and potentially a material increase in credit risk.

**Loans at amortised cost**

The disclosure below presents the gross carrying amount of financial instruments to which the impairment requirements in IFRS 9 are applied and the associated allowance for ECL. The following table provides an overview of the Group's credit risk by stage and industry, and the associated ECL coverage.

The financial assets recorded in each stage have the following characteristics:

| **Stage** | **Characteristics** |
|---|---|
| Stage 1 | Unimpaired and without significant increase in credit risk on which a 12-month allowance for ECL is recognised. |
| Stage 2 | A significant increase in credit risk has been experienced since initial recognition on which a lifetime ECL is recognised. Unless identified at an earlier stage, all financial assets are deemed to have suffered a significant increase in credit risk when they are 30 days past due and are transferred from Stage 1 to Stage 2. |
| Stage 3 | Objective evidence of impairment and are therefore considered to be in default or otherwise credit-impaired on which a lifetime ECL is recognised. |

The following tables analyse loans by type of exposure and geography and represent the concentration of exposures on which credit risk is managed as at 31 December 2019 and at 31 December 2018 for the Group.

| **Group as at 31 December 2019** | **Real Estate £'000** | **SME UK £'000** | **SME Other £'000** | **Consumer UK £'000** | **Consumer US £'000** | **Consumer Other £'000** | **Total £'000** |
|---|---|---|---|---|---|---|---|
| Stage 1 | 247,793 | 157,773 | 91,218 | 168,686 | 211,103 | 13,568 | 890,141 |
| Stage 2 | 961 | 2,758 | - | 1,312 | 11,142 | 596 | 16,769 |
| Stage 3 | 8,682 | 15,986 | 3,620 | 12,026 | 16,348 | 1,354 | 58,016 |
| **Gross** | **257,436** | **176,517** | **94,838** | **182,024** | **238,593** | **15,518** | **964,926** |



| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Stage 3 | (133) | (12,391) | (2,906) | (10,183) | (14,557) | (1,177) | (41,347) |
| **Total allowance for credit losses** | **(1,210)** | **(16,232)** | **(2,906)** | **(11,559)** | **(19,287)** | **(1,641)** | **(52,835)** |
| **Net loans at** | **256,226** | **160,285** | **91,932** | **170,465** | **219,306** | **13,877** | **912,091** |

Coverage

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Stage 1 | 0.4% | 1.5% | - | 0.4% | 1.3% | 1.9% | 0.8% |
| Stage 2 | 0.1% | 55.7% | - | 53.4% | 16.9% | 33.9% | 25.8% |
| Stage 3 | 1.5% | 77.5% | 80.3% | 84.7% | 89.0% | 86.9% | 71.3% |
| **Total** | **0.5%** | **9.2%** | **3.1%** | **6.4%** | **8.1%** | **10.6%** | **5.5%** |

| **Group as at 31 December 2018** | **Real Estate £'000** | **SME UK £'000** | **SME Other £'000** | **Consumer UK £'000** | **Consumer US £'000** | **Consumer Other £'000** | **Total £'000** |
|---|---|---|---|---|---|---|---|
| Stage 1 | 358,285 | 222,666 | 12,822 | 224,242 | 64,344 | 59,868 | 942,227 |
| Stage 2 | - | 1,341 | - | 3,160 | 16,299 | 1,060 | 21,860 |
| Stage 3 | - | 13,496 | 4,016 | 14,608 | 13,317 | 826 | 46,263 |
| **Gross** | **358,285** | **237,503** | **16,838** | **242,010** | **93,960** | **61,754** | **1,010,350** |
| **Allowance for credit losses** | | | | | | | |
| Stage 1 | (1,698) | (3,552) | - | (1,885) | (1,242) | (689) | (9,066) |
| Stage 2 | - | (763) | - | (1,654) | (2,342) | (586) | (5,345) |
| Stage 3 | - | (7,722) | (2,795) | (13,127) | (12,434) | (714) | (36,792) |
| **Total allowance for credit losses** | **(1,698)** | **(12,037)** | **(2,795)** | **(16,666)** | **(16,018)** | **(1,989)** | **(51,203)** |
| **Net loans at amortised cost** | **356,587** | **225,466** | **14,043** | **225,344** | **77,942** | **59,765** | **959,147** |
| **Credit Loss Coverage** | | | | | | | |



The following tables analyse loans by type of exposure and geography and represent the concentration of exposures on which credit risk is managed as at 31 December 2019 and at 31 December 2018 for the Company.

| **Company as at** | **Real Estate £'000** | **SME UK £'000** | **SME** | **Consumer UK £'000** | **Consumer US £'000** | **Consumer Other £'000** | **Total £'000** |
|---|---|---|---|---|---|---|---|

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Stage 1 | 234,440 | 157,773 | 42,790 | 168,685 | - | 13,568 | 617,256 |
| Stage 2 | - | 2,759 | - | 1,313 | - | 596 | 4,668 |
| Stage 3 | - | 15,985 | - | 12,026 | - | 1,354 | 29,365 |
| **Gross** | **234,440** | **176,517** | **42,790** | **182,024** | - | **15,518** | **651,289** |
| **Allowance for credit losses** | | | | | | | |
| Stage 1 | (1,026) | (2,305) | - | (676) | - | (262) | (4,269) |
| Stage 2 | - | (1,536) | - | (700) | - | (202) | (2,438) |
| Stage 3 | - | (12,391) | - | (10,183) | - | (1,177) | (23,751) |
| **Total allowance for credit losses** | **(1,026)** | **(16,232)** | - | **(11,559)** | - | **(1,641)** | **(30,458)** |
| | | | | | | | |
| **Net loans at amortised cost** | **233,414** | **160,285** | **42,790** | **170,465** | - | **13,877** | **620,831** |
| **Credit Loss Coverage** | | | | | | | |
| Stage 1 | 0.4% | 1.5% | - | 0.4% | - | 1.9% | 0.7% |
| Stage 2 | - | 55.7% | - | 53.3% | - | 33.9% | 52.2% |
| Stage 3 | - | 77.5% | - | 84.7% | - | 86.9% | 80.9% |
| Total | 0.4% | 9.2% | - | 6.4% | - | 10.6% | 4.7% |

| Company as at 31 December 2018 | Real Estate £'000 | SME UK £'000 | SME Other £'000 | Consumer UK £'000 | Consumer US £'000 | Consumer Other £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|
| Stage 1 | 344,013 | 79,392 | 12,727 | 224,242 | - | 59,868 | 720,242 |



| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **credit losses** | | | | | | | |
| Stage 1 | (1,674) | (1,177) | - | (1,885) | - | (689) | (5,425) |
| Stage 2 | - | (611) | - | (1,653) | - | (586) | (2,850) |
| Stage 3 | - | (7,648) | - | (13,128) | - | (714) | (21,490) |
| **Total** | **(1,674)** | **(9,436)** | - | **(16,666)** | - | **(1,989)** | **(29,765)** |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Net loans at amortised cost** | **342,339** | **84,446** | **12,727** | **225,344** | **-** | **59,765** | **724,621** |
| **Credit Loss Coverage** | | | | | | | |
| Stage 1 | 0.5% | 1.5% | - | 0.8% | - | 1.2% | 0.8% |
| Stage 2 | - | 55.6% | - | 52.3% | - | 55.2% | 53.6% |
| Stage 3 | - | 57.1% | - | 89.9% | - | 85.5% | 74.6% |
| **Total** | **0.5%** | **10.1%** | **-** | **6.9%** | **-** | **3.2%** | **3.9%** |

**Credit quality of loans**

The credit quality of loans is assessed through evaluation of various factors, including credit scores, payment data and other information calculated at origination. Set out below is the analysis of the Group's loans at amortised cost by grade.

| Grade | Description |
|---|---|
| A | Highest quality with minimal indicators of credit risk |
| B | High quality, subject to low credit risk, minor adverse indicators. |
| C | Medium-grade, moderate credit risk, may have some adverse credit risk indicators. |
| D | Elevated credit risk, significant adverse indicators. |
| E | High credit risk, with serious adverse indicators (e.g. lower affordability, credit history, existing debt) |

| Group as at 31 December 2019 Internal grade | Real Estate £'000 | SME UK £'000 | SME Other £'000 | Consumer UK £'000 | Consumer US £'000 | Consumer Other £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|
| **Stage 1** | | | | | | | |
| A | 247,793 | 31,643 | 91,218 | 137,004 | 97,454 | 4,239 | 609,351 |
| B | - | 105,708 | - | 19,850 | 74,789 | 5,318 | 205,665 |
| C | - | 17,421 | - | 1,651 | 31,597 | 3,535 | 54,204 |
| D | - | 3,001 | - | 10,181 | 7,073 | 398 | 20,653 |



| | | | | | | | |
|---|---|---|---|---|---|---|---|
| A | 961 | - | - | 172 | 1,190 | - | 2,323 |
| B | - | 946 | - | 606 | 7,280 | 236 | 9,068 |
| C | - | 1,490 | - | 29 | 2,288 | 291 | 4,098 |
| D | - | 322 | - | 505 | 365 | 58 | 1,250 |
| E | - | - | - | - | 19 | 11 | 30 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| B | - | 9,376 | - | 8,036 | 3,796 | 519 | 21,727 |
| C | - | 4,873 | 3,620 | 383 | 5,479 | 627 | 14,982 |
| D | - | 1,737 | - | 1,470 | 4,307 | 187 | 7,701 |
| E | - | - | - | - | 879 | 21 | 900 |
| | 8,682 | 15,986 | 3,620 | 12,026 | 16,348 | 1,354 | 58,016 |
| **Total** | | | | | | | |
| A | 257,436 | 31,643 | 91,218 | 139,313 | 100,531 | 4,239 | 624,380 |
| B | - | 116,030 | - | 28,492 | 85,865 | 6,073 | 236,460 |
| C | - | 23,784 | 3,620 | 2,063 | 39,364 | 4,453 | 73,284 |
| D | - | 5,060 | - | 12,156 | 11,745 | 643 | 29,604 |
| E | - | - | - | - | 1,088 | 110 | 1,198 |
| **Total** | **257,436** | **176,517** | **94,838** | **182,024** | **238,593** | **15,518** | **964,926** |

| **Group as at 31 December 2018 Internal grade** | **Real Estate £'000** | **SME UK £'000** | **SME Other £'000** | **Consumer UK £'000** | **Consumer US £'000** | **Consumer Other £'000** | **Total £'000** |
|---|---|---|---|---|---|---|---|
| **Stage 1** | | | | | | | |
| A | 333,647 | 13,950 | 12,728 | 141,929 | 7,174 | 37,374 | 546,802 |
| B | 24,638 | 170,584 | 94 | 52,734 | 14,765 | 12,963 | 275,778 |
| C | - | 31,368 | - | 4,027 | 23,136 | 8,392 | 66,923 |
| D | - | 6,764 | - | 25,548 | 17,640 | 990 | 50,942 |
| E | - | - | - | 5 | 1,629 | 149 | 1,783 |
| | 358,285 | 222,666 | 12,822 | 224,243 | 64,344 | 59,868 | 942,228 |
| **Stage 2** | | | | | | | |
| A | - | - | - | 347 | 18 | - | 365 |
| B | - | 498 | - | 925 | 15,373 | 433 | 17,229 |
| C | - | 548 | - | 138 | 454 | 517 | 1,657 |



| | | | | | | | |
|---|---|---|---|---|---|---|---|
| A | - | 6,747 | - | 2,052 | 1,112 | - | 9,911 |
| B | - | 4,013 | - | 8,688 | 3,242 | 322 | 16,265 |
| C | - | 2,278 | 4,016 | 1,392 | 3,589 | 367 | 11,642 |
| D | - | 458 | - | 2,463 | 4,393 | 125 | 7,439 |
| E | - | - | - | 13 | 981 | 12 | 1,003 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| B | 24,638 | 175,093 | 94 | 62,347 | 33,380 | 13,718 | 309,270 |
| C | - | 34,194 | 4,016 | 5,557 | 27,180 | 9,275 | 80,222 |
| D | - | 7,518 | - | 29,761 | 22,412 | 1,207 | 60,898 |
| E | - | - | - | 18 | 2,685 | 180 | 2,883 |
| **Total** | **358,285** | **237,503** | **16,838** | **242,010** | **93,960** | **61,754** | **1,010,350** |

| Company as at 31 December 2019 Internal grade | Real Estate £'000 | SME UK £'000 | SME Other £'000 | Consumer UK £'000 | Consumer US £'000 | Consumer Other £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|
| **Stage 1** | | | | | | | |
| A | 234,440 | 31,643 | 42,790 | 137,003 | - | 4,239 | 450,115 |
| B | - | 105,708 | - | 19,850 | - | 5,318 | 130,876 |
| C | - | 17,421 | - | 1,651 | - | 3,535 | 22,607 |
| D | - | 3,001 | - | 10,181 | - | 398 | 13,580 |
| E | - | - | - | - | - | 78 | 78 |
| | 234,440 | 157,773 | 42,790 | 168,685 | - | 13,568 | 617,256 |
| **Stage 2** | | | | | | | |
| A | - | - | - | 172 | - | - | 172 |
| B | - | 946 | - | 606 | - | 236 | 1,788 |
| C | - | 1,491 | - | 29 | - | 291 | 1,811 |
| D | - | 322 | - | 506 | - | 58 | 886 |
| E | - | - | - | - | - | 11 | 11 |
| | - | 2,759 | - | 1,313 | - | 596 | 4,668 |
| **Stage 3** | | | | | | | |
| A | - | - | - | 2,137 | - | - | 2,137 |
| B | - | 9,375 | - | 8,037 | - | 519 | 17,931 |



| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Total** | | | | | | | |
| A | 234,440 | 31,643 | 42,790 | 139,312 | - | 4,239 | 452,424 |
| B | - | 116,029 | - | 28,493 | - | 6,073 | 150,595 |
| C | - | 23,785 | - | 2,063 | - | 4,453 | 30,301 |
| D | - | 5,060 | - | 12,156 | - | 643 | 17,859 |

| Company as at 31 December 2018 Internal grade | Real Estate £'000 | SME UK £'000 | SME Other £'000 | Consumer UK £'000 | Consumer US £'000 | Consumer Other £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|
| **Stage 1** | | | | | | | |
| A | 319,375 | 13,951 | 12,727 | 141,929 | - | 37,375 | 525,357 |
| B | 24,638 | 54,126 | - | 52,733 | - | 12,963 | 144,460 |
| C | - | 9,635 | - | 4,027 | - | 8,391 | 22,053 |
| D | - | 1,681 | - | 25,548 | - | 990 | 28,219 |
| E | - | - | - | 5 | - | 149 | 154 |
| | 344,013 | 79,393 | 12,727 | 224,242 | - | 59,868 | 720,243 |
| **Stage 2** | | | | | | | |
| A | - | - | - | 347 | - | - | 347 |
| B | - | 497 | - | 926 | - | 433 | 1,856 |
| C | - | 411 | - | 138 | - | 517 | 1,066 |
| D | - | 191 | - | 1,749 | - | 91 | 2,031 |
| E | - | - | - | - | - | 19 | 19 |
| | - | 1,099 | - | 3,160 | - | 1,060 | 5,319 |
| **Stage 3** | | | | | | | |
| A | - | 6,747 | - | 2,052 | - | - | 8,799 |
| B | - | 3,986 | - | 8,688 | - | 322 | 12,996 |
| C | - | 2,199 | - | 1,392 | - | 367 | 3,958 |
| D | - | 458 | - | 2,463 | - | 125 | 3,046 |
| E | - | - | - | 13 | - | 12 | 25 |
| | - | 13,390 | - | 14,608 | - | 826 | 28,824 |
| **Total** | | | | | | | |
| A | 319,375 | 20,698 | 12,727 | 144,328 | - | 37,374 | 534,502 |
| **Total** | **344,013** | **93,882** | **12,727** | **242,010** | **-** | **61,754** | **754,386** |



**Collateral held as security for financial assets**

Consumer loans are typically unsecured obligations of borrowers. They are not secured by any collateral, not guaranteed or insured by any third party and not backed by any governmental authority in any way. SME Loans are typically not secured against collateral but are backed by personal guarantees of the business' director(s).

The Group originates real estate loans through platforms and also has a portfolio of structured facilities and bonds totalling £106,140,000 (2018: £43,628,000) that are classed as real estate. The

| | £'000 | £'000 |
|---|---|---|
| Less than 70% | 137,970 | 223,717 |
| Between 70% - 75% | 7,947 | 102,831 |
| Between 75% - 80% | 5,379 | 684 |
| Greater than 80% | - | - |

**Maximum credit exposure loan commitments**

The Company has provided credit facilities that are undrawn as at 31 December 2019. These primarily relate to structured facilities and secured real estate loans. The undrawn balance as at 31 December 2019 was £419,038,000 (31 December 2018: £218,172,000).

**Platform restrictions**

The Group will not invest more than 33 per cent of gross assets via any single Platform, as at 31 December 2019 this is a limit of £343.5 million (2018: £372.6 million). This limit may be increased to 66 per cent of Gross Assets, as at 31 December 2019 this is a limit of £687.0 million (2018: £745.2 million) via any single Platform, provided that where this limit is so increased in respect of any Platform the Group does not invest an amount which is greater than 25 per cent (by value) of the total loan origination or investment of the preceding calendar year via such Platform or counterparty.

**Asset class restrictions**

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

The Company will not invest more than 20 per cent of gross assets, at the time of investment, via any single investment fund investing in Credit Assets. The Group will not invest, in aggregate, more than 60 per cent of gross assets, at the time of investment, in other investment funds that invest in Credit Assets.

The Company will not invest more than 10 per cent of its gross assets, at the time of investment, in other listed closed-ended investment funds, whether managed by the Investment Manager or not, except that this restriction shall not apply to investments in listed closed-ended investment funds which themselves have stated investment policies to invest no more than 15 per cent of their gross assets in other listed closed-ended investment funds.

The following apply, in each case at the time of investment by the Company, to both Credit Assets acquired by the Company directly and on a look-through basis to any Credit Assets held by another investment fund which is managed by the Investment Manager, the Sub-Manager or their affiliates in which the Company invests (proportionate to the percentage interest the Company has in such investment fund). It is intended that:

- No single consumer loan shall exceed 0.25 per cent of gross assets;
- No single SME loan shall exceed 5.0 per cent of gross assets;
- No single advance or loan against a trade receivable asset shall exceed 5.0 per cent of gross assets;
- No single corporate loan shall exceed 5 per cent of gross assets; and
- No single facility, security or other interest backed by a portfolio of loans, assets or receivables (excluding any borrowing ring-fenced within any SPV which would be without recourse to the Company) shall exceed 20 per cent of gross assets.

At any given time, not more than 50 per cent of Gross Assets will be maintained in SME Credit Assets and not more than 50 per cent of Gross Assets will be maintained in trade receivable assets (taking into account both Credit Assets acquired by the Company directly and, on a look-through basis, any Credit Assets held by another investment fund managed by the Investment Manager, the Sub-Manager or their affiliates in which the Company invests (proportionate to the percentage interest the Company has in such investment fund)).

**Other restrictions**



other security held) in the event that counterparties fail to perform their obligations as at 31 December 2019 and 31 December 2018 in relation to each class of recognised financial assets, is the carrying amount of those assets as indicated in the Consolidated Statement of Financial Position.

## 9. CASH AND CASH EQUIVALENTS

**Group**

| | Group | Group |
|---|---|---|

| | | |
|---|---|---|
| Cash held at bank | 70,884 | 106,358 |
| **Total** | **70,884** | **106,358** |

| **Company** | **Company 31 December 2019 £'000** | **Company 31 December 2018 £'000** |
|---|---|---|
| Cash held at bank | 49,481 | 72,762 |
| **Total** | **49,481** | **72,762** |

**10. CASH PLEDGED AS COLLATERAL**

| **Group** | **Group 31 December 2019 £'000** | **Group 31 December 2018 £'000** |
|---|---|---|
| Cash collateral | 3,970 | - |
| **Total** | **3,970** | **-** |

| **Company** | **Company 31 December 2019 £'000** | **Company 31 December 2018 £'000** |
|---|---|---|
| Cash collateral | 3,970 | - |
| **Total** | **3,970** | **-** |

Cash collateral refers to cash posted, on a daily basis, to cover the net exposure between counterparties by enabling the collateral to be realised in an event of default or if other predetermined results occur.

**11. EXPECTED CREDIT LOSS ALLOWANCE OF INVESTMENTS AT AMORTISED COST**



stopped due to expected future non-performing loan sales.

Breakdown of expected credit loss allowance as at 31 December 2019 as below:

| **Group 2019** | **Real Estate £'000** | **SME UK £'000** | **SME Other £'000** | **Consumer UK £'000** | **Consumer US £'000** | **Consumer Other £'000** | **Total £'000** |
|---|---|---|---|---|---|---|---|

31 December 2018

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **ECL charge to the statement of comprehensive income** | | | | | | | |
| Stage 1 | 366 | (1,246) | - | (1,209) | 1,713 | (411) | (787) |
| Stage 2 | 1 | 772 | - | (953) | (379) | (369) | (928) |
| Stage 3 | 187 | 9,755 | (53) | 4,867 | 3,769 | 1,193 | 19,718 |
| **Total ECL charge for 2019** | **554** | **9,281** | **(53)** | **2,705** | **5,103** | **413** | **18,003** |
| Loans and receivables written off | (408) | (6,238) | - | (2,902) | (3,436) | (721) | (13,705) |
| Loans and receivables sold | (949) | - | - | (6,548) | - | - | (7,497) |
| Loans and receivables removed on deconsolidation | - | - | - | - | - | - | - |
| Recoveries of amounts written off in previous years | 359 | 1,152 | 280 | 1,638 | 2,369 | 23 | 5,821 |
| Foreign exchange impact | (44) | - | (116) | - | (767) | (63) | (990) |
| **As at 31 December 2019** | **1,210** | **16,232** | **2,906** | **11,559** | **19,287** | **1,641** | **52,835** |

| **Group 2018** | **Real Estate** | **SME UK** | **SME Other** | **Consumer UK** | **Consumer US** | **Consumer Other** | **Total £'000** |
|---|---|---|---|---|---|---|---|
| **31 December 2017** | | | | | | | |
| Changes on initial application of IFRS 9 | | | | | | | |
| Stage 1 | 2,227 | 2,837 | - | 5,886 | 5,873 | 306 | 17,129 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| allowance as at 1 January 2018 | 2,227 | 9,749 | 3,557 | 28,659 | 31,700 | 1,963 | 77,855 |
| **ECL charge to the statement of comprehensive income** | | | | | | | |
| Stage 1 | (530) | 4,296 | - | (3,819) | (3,823) | 416 | (3,460) |
| Stage 2 | - | (1,113) | (225) | (2,087) | (9,687) | (165) | (13,277) |
| Stage 3 | - | 10,669 | 3,178 | 18,157 | 18,010 | 2,419 | 52,433 |
| **Total ECL charge for 2018** | **(530)** | **13,852** | **2,953** | **12,251** | **4,500** | **2,670** | **35,696** |
| Loans and receivables written off | - | (5,904) | (3,893) | (14,168) | (22,551) | (2,666) | (49,182) |
| Loans and receivables sold | - | - | - | (10,413) | (2,723) | - | (13,136) |
| Loans and receivables removed on deconsolidation | - | (5,743) | - | - | - | - | (5,743) |
| Recoveries of amounts written off in previous years | - | 83 | - | 337 | 3,921 | 64 | 4,405 |
| Foreign exchange impact | 1 | - | 178 | - | 1,171 | (42) | 1,308 |
| **As at 31 December 2018** | **1,698** | **12,037** | **2,795** | **16,666** | **16,018** | **1,989** | **51,203** |

The following tables analyse how the expected credit loss provision as at 31 December 2019 and at 31 December 2018 for the Group has moved.



| | **ECL Allowance** | | | | **Principal Balance** | | | |
|---|---|---|---|---|---|---|---|---|
| Opening Balance | (9,066) | (5,345) | (36,792) | **(51,203)** | 942,227 | 21,860 | 46,263 | **1,010,350** |
| Stage 1 to Stage 2 | 228 | (5,317) | - | **(5,089)** | (14,576) | 14,576 | - | **-** |
| Stage 1 to Stage | 460 | - | (21,578) | **(21,118)** | (37,210) | - | 37,210 | **-** |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Stage 2 to Stage 3 | - | 2,592 | (3,916) | **(1,324)** | - | (4,588) | 4,588 | **-** |
| Stage 3 to Stage 1 | (2) | - | 110 | **108** | 126 | - | (126) | **-** |
| Stage 3 to Stage 2 | - | (12) | 18 | **6** | - | 21 | (21) | **-** |
| Changes in model assumptions | 508 | 603 | (682) | **429** | - | - | - | **-** |
| Repayments | 4,394 | 2,709 | 4,367 | **11,470** | (789,544) | (13,939) | (7,347) | **(810,830)** |
| Originations | (4,788) | - | - | **(4,788)** | 1,057,177 | - | - | **1,057,177** |
| Loans sold | 979 | - | 6,518 | **7,497** | (255,104) | - | (7,664) | **(262,768)** |
| Write-offs | - | - | 9,846 | **9,846** | - | - | (13,705) | **(13,705)** |
| FX | 139 | 89 | 762 | **990** | (13,593) | (523) | (1,182) | **(15,298)** |
| **Total** | **(7,163)** | **(4,325)** | **(41,347)** | **(52,835)** | **890,141** | **16,769** | **58,016** | **964,926** |

| | **ECL Allowance** | | | | **Principal Balance** | | | |
|---|---|---|---|---|---|---|---|---|
| Group as at 31 December 2018 | Stage 1 £'000 | Stage 2 £'000 | Stage 3 £'000 | **Total £'000** | Stage 1 £'000 | Stage 2 £'000 | Stage 3 £'000 | **Total £'000** |
| Opening Balance | (19,677) | (17,313) | (40,864) | **(77,854)** | 1,174,856 | 23,881 | 47,702 | **1,246,439** |
| Stage 1 to Stage 2 | 2,821 | (9,526) | - | **(6,705)** | (56,541) | 56,541 | - | **-** |
| Stage 1 to Stage 3 | 985 | - | (42,417) | **(41,432)** | (68,381) | - | 68,381 | **-** |
| Stage 2 to Stage | | | | | | | | |



| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 1 | (3) | - | 142 | **139** | 144 | - | (144) | **-** |
| Stage 3 to Stage 2 | - | (12) | 16 | **4** | - | 19 | (19) | **-** |
| Changes in model | 1,456 | 215 | 4,138 | **5,809** | - | - | - | **-** |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Originations | (11,717) | - | (1,538) | **(13,255)** | 885,835 | - | 4,435 | **890,270** |
| Loans sold or deconsolidated | 6,898 | 15 | 11,964 | **18,877** | (306,126) | (6,858) | (12,461) | **(325,445)** |
| Write-offs | - | - | 43,466 | **43,466** | - | - | (49,183) | **(49,183)** |
| FX | 254 | (1,324) | (238) | **(1,308)** | 9,550 | 999 | 1,120 | **11,669** |
| **Total** | **(9,066)** | **(5,345)** | **(36,792)** | **(51,203)** | **942,227** | **21,860** | **46,263** | **1,010,350** |

The following tables analyse how the expected credit loss as at 31 December 2019 and at 31 December 2018 for the Company is made up.

| | **ECL Allowance** | | | | **Principal Balance** | | | |
|---|---|---|---|---|---|---|---|---|
| Company as at 31 December 2019 | Stage 1 £'000 | Stage 2 £'000 | Stage 3 £'000 | **Total £'000** | Stage 1 £'000 | Stage 2 £'000 | Stage 3 £'000 | **Total £'000** |
| Opening Balance | (5,425) | (2,850) | (21,490) | **(29,765)** | 720,242 | 5,319 | 28,825 | **754,386** |
| Stage 1 to Stage 2 | 118 | (3,954) | - | **(3,836)** | (7,091) | 7,091 | - | **-** |
| Stage 1 to Stage 3 | 334 | - | (16,431) | **(16,097)** | (21,287) | - | 21,287 | **-** |
| Stage 2 to Stage 1 | (20) | 518 | - | **498** | 937 | (937) | - | **-** |
| Stage 2 to Stage 3 | - | 2,372 | (3,616) | **(1,244)** | - | (4,369) | 4,369 | **-** |
| Stage 3 to Stage 1 | (2) | - | 110 | **108** | 126 | - | (126) | **-** |
| Stage 3 to Stage 2 | - | (5) | 8 | **3** | - | 9 | (9) | **-** |
| Changes in model assumptions | 767 | 136 | (249) | **654** | - | - | - | **-** |
| Write-offs | - | - | 6,634 | **6,634** | - | - | (9,811) | **(9,811)** |
| FX | 25 | 12 | 117 | **154** | (3,067) | (28) | (109) | **(3,204)** |
| **Total** | **(4,269)** | **(2,438)** | **(23,751)** | **(30,458)** | **617,256** | **4,668** | **29,365** | **651,289** |



| | **ECL Allowance** | | | | **Principal Balance** | | | |
|---|---|---|---|---|---|---|---|---|

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Opening Balance | (14,669) | (6,514) | (21,414) | **(42,597)** | 920,532 | 10,584 | 26,202 | **957,318** |
| Stage 1 to Stage 2 | 156 | (5,035) | - | **(4,879)** | (8,613) | 8,613 | - | **-** |
| Stage 1 to Stage 3 | 524 | - | (27,929) | **(27,405)** | (53,150) | - | 53,150 | **-** |
| Stage 2 to Stage 1 | (23) | 754 | - | **731** | 1,221 | (1,221) | - | **-** |
| Stage 2 to Stage 3 | - | 4,510 | (6,486) | **(1,976)** | - | (7,420) | 7,420 | **-** |
| Stage 3 to Stage 1 | - | - | - | **-** | - | - | - | **-** |
| Stage 3 to Stage 2 | - | (12) | 16 | **4** | - | 19 | (19) | **-** |
| Changes in model assumptions | 1,672 | 198 | 3,310 | **5,180** | - | - | - | **-** |
| Repayments | 11,242 | 89 | 2,950 | **14,281** | (461,959) | (134) | (27,480) | **(489,573)** |
| Originations | (7,435) | - | (1,540) | **(8,975)** | 597,219 | - | 4,435 | **601,654** |
| Loans sold or deconsolidated | 3,123 | 3,158 | 9,875 | **16,156** | (276,101) | (5,119) | (11,999) | **(293,219)** |
| Write-offs | - | - | 19,607 | **19,607** | - | - | (22,794) | **(22,794)** |
| FX | (15) | 2 | 121 | **108** | 1,093 | (3) | (90) | **1,000** |
| **Total** | **(5,425)** | **(2,850)** | **(21,490)** | **(29,765)** | **720,242** | **5,319** | **28,825** | **754,386** |

**Measurement uncertainty and sensitivity analysis of expected credit loss**

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

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 above, including management overlays where required. The probability-weighted amount is determined as at the balance sheet date and is typically a higher number than would result from using only the Base (most likely) economic scenario. Expected credit losses typically have a non-linear relationship to the many factors which influence credit losses, such that more favourable



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

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

The table below shows a sensitivity analysis for ECL based on changing the weighting of the scenarios to allocate a 100 per cent weight to the downside scenario. The scenarios are applicable

| | 31 December 2019 | | 31 December 2018 | |
|---|---|---|---|---|
| | Weighted Scenario's | 100% Downside Scenario | Weighted Scenario's | 100% Downside Scenario |
| | £'000 | £'000 | £'000 | £'000 |
| Real Estate | 1,210 | 1,287 | 1,698 | 2,188 |
| SME (UK) | 16,232 | 16,398 | 12,037 | 12,852 |
| SME (Other) | 2,906 | 2,906 | 2,795 | 2,795 |
| Consumer (UK) | 11,559 | 11,864 | 16,666 | 17,995 |
| Consumer (US) | 19,287 | 19,320 | 16,018 | 16,392 |
| Consumer (Other) | 1,641 | 1,744 | 1,989 | 2,214 |
| **Total** | **52,835** | **53,519** | **51,203** | **54,436** |

The ECL has been further sensitised 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 £2.9 million higher under this sensitivity.

## 12. FEES AND EXPENSES

**Investment management and performance fees**

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.

The management fee is payable monthly in arrears and is at the rate of 1/12 of 1.0 per cent per month of NAV (the "Management Fee"). For the period from admission to trading on the London Stock Exchange's main market for listed securities (the "Admission") until the date on which 90 per cent of the net proceeds of the Issue have been invested or committed for investment, directly or indirectly, in Credit Assets, the value attributable to any assets of the Group other than Credit Assets (including any cash) will be excluded from the calculation of NAV for the purposes of determining the Management Fee.

The Investment Manager shall not charge a management fee or performance fee twice. Accordingly, if at any time the Group invests in or through any other investment fund or special purpose vehicle and a management fee or advisory fee is charged to such investment fund or special purpose vehicle by the Investment Manager, the Sub-Manager or any of their affiliates, the value of such investment shall be excluded from the calculation of NAV for the purposes of determining the Management Fee payable.

Notwithstanding the above, the Investment Manager may charge a fee based on a percentage of gross assets (such percentage not to exceed 1.0 per cent) to any entity which is within the same group of companies of which the Company forms part, provided that such an entity employs leverage for the purpose of its investment policy or strategy. Effective from 1 January 2017, the Investment Manager waived the management fee charged on leverage.

Management fees charged for the year ended 31 December 2019 totalled £7,268,000 (2018: £7,475,000) of which £1,202,000 was payable at the year-end (2018: £1,226,000).

The management fees are allocated between the revenue and capital accounts based on the prospective split of NAV between revenue and capital. The percentage of management expenses allocated to capital is less than 1 per cent of the total.



(as defined below) since the end of the Calculation Period in respect of which a performance fee was last earned or Admission if no performance fee has yet been earned (the "High Water Mark").

The performance fee will be a sum equal to 15 per cent of such amount (if positive) and will only be payable if the Adjusted NAV at the end of a Calculation Period exceeds the High-Water Mark. From 1 January 2018, the performance fee will be subject to a hurdle of 5 per cent with full catch up. The performance fee shall be payable to the Investment Manager in arrears within 30 calendar days of the end of the relevant Calculation Period.

Performance fees for the year ended 31 December 2019 totalled £6,541,000 (2018: £6,462,000) of which £6,541,000 was payable at the year-end (2018: £6,462,000).

"Adjusted Net Asset Value" means the NAV adjusted for: (i) any increases or decreases in NAV arising from issues or repurchases of ordinary or C shares during the relevant Calculation Period; (ii) adding back the aggregate amount of any dividends or distributions (for which no adjustment has

**Administration**

The Company has entered into an administration agreement with Citco Fund Services (Ireland) Limited. The Company pays to the Administrator out of the assets of the Company an annual administration fee based on the Company's net assets subject to a monthly minimum charge. Administration fees are now presented in aggregate under 'Other Fund expense' on the face of the Consolidated Statement of Comprehensive Income.

The Administrator shall also be entitled to be repaid out of the assets of the Company all of its reasonable out-of-pocket expenses incurred on behalf of the Company.

**Other expenses**

| | 31 December 2019 £'000 | 31 December 2018 £'000 |
|---|---|---|
| Auditors' remuneration | 385 | 375 |
| Assurance & Tax* | 206 | 347 |
| Administration fees | 530 | 526 |
| Directors' fees | 256 | 197 |
| Regulatory costs | 248 | 270 |
| Other | 2,169 | 5,068 |
| **Total** | **3,794** | **6,783** |

* Of the assurance and tax work only £27,000 relates to PwC please see table below.

**Auditors' remuneration**

Remuneration for all work carried out for the Group by the statutory audit firm in each of the following categories of work is disclosed below:

- the statutory audit of the Group financial statements;
- the non-statutory audit of the financial statements for the SPV and the Eaglewood Fund; and
- other non-audit services.



| | 2019 Company £'000 | 2019 Subsidiaries £'000 | 2019 Group £'000 | 2018 Company £'000 | 2018 Subsidiaries £'000 | 2018 Group £'000 |
|---|---|---|---|---|---|---|
| Non-audit services | | | | | | |
| Other assurance services | 27 | - | 27 | 27 | - | 27 |
| **Total** | **307** | **105** | **412** | **267** | **135** | **402** |

**Company Secretary**

**Depositary**

On 21 July 2017, the Company appointed Citco Custody (UK) Limited as Depositary to replace Deutsche Bank Luxemburg, S.A. Under the terms of the Depositary Agreement, the Depositary is entitled to be paid a fee of up to 0.04 per cent per annum of NAV, subject to a minimum monthly fee of £3,000 (exclusive of VAT). Prior to 21 July 2017, Deutsche Bank Luxemburg was entitled to be paid a fee of up to 0.025 per cent per annum of NAV, subject to a minimum monthly fee of £3,000 (exclusive of VAT).

**Other operational expenses**

Other on-going operational expenses (excluding fees paid to service providers as detailed above) of the Group will be borne by the Group including printing, audit, finance costs, due diligence and legal fees. All reasonable out of pocket expenses of the Investment Manager, the Administrator, the Company Secretary, the Registrar, the Depositary, the Custodian, and the Directors relating to the Group will be borne by the Group.

Following a review of the Consolidated Statement of Comprehensive Income the Directors have decided to re-present these statements for 2018 and incorporate them in 2019. The changes made to the face of these financial statements are to make them easier to read and understand for the end user and to tie in with how the Group monitors and reviews performance internally and externally in other outputs. There have been no changes to the basis on which the items are estimated or measured. As part of this the cost of third-party platform service costs has been presented on the face of the Consolidated Statement of Comprehensive Income.

**13. INTEREST RECEIVABLE**

Interest income is earned from investments in fixed income securities and loans and broker balances. Below tables show the interest receivables of the Group and the Company as at 31 December 2019 and at 31 December 2018.

| Group | Group 31 December 2019 £'000 | Group 31 December 2018 £'000 |
|---|---|---|
| Interest receivable | 12,149 | 23,200 |
| **Total** | **12,149** | **23,200** |

| Company | Company 31 December 2019 £'000 | Company 31 December 2018 £'000 |
|---|---|---|
| Interest receivable | 9,914 | 22,241 |
| **Total** | **9,914** | **22,241** |

**14. NON-CURRENT LIABILITIES**

| | Group | Group |
|---|---|---|
| Revolving bank facilities | 83,707 | 202,287 |
| Principal protected notes | 150,678 | 116,167 |
| Term facilities | 67,814 | 59,557 |
| **Total borrowings** | **302,199** | **378,011** |

| | | |
|---|---|---|
| Term facility | 67,814 | 49,696 |
| Revolving bank facilities | 152 | 47,692 |
| **Total** | **67,966** | **97,388** |

The Company entered into a 30-month debt facility in December 2018 that had both a term and a revolving element. The facility has the ability to draw down in multiple currencies to align with the underlying assets of the Group, reducing the need for foreign currency hedging. It also provides both term and revolving debt that will allow the Group to repay part of the debt when it has a strong liquidity position. The facility has a day-1 committed size of £150,000,000, with the ability to increase further in the future. The facility is secured by way of fixed and floating charges; interest on the loan is paid quarterly and is charged on LIBOR plus margin. As at 31 December 2019 the facility is £67,814,000 drawn (2018: £97,259,000).

During the year ended 31 December 2016, MOCA 2016 issued notes as securitisations of loans. These were issued in the form of principal protected notes ("PPNs"). The PPNs amortise, in order of seniority, on a monthly basis based on the receipts arising on the underlying loan assets. Consequently, the weighted average life of the PPNs is expected to be significantly shorter than the contractual maturity of October 2024. The PPNs held by third parties pay interest at one month LIBOR plus a range of margins. The original principal balance on the underlying assets was £129,000,000 and as at 31 December 2019 was £nil (31 December 2018: £30,380,000). As at 31 December 2019 the outstanding issued PPN was £nil (31 December 2018: £14,302,000).

During the year ended 31 December 2017, MOCA 2017 issued notes as securitisations of loans. These were issued in the form of PPNs. The PPNs amortise, in order of seniority, on a monthly basis based on the receipts arising on the underlying loan assets. Consequently, the weighted average life of the PPNs is expected to be significantly shorter than the contractual maturity of December 2027. The PPNs held by third parties pay interest at one month LIBOR plus a range of margins. The original principal balance on the underlying assets was £216,481,000 and as at 31 December 2019 was £61,402,000 (31 December 2018: £114,329,000). As at 31 December 2019 the outstanding issued PPN was £46,446,000 (31 December 2018: £101,865,000).

During the year ended 31 December 2019, SBOLT 2019 issued notes as securitisations of loans. These were issued in the form of principal protected notes ("PPNs"). The PPNs amortise, in order of seniority, on a monthly basis based on the receipts arising on the underlying loan assets. Consequently, the weighted average life of the PPNs is expected to be significantly shorter than the contractual maturity. The PPNs held by third parties pay interest at one month LIBOR plus a range of margins. The original principal balance on the underlying assets was £202,441,146 and as at 31 December 2019 was £180,259,528. As at 31 December 2019 the outstanding issued PPN was £104,232,000.

During July 2017, the Group entered into a revolving facility with a European Bank to fund its SME loan originations. The maximum size of the facility is £160,000,000 and matures within 3 years from its closing date. Its interest is paid on a monthly basis linked to 1-month LIBOR plus margin. The facility has been fully repaid during the year, the balance as at 31 December 2018 was £154,384,000 drawn.

The Company entered into a 30-month, €50.0 million debt facility in February 2019. Interest on the loan is a fixed margin paid monthly. As at 31 December 2019 the facility had been fully repaid. The Company also entered into a $120.0 million debt facility loan with a 1-year drawdown period and a further 2-year life, in February 2019. Interest on the loan is charged monthly on a 3-month LIBOR plus margin. As at 31 December 2019 the facility is $110.4 million drawn (31 December 2018: $Nil). These new facilities allowed the Company to align the currency of the underlying assets of the Group with the currency of the leverage, reducing the need for foreign currency hedging.

The below tables analyse the Group's borrowings into relevant maturity groupings based on the remaining period at the Statement of Financial Position date to the final scheduled maturity date.

| Group 2019 | <1 year | 1 - 3 years | 3 - 5 years | > 5 years | Total |
|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 |



| Group 2018 | <1 year | 1 - 3 years | 3 - 5 years | > 5 years | Total |
|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| Revolving bank facilities | - | 202,287 | - | - | **202,287** |

The below table analyses the Company's borrowings into relevant maturity groupings based on the remaining period at the Statement of Financial Position date to the final scheduled maturity date.

| **Company** | **<1 year** | **1 - 3 years** | **3 - 5 years** | **> 5 years** | **Total** |
|---|---|---|---|---|---|
| **2019** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| Term facilities | - | 67,814 | - | - | **67,814** |
| Revolving bank facilities | - | 152 | - | - | **152** |
| **Total** | **-** | **67,966** | **-** | **-** | **67,966** |

| **Company** | **<1 year** | **1 - 3 years** | **3 - 5 years** | **> 5 years** | **Total** |
|---|---|---|---|---|---|
| **2018** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| Term facilities | - | 49,696 | - | - | **49,696** |
| Revolving bank facilities | - | 47,692 | - | - | **47,692** |
| **Total** | **-** | **97,388** | **-** | **-** | **97,388** |

As part of IAS 7, "Statement of Cash Flows" an entity is required to disclosure changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. As at the 31 December 2019 the below changes occurred:

| **Group 2019** | **Opening balance as at 1 January 2019** | **Payments** | **Acquisitions/ Drawdowns** | **Interest Expense** | **Foreign Exchange movements** | **Closing balance as at 31 December 2019** |
|---|---|---|---|---|---|---|
| | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| Borrowings | 378,011 | (401,099) | 315,286 | 14,691 | (4,690) | **302,199** |
| **Total liabilities from financing** | **378,011** | **(401,099)** | **315,286** | **14,691** | **(4,690)** | **302,199** |



| **Group 2018** | **at 1 January 2018** | **Payments** | **s/ Drawdowns** | **Interest Expense** | **movements** | **December 2018** |
|---|---|---|---|---|---|---|
| | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** | **£'000** |
| Borrowings | 615,850 | (545,536) | 286,416 | 18,355 | 2,926 | **378,011** |

| Company 2019 | Opening balance as at 1 January 2019 £'000 | Payments £'000 | Acquisitions/ Drawdowns £'000 | Interest Expense £'000 | Foreign Exchange movements £'000 | Closing balance as at 31 December 2019 £'000 |
|---|---|---|---|---|---|---|
| Borrowings | 97,388 | (69,228) | 36,845 | 4,479 | (1,518) | 67,966 |
| **Total liabilities from financing activities** | **97,388** | **(69,228)** | **36,845** | **4,479** | **(1,518)** | **67,966** |

| Company 2018 | Opening balance as at 1 January 2018 £'000 | Payments £'000 | Acquisitions/ Drawdowns £'000 | Interest Expense £'000 | Foreign Exchange movements £'000 | Closing balance as at 31 December 2018 £'000 |
|---|---|---|---|---|---|---|
| Borrowings | 200,000 | (205,072) | 97,259 | 5,201 | - | 97,388 |
| **Total liabilities from financing activities** | **200,000** | **(205,072)** | **97,259** | **5,201** | **-** | **97,388** |

**15. DEEMED LOANS**

The Group has no deemed loans as at 31 December 2019 and 31 December 2018. Deemed loans can only relate to the Company as they relate to loans originated by the Company and subsequently sold, but without meeting relevant derecognition requirements. Although the loans are no longer 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



| | 2019 £'000 | (Redemptions) £'000 | 2019 £'000 |
|---|---|---|---|
| Deemed loans | 152,189 | (16,428) | 135,761 |
| **Total deemed loans** | **152,189** | **(16,428)** | **135,761** |

| | | | |
|---|---|---|---|
| Deemed loans | 335,099 | (182,910) | 152,189 |
| **Total deemed loans** | **335,099** | **(182,910)** | **152,189** |

**16. STRUCTURED ENTITIES**

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

Structured entities are assessed for consolidation in accordance with the accounting policy set out in Note 2. The following structured entities are consolidated in the Group's results.

| Structured entity | Nature of business | Principal place of business and incorporation |
|---|---|---|
| Eaglewood Income Fund I, LP | Alternative finance investments | Delaware USA |
| Eaglewood SPV I LP | Alternative finance investments | Delaware USA |
| Marketplace Originated Consumer Assets 2016-1 PLC | Securitisation of UK consumer loans | England and Wales |
| Marketplace Originated Consumer Assets 2017-1 PLC | Securitisation of UK consumer loans | England and Wales |
| P2P BL-2 Limited | Term facility | England and Wales |
| P2P BL-3 PLC | Term facility | England and Wales |
| EW-PFL Trust | Alternative finance investments | Delaware USA |
| SPV I Loan Trust | Alternative finance investments | Delaware USA |
| Payoff Consumer Loan Trust | Alternative finance investments | Delaware USA |
| BFCL Trust | Alternative finance investments | Delaware USA |
| Eaglewood Consumer Loan Trust 2014-1 | Alternative finance investments | Delaware USA |
| Eaglewood LC Trust | Alternative finance investments | Delaware USA |
| PSC 1803 Autoloan Trust | Alternative finance investments | Delaware USA |
| PSC Rocketloans Prime Consumer Loan Trust | Alternative finance investments | Delaware USA |



P2P BL-2 Limited, P2P BL-3 PLC, Marketplace Originated Consumer Assets 2016-1 PLC and CH Mercury Note Issuer DAC were liquidated during the year. The following structured entity is not consolidated in the Group's results, as the Group (through its interest in Eaglewood Fund) only retained 25 per cent pari passu of the residual note, the Group does not have control. The structured entity is treated as an associate. Please see Note 18 for more details.

| Structured entity | Nature of business | Principal place of business and incorporation |
|---|---|---|

consist of:

| Investments in subsidiaries | 31 December 2019 £'000 | 31 December 2018 £'000 |
|---|---|---|
| Investments in SPV partnership interest | 221,863 | 108,186 |
| Investment in P2P BL-3 | - | 35,860 |

The investments in debt securities issued by MOCA 2017 and SBOLT 2019 are not presented in the Company Statement of Financial Position because the loans held by the subsidiaries are included in the Company Statement of Financial Position due to the Deemed Loan accounting. See Note 2h(i). The investments in Trusts and Eaglewood Fund are consolidated by the SPV and not directly held by the Company. The debt securities originated in P2P BL-3 have been presented in the Company Statement of Financial Position as at 31 December 2018 as an investment asset designated as held to fair value through profit or loss, but not in 31 December 2019 given it has been liquidated.

**18. INVESTMENTS IN ASSOCIATES**

Associates are entities over which the Group has significant influence, but does not control, generally accompanied by a shareholding of between 20 per cent and 50 per cent of the voting rights. Given the nature of the below shareholdings these are all deemed to be associates given that the Company does not have control.

The below companies are associates within the Group Financial Statements:

| Entity | Nature of business | Principal place of business |
|---|---|---|
| Zorin Finance Limited | Real Estate | UK |
| MW-EW Financing Trust | Consumer | USA |

As at 31 December 2019, the group has two associates, being Zorin Finance Limited ("Zorin") a UK platform originating secured real estate loans, and the other being MW-EW-Financing Trust whereby the Eaglewood Fund holds a 25 per cent residual note. The investments are accounted for at fair value through profit or loss. No dividends were declared during the period in respect of the investments.

The Group has a direct equity ownership of Zorin of 33.3 per cent. Zorin is a private limited company registered at 1 Knightsbridge Green, London, England, SW1X 7NE and has a registered number of 07514913. It also has provided £6,000,000 (2018: £6,000,000) of debt funding to the platform in the form of convertible loan notes of which, as at 31 December 2019, £2,000,000 (31 December 2018: 2,500,000) has been drawn.

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

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

The unaudited net assets of Zorin as at 31 December 2019 were £10,166,000 (31 December 2018: £8,279,000), and the profit after tax was £1,473,000 (31 December 2018: £2,169,000).

The Group has a residual note in MW-EW Financing Trust. The Eaglewood Fund is registered at 11th Floor 500 Delaware Avenue, Wilmington, Delaware, 19801. MW-EW Financing Trust was the primary beneficiary of LC Trust, MW EW Financing Trust, Warehouse I, Warehouse II and CLT 2014.



£2,514,000).

During the year the Company sold the entirety of its interests in Castlehaven Finance ("Castlehaven"), an alternative development and bridging finance lender in Ireland, to Avenue Capital Group. As part of this transaction the Group sold its direct equity ownership of 25 per cent.

**19. TAXATION**

**Investment trust status**

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 and other investments is taxable in the hands of the Company's shareholders and likewise is not subject to corporation tax.

The tax charge for the year differs from the standard rate of corporation tax in the UK of 19.00 per cent (2018: 19.00 per cent). There has been no change in the applicable tax rate compared to the previous period. The differences are explained below:

| **2019** | **Revenue £'000** | **Capital £'000** | **Total £'000** |
|---|---|---|---|
| Profit on ordinary activities before taxation | 39,466 | (4,643) | **34,823** |
| Tax at the standard UK corporation tax rate of 19.00% | 7,499 | (882) | **6,617** |
| Effects of: | | | |
| Capital items exempt from corporation tax | - | 882 | **882** |
| Non-taxable income | (7,499) | - | **(7,499)** |
| **Total tax charge** | - | - | - |

| **2018** | **Revenue £'000** | **Capital £'000** | **Total £'000** |
|---|---|---|---|
| Profit on ordinary activities before taxation | 32,451 | (1,724) | **30,727** |
| Tax at the standard UK corporation tax rate of 19.00% | 6,157 | (328) | **5,829** |
| Effects of: | | | |
| Capital items exempt from corporation tax | - | 328 | **328** |
| Non-taxable income | (6,157) | - | **(6,157)** |
| **Total tax charge** | - | - | - |

**Overseas taxation**

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.

There was no corporation tax charge incurred during the year ended 31 December 2019 (2018: £nil).



| | | |
|---|---|---|
| Net assets attributable at end of year (£'000) | 718,245 | 733,449 |
| Shares in issue | 74,402,289 | 76,088,401 |
| Net asset value per ordinary share (pence) | 965.35p | 963.94p |
| **Company** | **31 December 2019** | **31 December 2018** |

| | | |
|---|---|---|
| Net asset value per ordinary share (pence) | 965.35p | 963.94p |

All shares issued are fully paid.

**21. SHAREHOLDERS' CAPITAL**

Set out below is the issued share capital of the Company as at 31 December 2019, all shares issued are fully paid with none not fully paid:

| | **Nominal value £'000** | **Number of shares** | **Voting rights of shares** |
|---|---|---|---|
| Ordinary Shares | 744 | 74,402,289 | 74,402,289 |
| Ordinary Shares held in Treasury | 119 | 11,904,514 | - |
| **Total** | **863** | **86,306,803** | **74,402,289** |

Set out below is the issued share capital of the Company as at 31 December 2018:

| | **Nominal value £'000** | **Number of shares** | **Voting rights of shares** |
|---|---|---|---|
| Ordinary Shares | 761 | 76,088,401 | 76,088,401 |
| Ordinary Shares held in Treasury | 102 | 10,218,402 | - |
| **Total** | **863** | **86,306,803** | **76,088,401** |

On incorporation, the issued share capital of the Company was £0.01 represented by one ordinary share, held by the subscriber to the Company's memorandum of association.

**Rights attaching to the ordinary shares**

The holders of ordinary shares shall be entitled to all of the Company's net assets.

The holders of ordinary shares are only entitled to receive, and to participate in, any dividends declared in relation to the relevant class of shares that they hold.

The ordinary shares shall carry the right to receive notice of, attend and vote at general meetings of the Company.

The consent of the holders of ordinary shares will be required for the variation of any rights attached to the relevant class of shares.

**Voting rights**

Subject to any rights or restrictions attached to any shares, on a show of hands every Shareholder present in person has one vote and every proxy present who has been duly appointed by a Shareholder entitled to vote has one vote, and on a poll every Shareholder (whether present in person or by proxy) has one vote for every share of which he is the holder.

A Shareholder entitled to more than one vote need not, if he votes, use all his votes or cast all the votes he uses the same way. In the case of joint holders, the vote of the senior who tenders a vote shall be accepted to the exclusion of the vote of the other joint holders, and seniority shall be determined by the order in which the names of the holders stand in the Register.

No Shareholder shall have any right to vote at any general meeting or at any separate meeting of the



The Company has no fixed life but, pursuant to the Articles, an ordinary resolution for the continuation of the Company will be proposed at the annual general meeting of the Company to be held in 2021 and, if passed, every five years thereafter. Upon any such resolution not being passed, proposals will be put forward to the effect that the Company be wound up, liquidated, reconstructed or unitised.

If the Company is wound up, the liquidator may divide among the shareholders in specie the whole or any part of the assets of the Company and for that purpose may value any assets and determine how the division shall be carried out as between the shareholders or different classes of shareholders.

The table below shows the movement in shares during the year ended 31 December 2019:

| | | | |
|---|---|---|---|
| Ordinary Shares | 76,088,401 | (1,686,112) | 74,402,289 |
| Treasury Shares | 10,218,402 | 1,686,112 | 11,904,514 |

The table below shows the movement in shares during the period ended 31 December 2018:

| For the year ended 31 December 2018 | Shares in issue at the beginning of the year | Buyback of Ordinary Shares | Shares in issue at the end of the year |
|---|---|---|---|
| Ordinary Shares | 79,835,549 | (3,747,148) | 76,088,401 |
| Treasury Shares | 6,471,254 | 3,747,148 | 10,218,402 |

Cash consideration was received for all subscriptions for shares.

**Share Buyback**

During the year ended 31 December 2016 the Company commenced a share buyback program. All shares bought back are held in treasury at the end of the period. As at 31 December 2019, the Company had bought back 11,904,514 (2018: 10,218,402) ordinary shares.

The Company has engaged Liberum Capital Limited to effect on-market purchases of its shares on its behalf. Both parties can terminate the contract without cause at any point other than during a closed period (2019 was not a closed period). As a result, no liability has been recognised as at 31 December 2019 other than in relation to those shares acquired pending settlement (2018: nil).

| 2019 | Ordinary shares purchased | Average price per share | Lowest price per share | Highest price per share | Total Treasury Shares |
|---|---|---|---|---|---|
| January | 342,584 | 812.8p | 800.0p | 825.0p | 10,560,986 |
| February | 282,503 | 818.0p | 806.0p | 827.0p | 10,843,489 |
| March | 296,697 | 810.6p | 806.0p | 816.0p | 11,140,186 |
| April | 75,000 | 823.0 | 812.0 | 834.0 | 11,215,186 |
| May | 80,878 | 855.5 | 848.0 | 860.0 | 11,296,064 |
| June | 94,371 | 845.7 | 840.0 | 853.0 | 11,390,435 |



| | | | | | |
|---|---|---|---|---|---|
| November | 102,021 | 829.5 | 800.0 | 852.0 | 11,812,634 |
| December | 91,880 | 823.6 | 814.0 | 832.0 | 11,904,514 |

| 2018 | Ordinary | Average price per share | Lowest price per share | Highest price per share | Total Treasury Shares |
|---|---|---|---|---|---|

| | | | | | |
|---|---|---|---|---|---|
| January | 511,043 | 820.9p | 812.0p | 840.0p | 6,982,297 |
| February | 585,100 | 813.3p | 792.0p | 825.0p | 7,567,397 |
| March | 188,775 | 784.3p | 756.0p | 802.0p | 7,756,172 |
| April | 333,474 | 784.4p | 755.0p | 801.0p | 8,089,646 |
| May | 237,344 | 800.1p | 784.0p | 810.0p | 8,326,990 |
| June | 383,731 | 791.0p | 780.0p | 805.0p | 8,710,721 |
| July | 384,267 | 821.5p | 805.0p | 831.0p | 9,094,988 |
| August | 156,000 | 784.5p | 768.5p | 800.0p | 9,250,988 |
| September | 167,091 | 775.0p | 668.0p | 783.0p | 9,418,079 |
| October | 104,182 | 775.0p | 766.0p | 787.0p | 9,522,261 |
| November | 401,500 | 788.5p | 780.0p | 803.0p | 9,923,761 |
| December | 294,641 | 800.3p | 795.3p | 805.0p | 10,218,402 |

**Special Distributable Reserve**

At a general meeting of the Company held on 15 June 2015, special resolutions were passed approving the cancellation of the amount standing to the credit of the Company's share premium account as at 29 May 2015 and additional share premium following the issue of new C shares, which occurred on 28 July 2015. These C shares were subsequently converted so that there were no C shares as at 31 December 2019 (2018: nil).

Following the approval of the Court and the subsequent registration of the Court order with the Registrar of Companies on 17 September 2015, the reduction became effective. Accordingly, £832,647,915, previously held in the share premium account, was transferred to the special distributable reserves of the Group as disclosed in the Consolidated Statement of Financial Position.



| Period to | Share Class | Amount | Payment date | 2019 Group and Company £'000 | 2018 Group and Company £'000 |
|---|---|---|---|---|---|

| | | | | | |
|---|---|---|---|---|---|
| 30 June 2018 | Ordinary | 12.0p | 19 September 2018 | - | 9,258 |
| 30 September 2018 | Ordinary | 12.0p | 19 December 2018 | - | 9,204 |
| 31 December 2018 | Ordinary | 12.0p | 27 March 2019 | 9,084 | - |
| 31 March 2019 | Ordinary | 12.0p | 14 June 2019 | 9,008 | - |
| 30 June 2019 | Ordinary | 12.0p | 30 September 2019 | 8,972 | - |
| 30 September 2019 | Ordinary | 12.0p | 13 December 2019 | 8,947 | - |
| **Dividends recorded in Reserves in period** | | | | **36,011** | **37,321** |
| 31 December 2019 | Ordinary | 12.0p | 27 March 2020 | 8,905 | - |
| **Total** | | | | **44,916** | **37,321** |

**23. RELATED PARTY TRANSACTIONS**

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 49 to 52. 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.

Each of the Directors is entitled to receive a fee from the Group at such rate as may be determined in accordance with the Articles. Save for the Chairman of the Board, the fees are £40,000 for each Director per annum. The Chairman's fee is £49,000 per annum.

All of the Directors are also entitled to be paid all reasonable expenses properly incurred by them in attending general meetings, Board or Committee meetings or otherwise in connection with the performance of their duties. The Board may determine that additional remuneration may be paid, from time to time, to any one or more Directors in the event such Director or Directors are requested by the Board to perform extra or special services on behalf of the Group.

As at 31 December 2019, the Directors' interests in the Group's shares were as follows:

| | **31 December 2019** | **31 December 2018** |
|---|---|---|
| Simon King - Ordinary Shares | 29,895 | 29,895 |
| Michael Cassidy - Ordinary Shares | 21,000 | 21,000 |
| **Total** | 50,895 | 50,895 |

**Associates**



performance fees paid during the year are disclosed in Note 12.

Those within the Investment Manager deemed to have significant influence over the Group held 411,910 (2018: 411,910) ordinary shares.

The Group considers all transactions with the Manager or entities that are controlled by the Manager as related party transactions. The General Partner for the SPV is controlled by the Investment Manager. CapitalFlow Group ("CapitalFlow") is an Irish-based specialist business lender. During the year the Company provided a structured facility to CapitalFlow. CapitalFlow is owned by a fund that is managed by an affiliate of the Investment Manager. As at 31 December 2019 the facility was €42,790,000 drawn (2018: €14,179,774).

**24. SUBSEQUENT EVENTS**

shares were held in treasury.

The Company received an approach to acquire all of its issued share capital at 900 pence per share from Waterfall Asset Management, LLC ("Waterfall"), subject to confirmatory due diligence and certain other standard conditions.

The Board announced on 25 February 2020 that it served 12 months' notice in writing on the Manager to terminate the Investment Management Agreement ("IMA").

In March 2020, the World Health Organisation recognised an outbreak of a new virus that causes coronavirus disease 2019 ("COVID-19") as a pandemic. COVID-19 has caused disruption to businesses and economic activity which has been reflected in recent fluctuations in global stock markets. There are no comparable recent events which may provide guidance as to the effect of the spread of 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.

The Investment Manager continues to have faith in the strength of the performance of the asset class despite the unprecedented conditions. The Group is well diversified with the underlying loan portfolios being highly granular with low concentration risk. It has maintained a close and proactive engagement with all platform partners and forbearance has been applied sensitively and proportionately. The Investment Manager believes that the company is well positioned to perform solidly throughout the crisis.

However, given the Group's UK and US focus, its performance is linked to the health of these economies. We expect the Group could experience further impairments and consequently reduced profits, particularly if economic expectations deteriorate further. However, the overall effect of this cannot be quantified reliably because the impact of the UK government's various support initiatives and the US government's COVID-19 Stimulus Bill is not yet known, but they are expected to reduce the potential expected credit loss impact. The Investment Manager has adopted a prudent approach with the focus on the existing portfolio and ensuring cash collections remain robust as the appropriate strategies are in place. The legacy book continues to run off, whilst performance of this book has been poor to date and it is expected that impairments will increase over the coming months, the loans are now well seasoned.

The longer-term financial impact of coronavirus is not yet clear and given the significant change in the operating environment and economic expectations the Investment Manager is proposing to re-invest the cash generated by the portfolio very selectively during this period of uncertainty with the majority of cash going to reduce net debt. Note 11 includes, for illustrative purposes, sensitivities for expected credit losses and note 4, includes, for illustrative purposes, sensitivities for equity valuations. This is not an estimate or forecast of the impact of COVID-19. The analysis is designed solely to give an indication of the impact of certain changes to the Group's net asset value.

The Board considers the emergence and spread of COVID-19 to be a non-adjusting post balance sheet event.

As at 27 May 2020, the Company's latest published NAV per Ordinary Share as at 31 March 2020 was 963.0 pence and the latest share price was 708.0 pence per share.

**25. RE-PRESENTATION OF FINANCIAL STATEMENTS**

Following a review of the Consolidated Statement of Comprehensive Income and Consolidated Statement of Financial Position and the associated knock on effect on the Cashflow Statement, the Directors have decided to re-present these statements for 2018 and incorporate them in 2019. The changes made to the face of these financial statements are to make them easier to read and understand for the end user and to tie in with how the Group monitors and reviews performance internally and externally in other outputs. There have been no changes to the basis on which the items are estimated or measured.

An adjustment has been made in the current financial year to move the impact of the initial adoption of IFRS 9 from revenue reserves to the special distributable reserve, this is purely a presentational adjustment and does not affect the Groups ability to pay dividends.

A summary of changes to the Consolidated Statement of Comprehensive Income can be seen below. The key change is splitting out other expenses with these costs being allocated to financing costs being amortised debt facility set up costs, the split out of credit asset servicing costs, and the allocation of fund expenses to its own line item. There has also be a renaming of several line items so they better reflect how these assets are reviewed.

| **Consolidated Statement of Comprehensive Income** | **2018 £'000** | **Re-presentation £'000** | **2018 Re-stated £'000** |
|---|---|---|---|
| Net losses on investments | (1,725) | 1,725 | - |
| Interest Income on loans at amortised cost | 118,539 | (118,539) | - |
| profit and loss | | | |
| Third Party Servicing Costs | - | (13,680) | (13,680) |
| Finance costs | (14,121) | (4,234) | (18,355) |
| Administration fee | (526) | 526 | - |
| Other expenses | (24,171) | 24,171 | - |

| Consolidated Statement of Financial Position | 2018 £'000 | Re-presentation £'000 | 2018 Re-stated £'000 |
|---|---|---|---|
| Accrued expenses and other liabilities | (7,427) | (1,934) | (9,361) |
| Interest payable | (511) | 511 | - |
| Other liabilities | (1,934) | 1,934 | - |
| Borrowings | (377,500) | (511) | (378,011) |

A summary of changes to the Company Statement of Financial Position can be seen below. The key change is reducing the number of line items by consolidating interest payable on debt facilities with borrowings.

| Company Statement of Financial Position | 2018 £'000 | Re-presentation £'000 | 2018 Re-stated £'000 |
|---|---|---|---|
| Interest payable | (129) | 129 | - |
| Borrowings | (97,259) | (129) | (97,388) |

**26. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS**

The consolidated financial statements were approved and authorised for issue by the Directors on 29 May 2020.

**Annual Report**
Printed copies of the Annual Report will be sent to shareholders shortly. Additional copies may be obtained from the Corporate Secretary, Link Company Matters Limited, on 0207 7954 9792.

**Annual General Meeting**
The Annual General Meeting of the Company will be held on 30 June 2020.

**National Storage Mechanism**
A copy of the Annual Report and audited financial statements will be submitted shortly to the National Storage Mechanism ("NSM") and will be available for inspection at the NSM, which is situated at:

https://data.fca.org.uk/#/nsm/nationalstoragemechanism

## Shareholder Information

**INVESTMENT OBJECTIVE**
The Company's investment objective is to provide Shareholders with an attractive level of dividend income and capital growth through exposure to investments in alternative finance and related instruments.

**INVESTMENT POLICY**
The below investment objectives were approved at a general meeting of the Company's Shareholders on 19 December 2017. The new investment policy as adopted at that meeting is as follows:

The Company's investment objective is to provide shareholders with an attractive level of dividend income and capital growth through investment in the acquisition of loans to:

(i) consumers, loans to small and medium-sized enterprises ("SMEs") and other counterparties, corporate loans, real estate loans and advances and loans against corporate trade receivables and other assets, together with related investments ("Credit Assets"); and

(ii) equity assets that are aligned with the Company's strategy and that present opportunities to enhance the Company's returns from its investments ("Equity Assets"). The Company may invest in Credit Assets and Equity Assets relating to a broad range of sectors, provided that such investment is in accordance with the Company's investment strategy.



generating attractive returns for the Company.

The Company enters into loan origination and service agreements with selected third parties, originators, platforms and partners. The Company and the Investment Manager will also actively seek opportunities to acquire portfolios from third parties and make investments in loans to specialist lenders.

**Asset allocation and risk diversification**
Credit Assets invested in by the Company will consist of debt obligations, both secured and unsecured, 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, loans against corporate trade receivables and other assets as well as loans secured against real estate and investments in loans to specialist lenders to provide structured finance for consumer, SME and other counter party lending.

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

(iii) the acquisition by the Company of interests in portfolios of Credit Assets from third parties.

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

The Company may also invest (in aggregate) up to 10 per cent of Gross in Equity Assets, calculated, in each case, at the time of acquisition of any relevant Equity Assets based on the consideration payable for those Equity Assets and the aggregate consideration paid for all previous investments in Equity Assets which form part of the Company's investments. This restriction shall not apply to any consideration paid by the Company for the issue to it of any convertible securities by a Platform. However, it will apply to any consideration payable by the Company at the time of exercise of any such convertible securities or any warrants.

**Platform restrictions**
The Company will not invest more than 33 per cent of Gross Assets via any single Platform or single counterparty. This limit may be increased to 66 per cent of Gross Assets via any single Platform or single counterparty, provided that where this limit is so increased in respect of any Platform or counterparty, the Company does not invest an amount which is greater than 25 per cent (by value) of the total loan origination or investment of the preceding calendar year via such Platform or counterparty.

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

The Company will not invest more than 20 per cent of Gross Assets, at the time of investment, via any single investment fund investing in Credit Assets. The Company will not invest, in aggregate, more than 60 per cent of Gross Assets, at the time of investment, in other investment funds that invest in Credit Assets.

The Company will not invest more than 10 per cent of its Gross Assets, at the time of investment, in other listed closed-ended investment funds, whether managed by the Investment Manager or not, except that this restriction shall not apply to investments in listed closed-ended investment funds which themselves have stated investment policies to invest no more than 15 per cent of their gross assets in other listed closed-ended investment funds.

The following apply, in each case at the time of investment by the Company, to both Credit Assets acquired by the Company directly and on a look-through basis to any Credit Assets held by another investment fund which is managed by the Investment Manager, the Sub-Manager or their affiliates in which the Company invests (proportionate to the percentage interest the Company has in such investment fund). It is intended that:

- No single consumer loan shall exceed 0.25 per cent of Gross Assets;
- No single SME loan shall exceed 5.0 per cent of Gross Assets;
- No single advance or loan against a trade receivable asset shall exceed 5.0 per cent of Gross Assets;
- No single corporate loan shall exceed 5 per cent of Gross Assets; and
- No single facility, security or other interest backed by a portfolio of loans, assets or receivables (excluding any borrowing ringfenced within any SPV which would be without recourse to the Company) shall exceed 20 per cent of Gross Assets.

At any given time, not more than 50 per cent of Gross Assets will be maintained in SME Credit Assets and not more than 50 per cent of Gross Assets will be maintained in trade receivable assets (taking into account both Credit Assets acquired by the Company directly and, on a look-through basis, any Credit Assets held by another investment fund managed by the Investment Manager, the Sub-Manager or their affiliates in which the Company invests (proportionate to the percentage interest the Company has in such investment fund)).

**Other restrictions**
The Company may invest in cash, cash equivalents and fixed income instruments for cash management purposes and with a view to enhancing returns to Shareholders or mitigating credit exposure. However, for cash management purposes the Company will only invest in fixed income instruments of investment grade.

The Company will not invest in collateralised debt obligations.

**Borrowing**
Borrowings may be employed (through banks or other facilities on a secured or unsecured basis) at the level of the Company and/or at the level of any investee entity (including, without limitation, any other investment fund in which the Company invests or any SPV that may be established by the Company in



connection with any such securitisation. The Company may also use SPVs in connection with obtaining leverage against Credit Assets to seek to protect the levered portfolio from group level bankruptcy or financing risks. The Company may also, in connection with seeking such leverage or securitising its loans, seek to assign existing assets to one or more SPVs and/or seek to acquire loans using an SPV. The Company will ensure that any SPV used by it to acquire or receive (by way of assignment or otherwise) any loans to UK consumers shall first obtain any required authorisation from the FCA for consumer credit business.

No material change will be made to the investment policy without the approval of Shareholders by ordinary resolution.

**SHARE REGISTER ENQUIRIES**

Changes in name or address must be notified in writing to the Registrar: Shareholder Services, Link Market Services, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU.

**CHANGE OF ADDRESS**
Communications with shareholders are mailed to the last address held on the share register. Any change or amendment should be notified to Link Market Services at the address given above, under the signature of the registered holder.

**SHARE CAPITAL AND NET ASSET VALUE INFORMATION**

The Company's Ordinary Shares of £0.01 each are listed on the London Stock Exchange:

| | |
|---|---|
| SEDOL Number | BLP57Y9 |
| ISIN Number | GB00BLP57Y95 |

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

The Company releases its net asset value per share to the London Stock Exchange monthly.

**ANNUAL AND HALF-YEARLY REPORTS**
Copies of the Annual and half-Yearly Reports are available from the Secretary on telephone +44 (0)207 204 7573 and are available on the Company's website https://pollenstreetsecuredlending.com

**ASSOCIATION OF INVESTMENT COMPANIES**
The Company is a member of the Association of Investment Companies.

**PROVISIONAL FINANCIAL CALENDAR**

| | |
|---|---|
| May 2020 | Announcement of annual results |
| May 2020 | Posting of Annual Report |
| 30 June 2020 | Annual General Meeting |
| May 2020 | Payment of interim dividend to 31 March 2020 |
| 30 June 2020 | Half-year End |
| August 2020 | Announcement of half-yearly results |
| August 2020 | Payment of interim dividend to 30 June 2020 |
| November 2020 | Payment of interim dividend to 30 September 2020 |
| 31 December 2020 | Year End |

**DIVIDENDS**
Shareholders who wish to have dividends paid directly into a bank account rather than by cheque to their registered address can complete a mandate from for the purpose. Mandate forms may be obtained from Link Market Services, The Registry, Beckenham Road, Beckenham, Kent BR3 4TU. The Company operates the BACS system for the payment of dividends. Where dividends are paid directly into shareholders' bank accounts, dividend tax confirmations are sent to shareholders' registered addresses.

**DIVIDEND REINVESTMENT PLAN (DRIP)**
A DRIP service is provided by Link Market Services a trading name of Link Market Services Trustees Ltd. The DRIP allows eligible shareholders to use the whole of their cash dividend to buy additional shares in the Company, thereby increasing their shareholding.

Additional information, including details of how to sign up, can be obtained from the Company's website at https://pollenstreetsecuredlending.com and from proxy directly from the registrars, Link Asset Services (previously called Capita), on Tel: 0371 664 0300. Calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open between 09:00 - 17:30, Monday to Friday excluding public holidays in England and Wales or email Link Market Services at enquiries@linkgroup.co.uk.



**NAV (EX INCOME)**
The value of investments and cash, excluding current year revenue, less liabilities.

**NAV PER SHARE (EX INCOME)**
The NAV (Cum Income) as described above excluding net income (both revenue and capital income) that is yet to be transferred to reserves divided by ordinary shares in issue.

**SHARE PRICE**
Closing mid-market share price at month end (excluding dividends reinvested).

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

**ANNUAL NAV PER SHARE RETURN**
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.

**DIVIDEND**
Reflecting the ex-dividend date during the month.

**YTD NAV PER SHARE RETURN**
Year to date net asset value per share return including dividends.

**DISCOUNTS TO NAV (CUM INCOME)**
Share price divided by NAV per share (cum Income) minus 100 per cent.

**SECURED LENDING**
Assets with granular underlying collateral or structured protection.

**GROSS ASSETS**
Gross assets.

**CHARGED OFF**
Assets that have been previously written off.

### Reconciliation to Alternative Performance Measures (unaudited)

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.

**Premium / (Discount) to NAV per share**

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| NAV per share (Cum income) | 965.4p | 963.9p |
| Share Price | 830.0p | 802.0p |
| **Premium / (Discount) to NAV per share** | **(14.0%)** | **(16.8%)** |

The premium / (discount) to NAV per share is calculated by taking the difference between the share price and the NAV per share (Cum income) and dividing it by the NAV per share. This is considered an APM as it compares the market value to the underlying NAV of the fund.

**Annual NAV per Share Return & ITD Total NAV per Share Return**

| | 31 December 2019 | 31 December 2018 |
|---|---|---|
| **ITD Total NAV per Share Return** | **26.77%** | **20.45%** |
| **Annual Nav per Share Return** | **5.25%** | **5.21%** |

*Opening balance adjusted for initial adoption of IFRS 9

The ITD NAV per Share Return and the annual NAV per share return are calculated by taking the product of each monthly NAV return since inception and the last 12 months monthly NAV returns respectively. Monthly NAV returns are calculated by taking the closing monthly NAV per share (cum income) and adding the dividends that go ex-dividend in the month divided by the number of shares at month end divided by the monthly opening NAV per share (cum income).



| | |
|---|---|
| Michael Cassidy | 54 Beckenham Road |
| David Fisher | Beckenham |
| | Kent BR3 4TU |
| SECRETARY AND REGISTERED OFFICE | United Kingdom |
| Link Company Matters Limited | |
| 6th Floor, 65 Gresham Street | INVESTMENT MANAGER AND ALTERNATIVE |

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COMPANY NUMBER

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USA

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