# Chenavari Capital Solutions Limited

(a closed-ended investment company limited by shares incorporated under the laws of Guernsey with registered number 56977)

# Annual Report and Audited Annual Financial Statements

# For the year ended 30 September 2019

Potential investors are "qualified eligible persons" and "Non-United States Persons" within the meaning of the US Commodity Futures Trading Commission Regulation 4.7.

Chenavari Credit Partners LLP (the "Investment Manager") is registered as a commodity pool operator ("CPO") with the Commodity Futures Trading Commission (the "CFTC") and is a member of the National Futures Association ("NFA") in such capacity under the U.S. Commodity Exchange Act, as amended ("CEA"). With respect to Chenavari Capital Solutions Limited, the Investment Manager has claimed an exemption pursuant to CFTC Rule 4.7 for relief from certain disclosure, reporting and recordkeeping requirements applicable to a registered CPO. Such exemption provides that certain disclosures specified in section 4.22 (c) and (d) of the regulation are not in its audited annual financial statements and annual report.

## Contents



**FORWARD-LOOKING STATEMENTS**
This annual report includes statements that are, or may be considered, "forward-looking statements". These forward-looking statements can be identified by the use of forward-looking terminology, including the terms "believes", "estimates", "anticipates", "plans", "expects", "targets", "aims", "intends", "may", "will", "can", "can achieve", "would" or "should" or, in each case, their negative or other variations or comparable terminology. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this annual report, including in the Chairman's Statement. They include statements regarding the intentions, beliefs or expectations of the Company or the Investment Manager concerning, among other things, the investment objectives and investment policies, financing strategies, investment performance, results of operation, financial condition, liquidity prospects, dividend policy and targeted dividend levels of the Company, the development of its financing strategies and the development of the markets in which it, directly and through special purpose vehicles, will invest in and issue securities and other instruments. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Forward-looking statements are not guarantees of future performance. The Company's actual investment performance, results of operations, financial condition, liquidity, dividend policy and dividend payments and the development of its financing strategies may differ materially from the impression created by the forward-looking statements contained in this document. In addition, even if the investment performance, results of operations, financial condition, liquidity, dividend policy and dividend payments of the Company and the development of its financing strategies are consistent with the forward-looking statements contained in this document, those results or developments may not be indicative of results or developments in subsequent periods. Important factors that may cause differences include, but are not limited to: changes in economic conditions generally and in the structured finance and credit markets particularly; fluctuations in interest and currency exchange rates, as well as the degree of success of the Company's hedging strategies in relation to such changes and fluctuations; changes in the liquidity or volatility of the markets for the Company's investments; declines in the value or quality of the collateral supporting many of the Company's investments; legislative and regulatory changes and judicial interpretations; changes in taxation; the Company's continued ability to invest its cash in suitable investments on a timely basis; the availability and cost of capital for future investments; the availability of suitable financing; the continued provision of services by the Investment Manager and the Investment Manager's ability to attract and retain suitably qualified personnel; and competition within the markets relevant to the Company. These forward-looking statements speak only as at the date of this annual report. Subject to its legal and regulatory obligations, the Company expressly disclaims any obligations to update or revise any forward-looking statement (whether attributed to it or any other person) contained herein to reflect any change in expectations with regard thereto or any change in events, conditions or circumstances on which any statement is based. The Company qualifies all such forward-looking statements by these cautionary statements.

## Commodity Exchange Affirmation Statement

**Commodity Exchange Affirmation Statement Required by the Commodity Exchange Act, Regulation §4.22 (h)**

I, Loic Fery, hereby affirm that, to the best of my knowledge and belief, the information contained in this Annual Report and Audited Annual Financial Statements is accurate and complete.

**Loic Fery**

Chief Executive Officer and representative of the Managing Member of Chenavari Credit Partners LLP, Commodity Pool Operator of Chenavari Capital Solutions Limited.

21 January 2020

## Highlights for the year ended 30 September 2019

- During the year ended 30 September 2019 (the "Year" or "Year End"), the Company produced a net asset value ("NAV") total return of – 1.30%[1](dividends reinvested) (2018: 1.94%).

- The NAV per Ordinary Share ("Share") declined from 89.37 pence at 30 September 2018 to 85.97 pence at 30 September 2019 net of distributions.

- Dividends of 2.20 pence per Share were declared in respect of the Year (2018: 4.00 pence), of which 1.80 pence per Share was paid during the Year, with a final dividend for the Year of 0.40 pence per Share paid on 29 November 2019.

- The Company's mid-market share price at 30 September 2019 was 75.50 pence (2018: 78.50 pence), representing a discount to NAV of 12.18%[2] (2018: discount of 12.16%).

- The loss of the Company for the Year was £0.3 million (2018: £1.3 million profit), or (0.54) pence per Share (2018: 1.32 pence per Share), taking into account recognition of the following significant items:

    - total income of £ 0.6 million (2018: £2.8 million); and
    - total operating expenses of £0.8 million (2018: £1.4 million).

- From 1 January 2017, the Company entered into a realisation period and started to return unencumbered cash balances to Shareholders. During the Year, two returns of capital were made in January 2019 and July 2019 in the form of compulsory redemptions of Shares equivalent, in aggregate, to a total distribution of 64.91%[3] of the share capital as at IPO. A further return of capital for 4.03% of the share capital as at IPO was announced on 26 September 2019 and paid on 22 October 2019. As this redemption was announced pre year end, it has been accounted for, in the current year

- At 30 September 2019, the Company was invested in seven positions including five primary transactions valued at £19.1 million (2018: seven valued at £34.5 million) and two secondary transactions valued at £11.4 million (2018: two valued at £11.5 million). The Company had other net liabilities equating to 5.34% of NAV and cash equating to 16.62% of NAV at 30 September 2019 (2018: 3.46% and 14.32%), a large part of this cash was distributed post the Year End.

- At 30 September 2019 the Company had 40,356,995 shares in issue after considering the announced share redemptions transaction on 26 September 2019 as this was considered in the preparation of the financial statments.

[1] 30 September 2019 NAV per Share of 85.97 pence plus 35.69 pence from inception to date of reinvested distributions (total 121.66 pence) versus 89.37 NAV per Share plus 33.88 pence reinvested distributions (total 123.25pence) at 30 September 2018
(121.65-123.25)/123.25=-1.30%
[2]Listed mid-market share price per Bloomberg of 75.5pence per Share versus calculated NAV per Share per the Statement of Financial Position of 85.97pence per Share (75.5-85.97)/ 85.97 =12.18%
[3] Total percentage of the total redemptions since January 2017, refer to page 17 for the list of redemptions

# Corporate Summary
## For the year ended 30 September 2019

### The Company
Chenavari Capital Solutions Limited (the "Company") is a closed-ended Collective Investment Scheme registered pursuant to The Protection of Investors (Bailiwick of Guernsey) Law, 1987, as amended (the "Law") and the Registered Collective Investment Scheme Rules 2008 issued by the Guernsey Financial Services Commission (the "Commission").

The IPO of the Company raised gross proceeds of £130.3 million and the Company's Shares were admitted to trading on the Specialist Fund Segment of the London Stock Exchange ("SFS") on 7 October 2013.

### Investment objective and policy
The investment objective of the Company is to provide Shareholders with an attractive return, while limiting downside risk, through investment in bank capital solutions transactions primarily with UK and European banks. From 1 January 2017, returns to Shareholders will be predominantly from the distribution of unencumbered cash balances arising as a result of investments maturing in accordance with their terms or otherwise and as dividend income. The investment policy is set out in full in note 1 to the financial statements.

At 30 September 2019, the portfolio was invested in five primary transactions and two secondary transactions. (2018: seven primary transactions and two secondary transactions) and these represent 48.67% and 29.17% respectively (2018: 61.4% and 20.5% respectively) of the Company's total assets. During its Investment Period, the Company had flexibility to invest in bank capital solutions transactions with a range of underlying asset types, including (but not limited to) mortgage loans, corporate and SME loans, asset backed securities, derivatives and counterparty risks. These positions are actively managed by the Investment Manager.

### Investment Period and Realisation Period
Following approval by Shareholders at an EGM on 18 December 2015 of the extension of the investment period to 31 December 2016 (the "Investment Period"), the Company continued its ability to invest its cash balances in accordance with its investment policy, to the extent that such cash was not required for working capital purposes or the payment of dividends in accordance with the Company's dividend policy up to and including 31 December 2016, subject to the restrictions applicable to the extension period.

On 13 December 2016 the Company announced its intention to cease making any further investments with immediate effect and that, from 1 January 2017, it would commence a realisation period which would involve the return of unencumbered cash balances to Shareholders (the "Realisation Period"). Two returns of capital were made in April 2017 and September 2017 in the form of compulsory redemptions of shares equivalent to a total distribution of 9.9% of the share capital as at IPO. Three returns of capital were made in December 2017, May 2018 and September 2018, equivalent, in aggregate, to a total distribution of 41.9% of the share capital as at IPO. During the year, two further returns of capital were made, in January 2019 and July 2019 equivalent, in aggregate, to a total distribution of 13.1% of the share capital as at IPO. At Year End, in aggregate 64.9% of share capital as at IPO has been returned to Shareholders. A further return of capital for 4.03% of the share capital as at IPO was announced on 26 September 2019 and paid on 22 October 2019.

### Target returns and dividend policy
Subject to compliance with the Companies (Guernsey) Law, 2008 (as amended) and the satisfaction of the solvency test, the Company intends to distribute all its income received from investments, net of expenses, by way of dividends on a quarterly basis with dividends declared in October, January, April and July each year and paid in November, February, May and August.

From 1 January 2017, returns to Shareholders have been predominantly from the return of unencumbered cash balances described above and as dividend distributions.

### The Investment Manager and Investment Adviser
The Company's Investment Manager is Chenavari Investment Managers (Luxembourg) S.àRL, a non-cellular company incorporated in Luxembourg under registered number B 0143992, and is licenced and regulated by the Commission de Surveillance du Secteur Financier ("CSSF") in Luxembourg to undertake the activities of an Alternative Investment Fund Manager ("AIFM"). The Investment Manager is a wholly owned entity within the Chenavari Group.

The Investment Manager has appointed Chenavari Credit Partners LLP (the "Investment Adviser"), which is also a member of the Chenavari Group, to provide investment advisory services to the Investment Manager. The Investment Adviser is a limited liability partnership incorporated in England and Wales under registered number OC337434 and is regulated and authorised in the UK by the FCA under registration number 484392 and in the United States by the SEC under Investment Adviser registration number 801/72662.

## Corporate Summary
### For the year ended 30 September 2019 (continued)

**Asset values**
At 30 September 2019, the Company's NAV was £34.7 million, with the NAV per Share amounting to 85.97p. The Company publishes its NAV on a monthly basis. The NAV is calculated as the Company's assets at fair value less liabilities, measured in accordance with International Financial Reporting Standards ("IFRS").

**Website**
The Company's website address is www.chenavaricapitalsolutions.com

**Listing Information**
The Company's Shares are admitted to trading on the SFS.

The International Securities Identification Number ("ISIN") of the Shares is GG00BK96BH26 and the SEDOL is BK96BH2.

The mid-market share price of the Shares quoted on the SFS at 30 September 2019 was 75.50 pence per Share.

The average closing price of the Shares over the year to 30 September 2019 was 77.45 pence per Share.

## General Information

**Directors**
Rob King (Non-executive Director and Chairman)
Iain Stokes (Non-executive Director)
René Mouchotte (Non-executive Director)

**Investment Manager and AIFM**
Chenavari Investment Managers (Luxembourg) S.àRL.
2, Boulevard de la Foire
L-1528
Luxembourg

**Administrator and Company Secretary**
Estera Administration (Guernsey) Limited
P.O. Box 286
Floor 2
Trafalgar Court
Les Banques
St. Peter Port
Guernsey
GY1 4LY

**Sub-Administrator**
U.S. Bank Global Fund Services (Ireland) Limited
24-26 City Quay
Dublin 2
Ireland

**Custodian and Principal Bankers and AIFMD Article 36 Custodian**
J.P. Morgan Chase Bank NA,
Jersey Branch
J.P. Morgan House
Grenville Street
St Helier
Jersey
JE4 8QH

**Auditor**
Deloitte LLP
P.O. Box 137
Regency Court
Glategny Esplanade
St. Peter Port
Guernsey
GY1 3HW

**Registrar**
Link Asset Services
Mont Crevelt House
Bulwer Avenue
St Sampson
Guernsey
GY2 4LH

**Registered Office to 29 April 2019**
Old Bank Chambers
La Grande Rue
St Martin's
Guernsey
GY4 6RT

**Registered Office with effect from 29 April 2019**
P.O. Box 286
Floor 2
Trafalgar Court
Les Banques
St. Peter Port
Guernsey
GY1 4LY

**Investment Adviser**
Chenavari Credit Partners LLP
80 Victoria Street
London
SW1E 5JL

**Corporate Broker**
Fidante Partners Europe Limited, trading as Fidante Capital
1 Tudor Street
London
EC4Y 0AH

**Solicitors to the Company (as to United States law)**
Reed Smith LLP
The Broadgate Tower
20 Primrose Street
London
EC2A 2RS

**Solicitors to the Company (as to English law)**
Gowling WLG (UK) LLP
4 More London Riverside
London
SE1 2AU

**Advocates to the Company (as to Guernsey law)**
Mourant Ozannes
1 Le Marchant Street
St Peter Port
Guernsey
GY1 4HP

**Depository and AIFMD Article 36 Custodian**
U.S. Bank Global Fund Services (Ireland) Limited
24-26 City Quay
Dublin 2
Ireland

Elavon Financial Services Limited
Block E
Cherrywood Business Park
Loughlinstown
Dublin 18
Ireland

## Chairman's Statement

**Introduction**
On behalf of the Board, I am pleased to present the Company's annual report and audited financial statements for the year ended 30 September 2019.

**Realisation of Investment Portfolio**
For the Year, we have returned £20.5m by way of capital and dividend payments against an estimated amount of £27.0m. From the commencement of the realisation process until 30 September 2019, we have returned £93.5m by way of capital returns and dividends. A further £5.9m was paid by way of a capital return and dividends after the Year End. In total (including Share buy backs) 96,591,348 Shares have been cancelled as at the date of these financial statements, being 74.14% of the Shares in Issue at IPO.

The table below sets out the payments made since the commencement of the realisation process.

| Calendar quarter | Estimated cash flows to Shareholders, £m | Actual cash flow to Shareholders, £m | | |
|---|---|---|---|---|
| | | Compulsory redemption | Dividend | Total |
| 2017 | 27.8 | 24.0 | 8.4 | 32.4 |
| 2018 | 31.4 | 37.0 | 3.4 | 40.4 |
| Q1 2019 | 6.1 | 9.0 | 0.3 | 9.3 |
| Q2 2019 | 8.1 | 6.3 | 0.3 | 6.6 |
| Q3 2019 | 15.0 | 4.5* | 0.3 | 4.8 |
| Q4 2019 | 1.0 | 5.8* | 0.1 | 5.9 |
| **Total** | **89.4** | **86.6** | **12.8** | **99.4** |

* the payments made in Q3 and Q4 2019 excluded holdbacks on the realisation of the underlying assets which it is anticipated to be paid on or before the end of November 2020 and distributed to Shareholders accordingly.

It is anticipated that, on a base case scenario, the Company will return a further £15.6m in 2020, as detailed below. It should be noted that these figures are for indication purposes only and owing to changing market conditions, we may not be able to meet these targets.

| Period | Estimated cash flow to Shareholders |
|---|---|
| • Q1 2020 | £11.1m |
| • Q2 2020 | £0.1m |
| • Q3 2020 | £3.2m |
| • Q4 2020 | £1.2m |

**Performance**
The loss for the Year was £288,127, equivalent to a loss per Share of 0.54 pence (2018: £1,256,961, equivalent to profit per Share of 1.32 pence).

During the Year, the Company's NAV total return was -1.30% (dividends reinvested) and was 24.16% since inception (net of issue costs and dividends reinvested). The NAV per Share declined from 89.37 pence at 30 September 2018 to 85.97 pence at 30 September 2019. This decline was largely due to a write down of one of the assets coupled with higher levels of cash held in the portfolio pending return of capital to investors and the requirement to hold cash balances to cover margin calls.

# Chairman's Statement (continued)

During the Year we have seen the discount levels remain relatively consistent with the discount to NAV at the Year End being 12.18% and the share price total return for the Year being -0.93%[1] dividends reinvested. Since launch, the share price total return to the Year End was 7.99%[2] (dividends reinvested).

During the Year, the mid-market price per Share moved from 78.5 pence at the close of business on 30 September 2018 to 75.5 pence on 30 September 2019. The discount to NAV increased from 12.16% on 30 September 2018 to 12.18% on 30 September 2019.

**Dividends**
Four dividends were declared and paid during the Year amounting to 2.20 pence per Share (0.50 pence per Share was paid on 30 November 2018 for the period ending 30 September 2018, 0.50 pence per Share was paid on 28 February 2019, 0.70 pence per Share was paid on 31 May 2019 and 0.60 pence per Share was paid on 31 August 2019). Following the Year End, a further dividend of 0.40 pence per Share was declared on 31 October 2019 and paid on 29 November 2019.

It should be noted that dividend levels have declined as the higher income generating assets have been disposed of and it is likely that dividends will decline further until such point as it is no long viable to make dividend payments to investors.

**Share Repurchases**
During the year ending 30 September 2019, the Company did not buy back any Shares and there were no Shares held in Treasury. The Company continues to return capital to investors via returns of capital following the realisation of portfolio investments.

The Company has obtained Shareholder approval to buy back up to 14.99% of the Shares in issue as at the date of the last AGM being 28 March 2019. The Directors have the discretion to use share buy backs as part of the return of capital process where they feel it is appropriate and in the overall interest of Shareholders.

**Total Expense Ratio**
We continue to monitor the total expense ratio which has naturally risen as the number of assets has declined. Following the fee review process undertaken during the period the total expense ratio as at 30 September 2019 was 1.67% [3]

**Board Review**
The Board has undertaken its annual review and and there were no significant matters of concern raised by this process.

**Annual General Meeting**
The AGM of the Company will be held at 11:00am on 1 April 2020 and Shareholders are invited to attend. Should Shareholders, or their nominated agents, have any issues they wish to raise with the Directors or the Investment Manager please contact us at ir@chenavari.com accordingly.

**Outlook**
As at the date of these financial statements the investment profile of the Company has changed significantly from the Year End with two additional capital returns. It is anticipated that a further capital return will be made in the first half of 2020.
Of the remaining assets there are three "significant positions" – a regulatory capital position with a scheduled maturity in February 2020 which represents 39.40% of NAV as at 31 December 2019 and two Spanish non-performing loan positions which respectively represent 30.13% and 6.54% of the NAV as at 31 December 2019. Of the other positions, three of these are holdbacks following the realisation of regulatory capital investments which represent 5.05% of NAV as at 31 December 2019 and it is anticipated that they will be repaid and distributed to Shareholders by the end of November 2020. There is also a residual positions in the portfolio which represents 0.2% of the NAV as at 31 December 2019.

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[1] 30 September 2019 mid-market price per Share of 75.5 pence plus 32.49 pence inception to date reinvested distributions (total 107.99 pence) versus 78.5 pence plus 30.5 pence reinvested (total 109.00 pence) at 30 September 2018 (109.0 – 107.99) /109.0 = -0.93%
[2] 30 September 2019 mid-market price per Share of 75.5 pence plus 32.49 pence inception to date reinvested distributions (total 107.99 pence) versus 100 cents at inception (107.99 - 100)/ 100 = 7.99%
[3] Total expenses divided by average assets

## Chairman's Statement (continued)

Once we have clarity on the exit strategy for the two Spanish non-performing loan positions noted above we will be in a position to notify Shareholders of our intended plans for the return of capital for these assets and the future structure of the Company.

After many false starts it seems that there will be an orderly Brexit conclusion in the coming weeks although the final position will not be for many months after the agreed exit deadline. We do not believe that any of the proposed Brexit related matters will unduly impact our remaining portfolio, although there is one asset which carries a more direct exposure as the investment is a regulatory capital transaction with a UK bank on a portfolio of loans to predominantly FTSE 250 companies.

Rob King
Non-executive Chairman

21 January 2020

# Investment Manager's Report

**Performance**
During the Year the Company's NAV total return (dividends reinvested) was -1.30% (2018: 1.94%).

The month-on-month total return since inception, dividends reinvested, was as follows:

| *Year* | YTD | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **2013** | **0.74%** | | | | | | | | | | -0.04% | -0.19% | 0.98% |
| **2014** | **5.76%** | 0.68% | 0.56% | 0.95% | 0.67% | 0.67% | -0.19% | -0.58% | 1.37% | -0.93% | 1.52% | 0.28% | 0.64% |
| **2015** | **3.08%** | -0.10% | 1.10% | -1.01% | 0.70% | 0.98% | 2.25% | 0.19% | 0.20% | 0.70% | 0.83% | -0.01% | -2.72% |
| **2016** | **5.37%** | -1.42% | -0.19% | 2.41% | 0.37% | 1.81% | 1.09% | 0.42% | -0.18% | 1.85% | 0.15% | 0.11% | -1.10% |
| **2017** | **7.16%** | -0.41% | 1.22% | 2.38% | 0.45% | 1.37% | 0.83% | 0.35% | -0.04% | 0.30% | 0.05% | 0.29% | 0.18% |
| **2018** | **2.39%** | -1.17% | -0.69% | 0.22% | 0.16% | 1.43% | 0.72% | -0.08% | 0.09% | 0.74% | 0.28% | 0.49% | 0.19% |
| **2019** | **-2.26%** | 0.34% | 0.40% | 0.12% | 0.50% | 0.16% | -0.68% | 0.20% | -3.52% | 0.25%* | | | |

Since inception, the Company paid the following dividends:

| **Period ending** | **Dividend (pence per Share)** |
|---|---|
| 30 September 2014 (2 dividends) | 5.2 |
| 30 September 2015 (4 dividends) | 7.5 |
| 30 September 2016 (4 dividends) | 7.5 |
| 30 September 2017 (4 dividends) | 6.75 |
| 30 September 2018 (4 dividends) | 4.0 |
| 30 September 2019 (4 dividends) | 2.20 |

From 1 January 2017, the Company entered into a Realisation Period and started to return unencumbered cash balances to Shareholders in the form of share cancellation.

| **Return of capital (share cancellation)** | **Cash returned to Shareholders** | **Shares redeemed as proportion of the share capital at IPO (1)** |
|---|---|---|
| 31 March 2017 | £4,999,957 | 4.2% |
| 1 September 2017 | £6,999,959 | 5.7% |
| 1 December 2017 | £11,999,954 | 9.9% |
| 1 May 2018 | £19,999,955 | 17.3% |
| 1 September 2018 | £16,999,960 | 14.7% |
| 2 January 2019 | £8,999,962 | 7.7% |
| 2 July 2019 | £6,299,962 | 5.4% |
| 7 October 2019* | £4,499,965 | 4.0% |
| 17 December 2019 | £ 5,799,973 | 5.2% |

(1) There were 130,300,000 shares in issue at IPO.

* The Investment Manager's Report treats the October redemption of £4.5million as a post year end event. As this was announced on 26 September 2019, it has been accounted for in the current year elsewhere in the document. September 2019 month to date return including this redemption was 0.28%.

# Investment Manager's Report (continued)

**Investment Review**
The sector allocation as at 30 September 2019 reflected a significant representation of corporate and SME loans.

| Asset class breakdown | Percentage of NAV 30 September 2017 | Percentage of NAV 30 September 2018 | Percentage of NAV 30 September 2019 |
|---|---|---|---|
| SME loans | 46.58% | 57.39% | 49.46% |
| Corporate loans | 32.59% | 20.42% | 32.88% |
| Cash, Collateral & Derivatives | 17.99% | 17.80% | 11.76% |
| Mortgages | 2.84% | 4.39% | 5.90% |
| **Total** | **100%** | **100%** | **100%** |

Geographically the portfolio diversification changed as the consequence of amortizing positions.

| Geographic breakdown | Percentage of NAV 30 September 2017 | Percentage of NAV 30 September 2018 | Percentage of NAV 30 September 2019 |
|---|---|---|---|
| Spain | 15.40% | 26.02% | 33.78% |
| U.K. | 15.43% | 20.54% | 33.07% |
| Italy | 10.42% | 18.99% | 20.85% |
| Cash, Collateral, & Derivatives | 17.99% | 17.80% | 11.76% |
| Germany | 8.98% | 0.27% | 0.42% |
| Switzerland | 4.86% | 6.98% | 0.05% |
| Netherlands | 2.27% | 0.02% | 0.04% |
| Other countries | 5.02% | 0.03% | 0.03% |
| Portugal | 9.96% | 9.35% | 0.00% |
| USA | 7.54% | 0.00% | 0.00% |
| France | 2.13% | 0.00% | 0.00% |
| **Total** | **100%** | **100%** | **100%** |

As at 30 September 2019, the following positions were held:

| Sector | Underlying assets Country | Fair value (GBP) | Percentage of NAV |
|---|---|---|---|
| Corporate loan | U.K. | 11,408,418 | 32.88% |
| SME loan | Spain | 9,737,952 | 28.07% |
| SME loan | Italy | 6,895,686 | 19.88% |
| Residential Mortgage | Spain | 1,981,442 | 5.71% |
| SME loan | Italy | 334,064 | 0.96% |
| SME loan | Multi | 192,226 | 0.55% |
| Residential Mortgage | UK | 64,598 | 0.19% |

Of the remaining assets there are three "significant positions" – a regulatory capital position with a scheduled maturity in February 2020 which represents 39.40% of NAV as at 31 December 2019 and two Spanish non-performing loan positions which respectively represent 30.13% and 6.54% of the NAV as at 31 December 2019. Of the other positions, three of these are holdbacks following the realisation of regulatory capital investments which represent 5.05% of NAV as at 31 December 2019 and it is anticipated that they will be repaid and distributed to Shareholders by the end of November 2020. There is also a residual positions in the portfolio which represents 0.2% of the NAV as at 31 December 2019

## Investment Portfolio Outlook
During the Realisation Period, the Company continues to manage the portfolio and to assess the opportunistic early sale of the assets to maximise the return on capital to shareholders.

As a significant part of the Company's assets are denominated in Euros, it will also continue to manage the foreign exchange exposure of the portfolio.

# Investment Manager's Report (continued)

## Investment Portfolio Outlook (continued)

The Investment Adviser maintains a base case for each investment in the portfolio, depending on its characteristics and underlying collateral. The base cases are derived from a combination of: initial cases derived at the time of investment from analysis of the transaction's structure and the underlying portfolio data, regular tracking of the performance of the transaction's underlying collateral pool and market implied factors such as credit spreads or the performance of other similar deals.

As of 30 September 2019, the Investment Adviser estimates that if all investments perform in line with the "base case", the internal rate of portfolio return, calculated on the invested capital of the Company, would be 5.6%[4].

Shareholders should note that, due to the diversification of the portfolio's holdings, it is unlikely that all investments would perform in line with the base case.

Under the base case, it is estimated that investment cash flows during 2020 will be as detailed below, but there can be no assurances to this effect.

- Q1 2020 £11.1m
- Q2 2020 £0.1m
- Q3 2020 £3.2m
- Q4 2020 £1.2m

Indicative internal rates of portfolio return are dependent on the underlying base case asset assumptions that are made by the Investment Adviser. These include, but are not limited to, predictions of default, prepayment, recovery, amortisation, interest rates, asset spread, portfolio replenishment and issuer optional redemptions. The figures are calculated on invested capital of the Company and do not reflect indications of NAV total return. The figures are based on long-term performance projections of the investment strategy and market conditions at the time of modelling and are therefore subject to change. There is no guarantee that any indicative rates of returns can be achieved. Investors should not place any reliance on such target return in deciding whether to invest in the Company. Stress Tests present a set of hypothetical scenarios that assume changes for one or more market variable in order to assess the effect on the portfolio. The results shown represent estimated gross performance of the portfolio under the market conditions stated and do not reflect any management or performance fees or other expenses. The Investment Adviser has made assumptions that it deems reasonable and used the best information available to calculate the rate of return case estimates. If a different set of assumptions were used in these calculations, there could be a material difference in the calculated estimates. Please refer to the prospectus dated 23 September 2013 for risk factors (a copy of which is on the website of the Company at www.chenavaricapitalsolutions.com). Hypothetical performance results have many inherent limitations and no representation is being made that any account will or is likely to achieve profits or losses similar to those shown. In fact, there are frequently sharp differences between hypothetical performance results and the actual results subsequently achieved by any particular investment programme.

Chenavari Investment Managers (Luxembourg) S.àRL.
Investment Manager

21 January 2020

[4] Effective rate of return on the whole Company's life

## Board of Directors

**Directors**

The Directors are responsible for the determination of the Company's investment objective and investment policy and have overall responsibility for the Company's activities including the review of investment activity and performance and the control and supervision of the Investment Manager. All of the Directors are non-executive and, save for Mr. René Mouchotte (as described below), are independent of the Investment Manager and the Investment Adviser.

The Directors meet at least four times per annum.

The Directors are as follows:

***Robert King (aged 56)***

Rob is a non-executive director for a number of open and closed ended investment funds and companies including, Tufton Oceanic Assets Limited (Chairman), CIP Merchant Capital Limited and Weiss Korea Opportunities Fund Limited. Prior to becoming an independent non-executive director in 2011 he was a Director of Cannon Asset Management Limited and their associated companies, from October 2007 to February 2011. Prior to this he was a Director of Northern Trust International Fund Administration Services (Guernsey) Limited where he had worked from 1990 to 2007. He has been in the offshore finance industry since 1986. Rob is British and resident in Guernsey.

***Iain Stokes, non-executive director (aged 55)***

In his early career, Iain worked for BDO and Guersey International Fund Managers Limited (part of ING Barings) before joining Mourant International Finance Administration (MIFA) in 2003. As Group Managing Director, he was a member of the executive team that managed the Sale of MIFA to State Street in 2010 and where he was a Senior Managing Director until 2012. He holds a range of non-executive directorships on fund management and fund investment companies focused on alternative asset strategies. He is resident in Guernsey.

***René Mouchotte, non-executive director (aged 73)***

René has over 40 years' experience in senior finance positions. He has held senior positions in various investment banks, including managing director global head of securitisation and tax lease for Credit Agricole Indosuez, Chairman of Eurotitrisation and managing director global head of credit portfolio management for CALYON, independent board member of Banque AIG and has also been a board member of IACPM (International Association of Credit Portfolio Managers) from 2007 to 2009. René is currently an independent board member of Eurotitrisation. He is a non-executive director of Taurus Corporate Financing LLP and of Chenavari Investment Managers (Luxembourg) S.à r.l a non-cellular company incorporated in Luxembourg, as well as a non-executive director of the Chenavari Multi-Strategy Fund Limited (and of its trading subsidiaries), a Cayman Islands umbrella fund. Both of these entities are members of, or managed by members of, the Chenavari Financial Group. René holds an MS in Engineering from Ecole des Mines, an MBA from Columbia University Graduate School of Business, an MA in Finance and Economics from Institut d'Etudes Politiques de Paris and a Post-Master's degree in Economics from Paris University. René is not considered independent of the Advisers for the purposes of the Company's voluntary compliance with the Listing Rules of the Financial Conduct Authority by virtue of his directorship of the other funds managed within the Chenavari Group.

## Disclosure of Directorships in Public Companies Listed on Recognised Stock Exchanges

The following summarises the Directors' directorships in other public companies:

| Company Name | Stock Exchange |
|---|---|
| **Rob King** | |
| Golden Prospect Precious Metals Limited | TISE* & LSE- SETSqx |
| Pembroke Heritage Fund Limited | TISE |
| Weiss Korea Opportunity Ltd | AIM |
| CIP Merchange Capital Limited | AIM |
| Tufton Oceanic Assets Limited | LSE-SFS |
| **Iain Stokes** | |
| PraxisIFM Group Limited | TISE |
| **René Mouchotte** | |
| None held | N/A |

* TISE is the abbreviation for The International Stock Exchange

## Report of the Directors

The Directors are pleased to present their Annual Report and Audited Financial Statements for the year ended 30 September 2019.

In the opinion of the Directors, the Annual Report and Audited Financial Statements are fair, balanced and understandable and provide the information necessary for Shareholders to assess the Company's performance, business model and strategy.

### Incorporation

The Company is a closed-ended limited liability company registered in Guernsey under the Companies (Guernsey) Law, 2008 (as amended) with registered number 56977.

### Investment Objective and Policy

The investment objective of the Company is to provide Shareholders with an attractive return, while limiting downside risk, through investment in bank capital solutions transactions primarily with UK and European banks. From 1 January 2017, returns to Shareholders will be predominantly from the distribution of unencumbered cash balances arising as a result of investments maturing in accordance with their terms or otherwise and as dividend income. The investment policy is set out in full in note 1 to the financial statements.

At 30 September 2019, the Portfolio was invested in five primary transactions and two secondary transactions. (2018: seven primary transactions and two secondary transactions) and these represent 48.67% and 29.17% respectively (2018: 61.4% and 20.5% respectively) of the Company's total assets. During its Investment Period, the Company had flexibility to invest in bank capital solutions transactions with a range of underlying asset types, including (but not limited to) mortgage loans, corporate and SME loans, asset backed securities, derivatives and counterparty risks.

As of 30 September 2019, the Company was 88.7% invested with a sector allocation that reflects the significant representation of corporate and SME loans. No more than 16.83% of the NAV was exposed to any one Bank Counterparty and the largest position was the UK Corporate loans transaction at 32.46% of NAV. This exposure is actively managed by the Investment Manager. The exposure increase is the result of the decrease in assets under management following the distributions made within the Realisation Period.

Following the extension of the Investment Period approved by Shareholders at an EGM on 18 December 2015, the Company continued its ability to invest its cash balances in accordance with its investment policy. As previously stated, the Investment Period ended with effect from 1 January 2017 and the Company commenced the Realisation Period to return to Shareholders the unencumbered cash balances.

### Basis of Preparation

At the Year End, in aggregate 64.9% of share capital as at IPO has been returned to Shareholders. A further return of capital for 4.03% of the share capital as at IPO was announced on 26 September 2019 and paid on 8 October 2019. As this redemption was announced pre year end, it has been accounted for in the current year The Directors consider it is appropriate for the financial statements to have been prepared on a basis other than that of a going concern since upon completion of the realisation of the investment portfolio, an orderly wind up of the Company will commence. Where fair value is referred to in the financial statements, this is assumed to approximate the net realisable value. However the Directors have determined there are no significant differences than had the financial statements been prepared on a going concern basis.

### Results

The results for the year ended 30 September 2019 are set on page 42. The loss for the year was £288,127 (2018: £1,256,961 profit).

## Report of the Directors (continued)

### Dividends

The table below sets out the Company's dividend history.

| Quarter ending | Announced | Record date | Pay date | Dividend |
|---|---|---|---|---|
| 30/06/2014 | 18/07/2014 | 01/08/2014 | 29/08/2014 | 4.00p |
| 30/09/2014 | 29/10/2014 | 07/11/2014 | 28/11/2014 | 1.20p |
| 31/12/2014 | 21/01/2015 | 30/01/2015 | 20/02/2015 | 1.35p |
| 31/03/2015 | 21/04/2015 | 01/05/2015 | 22/05/2015 | 1.20p |
| 30/06/2015 | 22/07/2015 | 31/07/2015 | 21/08/2015 | 2.00p |
| 30/09/2015 | 22/10/2015 | 30/10/2015 | 27/11/2015 | 2.95p |
| 31/12/2015 | 22/01/2016 | 05/02/2016 | 26/02/2016 | 2.00p |
| 31/03/2016 | 21/04/2016 | 29/04/2016 | 27/05/2016 | 2.00p |
| 30/06/2016 | 28/07/2016 | 05/08/2016 | 26/08/2016 | 2.00p |
| 30/09/2016 | 27/10/2016 | 04/11/2016 | 12/12/2016 | 1.50p |
| 31/12/2016 | 20/01/2017 | 03/02/2017 | 24/02/2017 | 2.00p |
| 31/03/2017 | 21/04/2017 | 05/05/2017 | 26/05/2017 | 1.25p |
| 30/06/2017 | 26/07/2017 | 03/08/2017 | 30/08/2017 | 1.75p |
| 30/09/2017 | 20/10/2017 | 03/11/2017 | 30/11/2017 | 1.75p |
| 31/12/2017 | 26/01/2018 | 09/02/2018 | 28/02/2018 | 1.25p |
| 31/03/2018 | 20/04/2018 | 04/05/2018 | 31/05/2018 | 1.25p |
| 30/06/2018 | 24/07/2018 | 03/08/2018 | 31/08/2018 | 1.00p |
| 30/09/2018 | 31/10/2018 | 08/11/2018 | 30/11/2018 | 0.50p |
| 31/12/2018 | 25/01/2019 | 08/02/2019 | 28/02/2019 | 0.50p |
| 31/03/2019 | 30/04/2019 | 10/05/2019 | 31/05/2019 | 0.70p |
| 30/06/2019 | 25/07/2019 | 02/08/2019 | 30/08/2019 | 0.60p |
| 30/09/2019 | 24/10/2019 | 01/11/2019 | 29/11/2019 | 0.40p |

The payment of any dividend by the Company is subject to the satisfaction of a solvency test as required by the Companies (Guernsey) Law, 2008 (as amended).

### Share Capital and Discount Control

The IPO of the Company raised gross issue proceeds of £130.3 million resulting in 130,300,000 Shares being admitted to trading on the SFS of the London Stock Exchange on 7 October 2013. From 1 January 2017, the Company commenced a Realisation Period to return unencumbered cash balances to Shareholders by way of compulsory redemptions. As at 30 September 2019, the Company has returned capital of £76,299,708 via the redemption of 84,573,008 Shares as follows:

| Redemption date | Number of Shares redeemed | Redemption price, pence per Share | Total consideration, £ |
|---|---|---|---|
| 31 March 2017 | 5,511,416 | 90.72 | 4,999,956 |
| 1 September 2017 | 7,413,640 | 94.42 | 6,999,958 |
| 1 December 2017 | 12,908,729 | 92.96 | 11,999,954 |
| 1 May 2018 | 22,499,669 | 88.89 | 19,999,955 |
| 1 September 2018 | 19,180,820 | 88.63 | 16,999,960 |
| 2 January 2019 | 10,050,209 | 89.55 | 8,999,962 |
| 2 July 2019 | 7,008,525 | 89.89 | 6,299,962 |
| Total | 84,573,008 | | 76,299,707 |

A further 5,248,997 Shares were redeemed after the Year end, on 8 October 2019, at a redemption price of 85.73 pence per Share for total consideration £4,499,965.12. The proceeds were paid for value 22 October 2019, as this redemption was announced on 26 September 2019, it has been accounted for in the current year.

A further 6,769,343 Shares were redeemed after the Year end, on 9 December 2019, at a redemption price of 85.68 pence per Share for total consideration £5,799,973. The proceeds were paid for value 17 December 2019.

The Company may, subject to compliance with Companies (Guernsey) Law, 2008 (as amended), purchase its own Shares in the market on an ad hoc basis with a view to addressing any imbalance between the supply of, and demand for, the Shares, to increase the NAV per Share and to assist in minimising any discount to the NAV per Share.

During the Year, the Company has not repurchased any Shares and no Shares were held in treasury as at 30 September 2019. The current authority to purchase Shares for cancellation expires on the date of the next AGM which will be held in Guernsey on 1 April 2020. The Directors expect to seek renewed authority to purchase Shares for cancellation at that AGM.

## Report of the Directors (continued)

**Shareholder Information**
The NAV will be calculated as of the last Business Day of each month (or at any other times at the Board's discretion) by the Sub-Administrator, based on third party valuations or information supplied by the Bank Counterparties (as applicable) and in consultation with the Advisers. The NAV and the NAV per Share will be published in Pounds Sterling by an RIS announcement and on the website of the Company at www.chenavaricapitalsolutions.com.

**Investment Manager**
The investment management fee payable to the Investment Manager is paid monthly in arrears at a rate of 1% per annum of NAV, which is based upon the month end NAV and calculated as of the last business day of each month.

The Investment Manager shall be entitled to receive from the Company a performance fee equal to 20% of realised returns (i.e. dividends and capital repayments/returns) to Shareholders, subject to a hurdle of 7.5% per annum with a catch up. For the year ended 30 September 2019, no performance fee was paid or accrued for payment to the Investment Manager as this hurdle was not achieved.

The Board keeps the performance of the Investment Manager under regular review, and the Management Engagement Committee, comprising all Directors, conducts an annual appraisal of the Investment Manager's performance, and makes a recommendation to the Board about the continuing appointment of the Investment Manager. The Investment Manager has executed the investment strategy according to the Board's expectations and it is the opinion of the Directors that the continuing appointment of Chenavari Investment Managers (Luxembourg) S.àRL is in the interests of Shareholders as a whole.

**Non-mainstream pooled investments**
On 1 January 2014, FCA rules concerning the promotion of non-mainstream pooled investments came into effect. The Board conducts and intends to continue to conduct its affairs so that the Company's Shares will be "excluded securities" under the FCA rules.

This is on the basis that the Company, which is resident outside the EEA, would qualify for approval as an investment trust by the Commissioners for HM Revenue and Customs if resident and listed in the United Kingdom. Promotion of the Company's Shares will not be subject to the FCA's restriction on promotion of non-mainstream pooled investments.

**AIFMD**
The Company is considered to be an Alternative Investment Fund ("AIF") under the Alternative Investment Fund Managers Directive ("AIFMD") and is managed by Chenavari Investment Managers (Luxembourg) S.àRL as Alternative Investment Fund Manager ("AIFM"). However, the Company, as a Guernsey registered closed ended fund which is not currently actively marketed in the EEA, is not significantly impacted by the AIFMD (save for certain consequential effects arising from its appointment of an EU domiciled Alternative Investment fund Manager such as the requirement to appoint a depositary). Elavon Financial Services Limited was appointed as Depositary for the Company with effect from 1 October 2015. If active marketing is undertaken in the EEA the private placement regime requirements for the relevant jurisdiction would need to be met.

**The Foreign Account Tax Compliance Act ("FATCA") and the Common Reporting Standards ("CRS")**
FATCA was introduced by the US in 2010 to identify and report on US citizens, corporates and trusts who held financial assets – whether US source or not – with financial institutions in other jurisdictions. The intention was to reduce tax evasion by ensuring such assets and the related income were being declared on US tax returns. CRS is a global tax information sharing initiative promoted by the O.E.C.D., similar to FATCA, which came into force on 1 January 2016. The requirements of CRS are closely aligned to requirements under a FATCA Model 1 Intergovernmental agreement where certain disclosure requirements may be imposed in respect of certain investors in the Company.

The Company's Registrar completed the FATCA and CRS reporting requirements for the year ended 31 December 2018 on 14 May 2019.

The Directors are committed to zero tolerance towards the criminal facilitation of tax evasion.

Further developments will continue to be monitored by the Company's specialist service providers to ensure that the Company remains compliant with each of FATCA and CRS.

## Report of the Directors (continued)

**Significant Shareholdings**
Shareholders with holdings of more than 3.0% of the Shares of the Company at 30 September 2019 were as follows:

| Name | Number of Shares | Percentage of Share capital |
|---|---|---|
| Chase Nominees Limited | 11,178,608 | 24.51% |
| Nortrust Nominees Limited | 4,908,435 | 10.76% |
| The bank of new york (Nominees) | 4,838,506 | 10.61% |
| HSBC Global Custody Nominee (uk) | 3,805,245 | 8.34% |
| HSBC Global Custody Nominee (uk) | 3,716,672 | 8.15% |
| The Bank of New york (Nominees) | 2,148,217 | 4.71% |
| HSBC Global Custody Nominee (uk) | 1,970,268 | 4.32% |
| Arbuthnot Latham (Nominees) limited | 1,553,219 | 3.41% |

**Report on Viability**
The Directors have reassessed the viability of the Company as investments have been realised with 64.9% of the initial Shares issued at the time of the IPO being realised to 30 September 2019 and cancelled since the commencement of the Realisation Period. Subsequent to the Year End, a further 12,018,340 Shares were cancelled bringing the total Shares cancelled to 96,591,348 being 74.14% of share capital as at IPO.

Of the remaining assets there are three "significant positions": a regulatory capital position with a scheduled maturity in February 2020 which represents 39.40% of NAV as at 31 December 2019 and two Spanish non-performing loan positions which respectively represent 30.13% and 6.54% of the NAV as at 31 December 2019. Of the other positions, three of these are holdbacks following the realisation of regulatory capital investments which represent 5.05% of NAV as at 31 December 2019 and it is anticipated that they will be repaid and distributed to Shareholders by the end of November 2020. There is also a residual positions in the portfolio which represents 0.2% of the NAV as at 31 December 2019.

The Directors continue to base their opinion on the valuation of the assets of the Company as at 30 September 2019 and have further considered that the Investment Adviser maintains a Base Case and sensitivity scenarios for each investment in the portfolio, depending on its characteristics and underlying collateral. The cases are derived from a combination of initial cases derived at the time of investment from analysis of each transaction's structure and the underlying portfolio data, regular tracking of the performance of the transaction's underlying collateral pool and market implied factors such as credit spreads or the performance of other similar deals.

As of 30 September 2019, the Investment Adviser's indicative estimate of the internal rate of portfolio return, calculated on the invested capital of the Company, is 5.6% if all remaining investments perform in line with the "Base Case".

**Viability Statement**
The Company, in accordance with the Realisation Period as detailed in the circular dated 15 February 2017, will commence the orderly wind up of the Company upon completion of the realisation of the investment portfolio. The financial statements have therefore been prepared on a basis other than that of a going concern as described in note 2.1 of the financial statements. Accordingly, the Directors have not assessed the longer term viability of the Company other than as stated above. This position is dependent on the successful disposal of the remaining portfolio and the Directors will continue to monitor the progress and timing of the disposal process.

The principal risks, which are set out in these financial statements on pages 26 to 29, will continue to be monitored closely as these represent the key areas most likely to impact the viability of the Company and also its ability to exit its assets during the Realisation Period.

**Directors**
The Directors of the Company during the Year and at the date of this Report are set out on page 14.

At 30 September 2019, the Directors held the following Shares in the Company: Mr King 10,511, Mr Stokes 14,015 and Mr Mouchotte 1,753.

## Report of the Directors (continued)

None of the Directors or any persons connected with them have had a material interest in the Company's transactions or agreements during the Year. Mr Mouchotte, by virtue of his directorship of the AIFM and other funds within the Chenavari group, is not considered independent.

**Retirement by Rotation**
Under the terms of their appointment, each Director is required to retire by rotation and be subject to re-election at least every three years. The Directors are required to seek re-election if they have already served for more than nine years. Mr Mouchotte, by virtue of his other directorships, is required to be re-elected on an annual basis. The Company may terminate the appointment of a Director immediately on serving written notice and no compensation is payable upon termination of office as a Director of the Company becoming effective.

**Disclosure of Information to The Auditor**
The Directors who held office at the date of approval of these financial statements confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

**Independent Auditor**
Deloitte was formally re-appointed as the Company's auditor for the 2019 year-end audit following the AGM on 28 March 2019.

Deloitte LLP have indicated their willingness to continue in their capacity as auditors. A resolution for the reappointment of Deloitte will be proposed at the next AGM.

Signed on behalf of the Board of Directors by:

Rob King,
Non-executive Chairman

Iain Stokes,
Non-executive Director

21 January 2020

## AIFM's Report to Shareholders

The Company is an alternative investment fund (an "AIF") as defined by the Alternative Investment Fund Managers Directive ("AIFMD") and has appointed Chenavari Investment Managers (Luxembourg) S.àRL (the "Investment Manager"), as the Investment Manager in accordance with the terms of an investment management agreement. The Investment Manager has appointed Chenavari Credit Partners LLP to provide investment advisory services to the Investment Manager.

The investment management agreement can be terminated by either party on 12 months' written notice.

Under the terms of the investment management agreement dated 23 September 2013 as novated on 22 July 2014, the Investment Manager receives a fee of one-twelfth of 1% on the NAV of the Company, payable monthly in arrears. The total management fees for the year amounted to £477,473 for Chenavari Investment Managers (Luxembourg) S.àRL (2018: £849,959) with £32,581 (2018: £46,325) in outstanding accrued fees at the year end.

The Investment Manager is also entitled to receive from the Company a performance fee equal to 20% of realised returns (i.e. dividends and capital repayments/returns) to Shareholders, subject to a hurdle of 7.5% per annum with a catch up. The catch up operates such that a performance fee shall not become payable until the Company has distributed to Shareholders an amount equal to the Gross Issue Proceeds as increased by a hurdle rate of 7.5% per annum (the "Hurdle"). Thereafter, amounts available for distribution in excess of the Hurdle shall be distributed by the Company as to 50% to Shareholders and paid as to 50% to the Investment Manager until the Investment Manager has received 20% of all amounts in excess of the Gross Issue Proceeds. Thereafter, all further amounts available for distribution by the Company shall be distributed as to 80% to Shareholders and paid as to 20% by way of payment of the performance fee to the Investment Manager.

As of 30 September 2019, no performance fee was accrued according to those principles (2018: nil).

As of 30 September 2019, the leverage of the Company computed according to the gross methodology was 1.28 times (2018:0.9), while computed according to the commitment methodology it was 0.95 times (2018:1.03).

Total gross remuneration paid by the AIFM to its eight employees for 2019 financial year end was EUR 942,307.62 (2018: EUR 970,030).

Chenavari Investment Managers (Luxembourg) S.àRL

21 January 2020

# Corporate Governance Report

This Corporate Governance Statement forms part of the Directors' Report

The Company was admitted to trading on the SFS of the London Stock Exchange on 7 October 2013 and as such, the Listing Rules applicable to closed-ended investment companies which are listed on the premium listing segment of the Official List of the UKLA do not apply to the Company.

Whilst the Company is subject to the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority ("DTR") while admitted to trading on SFS, the Directors have resolved that, as a matter of good corporate governance, the Company will also voluntarily comply with certain provisions of the Listing Rules, including the relevant provisions of Chapter 9 regarding corporate governance and continuing obligations.

On 16 July 2018, the Financial Reporting Council ('FRC') published the 2018 Code of Corporate Governance (the Code). The Code is available for download from the Financial Reporting Council's ('FRC') website www.frc.org.uk. The Directors recognise the value of the UK Code and have taken appropriate measures to ensure that the Company complies with the UK Code where required

**Compliance with the UK Code**
Whilst the Company has voluntarily complied with the UK Code during the Year, there is a requirement to provide Shareholders with a statement on how the main and supporting principles set out in the UK Code have been applied and whether the Company has complied with the provisions of the UK Code. The Board recognises the importance of a strong corporate governance culture and has established a framework for corporate governance which it considers to be appropriate to the business of the Company.

With the introduction of the 2018 Code, the Board has reconsidered the principles and recommendations of the Code and considers that the Company has complied throughout the Year, except as disclosed below:

- the role of the chief executive and executives of the Board;
- the appointment of a senior independent director;
- the establishment of a nomination committee;
- the composition of the Audit Committee;
- executive directors' remuneration;
- viability statement; and
- director notice or contract periods

The Board confirms that the exceptions identified against the 2018 Code remain consistent with the exceptions identified in the 2016 Code. In more detail, the Board's reasoning for their conclusions of the Company's adherence to the 2018 Code is set out below:

*Section 2*: The Company does not have any executive officers or executive directors. Accordingly, provisions of the Code relating to the roles of the Chair and Chief Executive do not apply to the Company.

*Explanation*: As the UK Code itself states, investment companies typically have a Board structure that differs from those of other companies and this affects the relevance of particular provisions of the UK Code. Due to the nature of the Company's business and the structure of its relationships with its Administrator, Sub-Administrator, Custodian, Investment Adviser and Investment Manager, the Directors do not believe it would be at present cost-effective or advisable to have full-time Executive Directors.

*Section 2:* The Company has not appointed one of the independent non-executive Directors to be the senior independent Director.

*Explanation*: An independent senior director has not been identified and such a role is not considered necessary because the Company has adopted a policy that the composition of the Board of Directors, which is required by the Company's Articles to comprise of at least two persons, is at all times such that a majority of the Directors are independent of the Investment Manager and Investment Adviser and any company in the same group as the Investment Manager and Investment Adviser. The Chairman and Mr Stokes are free from any conflicts of interest and are independent of the Investment Manager and Investment Adviser and of any company in the same group as the Investment Manager and Investment Adviser, however, Mr Mouchotte, by virtue of his directorship of the AIFM and other funds within the Chenavari group, is not considered independent. Given Mr Mouchotte's directly relevant investment experience, the independent Directors are of the opinion that Shareholders' interests are best served through Mr Mouchotte's continued appointment and his contribution is considered to be an integral part of the Board's decision making process.

## Corporate Governance Report (continued)

*Section 3*: The Company has not established a nomination committee to lead the process for Board appointments and make recommendations to the Board.

*Explanation*: The appointment of new Directors forms part of the schedule of matters reserved for the Board through the Management Engagement Committee and the Board considers that the process for Board appointments to be the Board's responsibility in accordance with the principles set out in the UK Code.

*Section 4*: the Board should establish an Audit Committee of at least three, or in the case of smaller companies, two, independent non-executive Directors.

*Explanation*: The Company's Audit Committee comprises of Mr. King and Mr. Stokes. The UK Code suggests that the Chairman should not be a member of the Audit Committee. Given Mr. Mouchotte's non-independence of the AIFM and the Investment Manager, referenced below, along with the minimum required size for the Audit Committee, Mr King is required to be a member.

*Section 4:* Taking account of the Company's current position and principal risks, the Board should explain in the annual report how it has assessed the prospects of the company, over what period it has done so and why it considers that period to be appropriate.

*Explanation:* The Company is in its realisation period and will commence the orderly wind up of the Company upon completion of the realisation of the investment portfolio. The financial statements have therefore been prepared on a basis other than that of a going concern as described in note 2.1 of the financial statements. Accordingly, the Directors have not assessed the longer term viability of the Company other than as stated above in the Directors' Report on page 19.

*Section 5*: The Board has not established a remuneration committee to consider executive directors' remuneration to promote the long-term success of the Company.

*Explanation*: In view of its non-executive nature, the Board considers that it is not appropriate for there to be a separate remuneration committee. Following a recommendation from the Chairman, it is the responsibility of the Board as a whole to determine and approve the Directors' fees. The Chairman's remuneration is decided separately and is approved by the Board as a whole. A separate Directors' Remuneration Report is set out on page 34.

*Section 5*: Notice or contract periods of non-executive Directors should be one year or less.

*Explanation*: Non-executive Directors are not appointed for a specified term and the Company's articles of association require that all Directors retire by rotation at the annual general meetings of the Company.

Further details of compliance with the UK Code are noted in the succeeding pages. There have been no instances of non-compliance, other than those noted above, and the Company has therefore not reported further in respect of these provisions.

The Guernsey Financial Services Commission issued a Finance Sector Code of Corporate Governance (the "GFSC Code") which came into effect on 1 January 2012 and was amended in February 2016. As the Company voluntarily reports by reference to the UK Code, it is deemed by the GFSC also to meet the requirements of the GFSC Code.

**Composition and Independence of the Board**
The Board currently consists of three non-executive Directors. Biographies for all the Directors can be found on page 14. The Chairman and Mr Stokes are considered independent of the Investment Manager and Investment Adviser for the purposes of the Company's compliance with the UK Code. However Mr Mouchotte, by virtue of his directorship of the AIFM and other funds within the Chenavari group, is not considered independent.

The Board has assessed that the holdings of the Directors are not significant and believes such levels of investment should not raise questions regarding their independence. The Board considers that Directors owning shares in the Company directly aligns them with the interests of the Shareholders.

As Chairman of the Board, Mr King is responsible for the leadership of the Board and ensuring its effectiveness in all aspects of its role. In considering the independence of the Chairman, the Board has taken note of the criteria set out in Section 2 of the UK Code relating to independence and has determined that Mr King is an Independent Director.

# Corporate Governance Report (continued)

The Company has no employees and therefore there is no requirement for a chief executive. The Board is responsible for the appointment and monitoring of all service providers to the Company. Between formal meetings there is regular contact with the Administrator, Sub-Administrator, Investment Manager and Investment Adviser. The Directors are kept informed of investment and financial controls and other matters that are relevant to the business of the Company and should be brought to the attention of the Directors. The Directors also have access to the Company Secretary and, where necessary in the furtherance of their duties, to independent professional advice at the expense of the Company.

The Board holds quarterly Board meetings, the Audit Committee meets at least three times a year and the Management Engagement Committee meets at least annually. In addition, ad hoc meetings of the Board to review specific items between the regular scheduled quarterly meetings can be arranged.

Attendance at the Board, Audit Committee and Management Engagement Committee meetings during the year was as follows:

| Director | Board meetings | | Audit Committee meetings | | Management Engagement Committee meetings | |
|---|---|---|---|---|---|---|
| | Held | Attended | Held | Attended | Held | Attended |
| Rob King | 9 | 7 | 3 | 3 | 1 | 1 |
| Iain Stokes | 9 | 8 | 3 | 3 | 1 | 1 |
| Rene Mouchotte | 9 | 9 | N/A | N/A | N/A | N/A |

On 13 December 2016 the Company announced its intention to cease making any further investments with immediate effect and that, from 1 January 2017, it would commence a realisation period which would involve the return of unencumbered cash balances to Shareholders (the "Realisation Period"). At Year End, in aggregate 64.9% of share capital as at IPO has been returned to Shareholders. The Board assesses the basis on which this process continues in order to generate the best value for Shareholders.

At Board meetings the Directors review the management of the Company's assets and all other significant matters so as to ensure that the Directors maintain overall control and supervision of the Company's affairs. Agendas and Board papers are circulated in advance of meetings to assist members to discharge their duties appropriately. The Company maintains a formal schedule of matters reserved for the Board. The Directors are responsible for the determination of the Company's investment objective and investment policy and have overall responsibility for the Company's activities including the review of investment activity and performance and the control and supervision of the Investment Manager.

The Board has reviewed its composition and believes that the current appointments provide an appropriate range of skills, experience and diversity. In the context of the Realisation Period, the Board is committed to continuing to review its current composition. No board appointments were made in the period under review. Diversity is important in bringing an appropriate range of skills and experience to the Board, but the Board has not set itself objectives in relation to this element of board composition. In the context of a relatively small Board, the policy when recruiting a new Director, is to appoint individuals on their merit and suitability for the role.

**Audit Committee**
An Audit Committee has been established consisting of Mr. King and Mr. Stokes, who is appointed as Chairman. The Audit Committee's primary function is to assist the Board in fulfilling its oversight responsibilities and under the Terms of Reference its main duties include financial reporting, risk management systems, compliance, whistle blowing and fraud. It will review the scope, results, cost effectiveness, independence and objectivity of the external auditor. Further details on the Audit Committee can be found in the Audit Committee Report on page 30.

**Management Engagement Committee**
The Board has established a Management Engagement Committee with formal duties and responsibilities. Its principal duty is to consider the terms of appointment of the Investment Manager and it will annually review that appointment and the terms of the Investment Management Agreement and Investment Advisory Agreement. Its duties and responsibilities also extend to the regular review of the performance of and contractual arrangements with other service providers. The Management Engagement Committee commits to meeting at least once a year and comprises Mr. King as Chairman and Mr. Stokes.

## Corporate Governance Report (continued)

The Management Engagement Committee carried out its annual review of the performance and capabilities of the Investment Manager and Investment Adviser on 28 November 2019 to confirm that the continued appointment of Chenavari Investment Managers (Luxembourg) S.àRL as Investment Manager and Chenavari Credit Partners LLP as Investment Adviser are deemed to be in the interest of Shareholders. As part of the review process, the Management Engagement Committee concluded that the Company's Outsourced Service Providers are performing their duties in accordance with the Company's expectations and contractual arrangements

**Board Diversity**
The Company supports the current provision that Boards should consider the benefits of diversity, including gender, when making appointments and is committed to ensuring it receives information from the widest range of perspectives and backgrounds. The Company's aim as regards the composition of the Board is that it should have a balance of experience, skills and knowledge to enable each Director and the Board as a whole to discharge their duties effectively. Whilst the Board members agree that it is entirely appropriate that it should seek diversity, it does not consider that this can be best achieved by establishing specific quotas and targets and appointments will continue to be made based wholly on merit. Accordingly if changes to the Board are required, regard will be paid to both the need for diversity and to a comparative analysis of candidates' qualifications and experience. A pre-established, clear, neutrally formulated and unambiguous set of criteria would be utilised to determine the most suitable candidate for the specific position sought.

**Board Performance**
During November 2019, the Management Engagement Committee formally evaluated the Board's effectiveness by considering the balance of skills, experience, independence and knowledge of the Company on the Board, its diversity, how the Board works together as a unit, the allocation of sufficient time to the Company as well as other factors relevant to its effectiveness. The Management Engagement Committee found the performance of the Chairman, individual Directors and the Board as a whole over the review period to be as expected

**Investor Relations**
Shareholders are able to contact the Company directly through its dedicated e-mail address (chenavaricapitalsolutions@chenavari.com) or by correspondence sent to the Company Secretary (chenavari@estera.com), Investment Manager. As a consequence, the Board receives appropriate updates from the Company Secretary, Investment Manager or Corporate Broker relative to such correspondence to keep it informed of Shareholders' sentiment or analyst views. The Company maintains an open information flow with Shareholders by providing a monthly factsheet and a quarterly investor call with the Investment Adviser to ensure Shareholders are updated on the performance of the underlying portfolio and other matters relating to the Company. The Company's NAV, NAV per Share, factsheet and transcript of Shareholder calls are posted on the Company's website at www.chenavaricapitalsolutions.com.

## Statement of Principal Risks and Uncertainties

**Summary**
An investment in the Shares is only suitable for institutional investors and professionally advised private investors who understand and are capable of evaluating the merits and risks of such an investment and who have sufficient resources to be able to bear any losses (which may equal the whole amount invested) that may result from such an investment. Furthermore, an investment in the Shares should constitute part of a diversified investment portfolio. It should be remembered that the price of securities and the income from them can go down as well as up.

The risks set out below are those which are considered to be the material risks relating to an investment in the Shares but are not the only risks relating to the Shares or the Company. Additional risks and uncertainties of which the Company is presently unaware or that the Company currently believes are immaterial may also adversely affect its business, financial condition, results of operations or the value of the Shares.

The Board has continued to perform a robust assessment to identify the principal risks that could affect the Company, including those that would threaten its business model, future performance, solvency or liquidity. The Board has adopted a controls based approach to its risk monitoring requiring each of the relevant service providers including the Investment Manager to establish the necessary controls to ensure that all known risks are monitored and controlled in accordance with agreed procedures. The Directors receive periodic updates at their Board meetings on key risks and have adopted their own control review to ensure where, possible, risks are monitored appropriately.

Since the Company commenced its Realisation Period on 1 January 2017, circa 65% of its investments have either been sold or matured, with proceeds distributed to Shareholders via dividends or capital redemptions. Accordingly, at the Year End the Company's remaining investments have become more concentrated with only 5 investments left to harvest.

| **Risk** | **Explanation/Mitigant** |
|---|---|
| Collateral risk (default, recovery, prepayment) | Investment Instruments issued by Bank counterparties and purchased by the Company are linked to the credit performance of the Collateral. This means that defaults or credit losses in the Collateral may adversely impact the performance of the Company, the NAV and the value of the Shares.<br><br>The Investment Adviser undertakes a fundamental credit review entailing the selection and optimisation of the Collateral underlying a Bank Capital Solutions Transaction and develops quantitative scenarios using default rates, loss severities and prepayments applied to sub-pools within the Collateral. Alongside the fundamental credit analysis, the structural features of the transaction are also assessed. This includes a review of the payment waterfall, the subordination of the proposed Investment Instrument, the extent of the reserve fund (if any), the amortisation profile and extension risk.<br><br>Where it is considered desirable, the Company may enter into hedging transactions designed to protect against or mitigate the consequences of single reference obligations defaulting and/or more generalised credit events.<br>Whilst higher investment concentration has exacerbated collateral risk, as the deals come to maturity the projected default risk reduces substantially. The cost of credit risk is expected to be very low, however there is still some recovery risk on the NPL portfolios which represent 33.7% of the NAV as at 30 September 2019. |
| Timing of Asset Realisations | Whilst the timing risk of the majority of asset realisations is considered moderate to low, an investment's IRR remains uncertain until it is realised.<br><br>The NPL investment strategy, representing 33.7% of the Company's total assets at 30 September 2019, is deemed to have a higher timing risk, although the investment is expected to be materially realised over the next 12 months |

## Statement of Principal Risks and Uncertainties (continued)

| **Risk (continued)** | **Explanation/Mitigant (continued)** |
|---|---|
| Brexit Risk | Risks of a disorderly exit of the United Kingdom from the European Union exist, either directly as a result of significant trade and operational disruption or indirectly as a result of a general market downturn.<br><br>In this scenario, it is anticipated that the majority of Company's investments would be affected indirectly, since they are continental assets with a low market beta risk. There is one investment at 30 September 2019 representing 32.4% of the Company's assets, which carries a more direct exposure since the investment is a regulatory capital transaction with a UK bank on a portfolio of loans to predominantly FTSE 250 companies. |
| Bank counterparty risk | Bank capital solutions transactions may expose the Company to the Bank Counterparty's credit risk. The terms of such transactions will generally include credit rating triggers to ensure that the transaction mitigates counterparty risk.<br><br>The Company may enter into credit hedging arrangements to ensure that the net exposure to any Bank Counterparty is limited. As the fund is winding down the counterparty risk is more significant at counterparties which hold illiquid securities which take additional time to close out.<br><br>At the Year end, there are two investments which represent greater than 20% of NAV. The deals are expected to be called or mature in the next 12 months and are against investment grade counterparties, so the credit risk is deemed to be small |
| Valuation and classification of financial assets at fair value through profit or loss risk | Investments are valued in accordance with the Company's Valuation Policy, which is compiled with reference to key principles comprising independence, documentation, transparency, consistency and relevance. The Valuation Policy documents the pricing process and timeline, with particular reference to difficult to value securities, and sets out escalation procedures.<br><br>The Board has established a committee to review the valuation of illiquid Investment Instruments, particularly where a valuation is provided by a single counterparty or where the Investment Adviser's risk officer recommends a materially different valuation than that provided by a counterparty. The Company has also engaged Duff & Phelps, Ltd ("Duff & Phelps"), as a valuation advisor to provide certain limited procedures on some Transactions' valuation which the Investment Adviser identified and requested Duff & Phelps to perform. For the avoidance of doubt, notwithstanding the Company's engagement with Duff & Phelps, the Valuation Committee of the Company remains ultimately responsible for the determination of the Fair Value of each Transaction, but may consider Duff & Phelps' input in making such determinations. Specifically, as of 30 September 2019, Duff & Phelps estimated ranges of Fair Value for the Company's interests in two transactions.<br><br>The valuation policy of assets complies with IFRS 9 Financial Instruments and the Company's investments, although the sensitivity to an investment adjustment to fair value is increased due to investment concentration. |

## Statement of Principal Risks and Uncertainties (continued)

| | |
|---|---|
| Investment Manager and Investment Adviser risks | The Company is dependent on the expertise of the Investment Manager, the Investment Adviser and their respective key personnel to evaluate investment opportunities and to implement the Company's investment objective and investment policy.<br><br>The Board has instructed the Investment Manager to conduct the Company's investment related activities in compliance with the applicable law, the Company's investment objective, investment policy and guidelines and the Company's contractual obligations..<br><br>The Management Engagement Committee carried out its annual review of the performance and capabilities of the Investment Manager on 28 November 2019 and has confirmed the continued appointment of the Investment Manager is deemed to be in the interest of Shareholders.<br><br>There can be no assurance that the Investment Manager's past performance will be any guide to future performance or results. |
| Currency risk | The type of securities in which the Company invests, to the extent not denominated, may be sensitive to changes in foreign exchange rates.<br><br>The Company may implement hedging strategies designed to protect investments from movements in exchange rates. Such strategies may include (but are not limited to) options, forwards, and futures. |
| Tax, legal and regulatory risks | Changes in the Company's tax status or tax treatment may adversely affect the Company, and if the Company becomes subject to the UK offshore fund rules there may be adverse tax consequences for certain UK resident Shareholders.<br><br>The Company expects that US taxpayers generally would be subject to adverse US tax consequences in respect of their investment in the Shares under US tax rules applicable to passive foreign investment companies ("PFIC"). Accordingly, the acquisition of Shares may not be a suitable investment for U.S. Holders (other than U.S. Holders that are tax-exempt organisations). U.S. Holders should consult their tax advisers regarding the application of the PFIC rules to an investment in Shares.<br><br>On 23 November 2015 Guernsey issued regulations to implement the Common Reporting Standard ("CRS") under Guernsey's domestic law. The regulations follow on from the commitment made on 29 October 2014 by Guernsey, along with the other Crown Dependencies and a number of other jurisdictions, to start exchanging information under the CRS in respect of accounts maintained by financial institutions in Guernsey by 2017 at the earliest. The regulations will take effect from 1 December 2015 and will require Reporting Financial Institutions in Guernsey to apply from 1 January 2016 prescribed due diligence procedures to all financial accounts maintained by them in order to identify and report, where appropriate, certain information to Guernsey's income tax office ("ITO"), which in turn will transmit that information the following year to the tax offices of relevant jurisdictions. The requirements of CRS are closely aligned to requirements under the FATCA Model 1 Intergovernmental agreement.<br><br>Changes in the Basel III standards or other changes in the regulation of bank capital adequacy may make bank capital solutions transactions unattractive for Bank Counterparties or reduce the rates of return available, both of which may adversely affect the Company.<br><br>The AIFMD seeks to regulate AIFMs established in the EU and prohibits such managers from managing any AIF or marketing shares in such funds to investors in the EU unless the AIFM has been authorised. |

## Statement of Principal Risks and Uncertainties (continued)

| **Risk (continued)** | **Explanation/Mitigant (continued)** |
|---|---|
| Tax, legal and regulatory risks (continued) | The Company, as a Guernsey-registered closed ended fund which is not currently actively marketed in the EEA, is not directly impacted by the AIFMD (save for certain consequential effects arising from its appointment of an EU domiciled AIFM, such as the requirement to appoint a depositary). The Board acknowledges that if active marketing is undertaken in the EEA the private placement regime requirements for the relevant jurisdiction would need to be met.<br><br>The Board and its advisers have also implemented policies and risk based controls to monitor both the investment and operational risks that impact the Company to facilitate compliance with AIFMD. The Board is cognisant of the European Union's ongoing discussions regarding, inter alia, passporting arrangements for AIFs and ESMA's recommendations as regards to so called "third countries", i.e. non-EU member states. The Board and its advisers monitor developments to ensure continued compliance and to ensure that any potential opportunities are not missed.<br><br>The Administrator, Sub-Administrator, Broker and Investment Manager provide regular updates to the Board on compliance with the prospectus and changes in regulation. |
| Operational risks | The Company is exposed to the risk arising from any failures of systems and controls in the operations of the Investment Manager, AIFM, Administrator, the Sub-Administrator and the Custodian. The Board and its Audit Committee regularly review reports from its Outsourced Service Providers on their internal controls. |

## Audit Committee Report

I am pleased to report to you on the activities of the Audit Committee for the year ended 30 September 2019.

The Board has established terms of reference in respect of the membership of the Audit Committee, its duties, reporting responsibilities, and authority given to its members (the "Terms of Reference"). The Terms of Reference are reviewed on a regular basis and a copy can be accessed on the Company's website at www.chenavaricapitalsolutions.com.

The Audit Committee continues to be supportive of the latest UK Code recommendations and is of the opinion that the revised UK Code allows it to act as a key independent oversight committee contributing to a climate of discipline and control.

**Terms of Reference**
The Audit Committee's primary function is to assist the Board in fulfilling its oversight responsibilities and, under the Terms of Reference, its main duties include:

*Financial Reporting*
- monitoring the integrity of the financial statements of the Company, including its annual and half-yearly reports and any other formal announcement relating to its financial performance;
- reviewing significant financial reporting issues and judgements which they contain, including the consistency of accounting policies, the methods used to account for significant or unusual transactions, accounting for key estimates and judgements, the clarity and completeness of disclosure in the Company's financial reports and all material information presented with the financial statements, such as corporate governance statements relating to the audit, risk management, internal control, the going concern basis of accounting and longer term viability.

*Risk Management Systems*
- review the adequacy and effectiveness of the Company's risk management systems and review and approve the statements to be included in the annual report concerning risk management.

*Compliance, Whistle blowing and Fraud*
- review the adequacy and security of the Company's arrangements to raise concerns, if any, about possible wrongdoing in financial reporting or other matters;
- reviewing the Company's procedures for detecting fraud;
- reviewing the Company's systems and controls for the prevention of bribery and receive reports on non-compliance;
- reviewing the adequacy and effectiveness of the Company's anti-money laundering systems and controls; and
- reviewing the adequacy and effectiveness of the Company's compliance arrangements.

*External audit*
- overseeing the relationship with the external auditor including making recommendations of remuneration, terms of engagement, assessing independence and objectivity, compliance with relevant ethical and professional guidance on the rotation of audit partners, the level of fees paid by the Company, assessing qualifications, expertise and resources and the effectiveness of the audit process.

In regard to the above duties, I confirm, on behalf of the Audit Committee, that, to the best of our knowledge and belief, we have fulfilled our responsibilities in line with our Terms of Reference and in accordance with the UK Code.

**Delegation of Duties**
The Company has no employees and all functions, including the preparation of the financial statements, have been outsourced to various service providers. Estera Administration (Guernsey) Limited have been appointed as Administrator and Company Secretary, U.S. Bank Global Fund Services (Ireland) Limited (formerly Quintillion Limited) as Sub-Administrator and Depositary, Chenavari Investment Managers (Luxembourg) S.àRL as Investment Manager and AIFM, JPMorgan Chase Bank National Association as Custodian and Principal Bankers and Link Asset Services as Registrar (together the "Outsourced Service Providers"). Please see page 7 for further details in relation to the Outsourced Service Providers

## Audit Committee Report (continued)

**Membership of the Committee**
The Audit Committee was established on incorporation and consists of Rob King, and myself, Iain Stokes, as its Chairman. All the members of the Audit Committee are non-executive Directors and are considered independent of the Investment Manager and Investment Adviser for the purposes of the Company's compliance with the UK Code. Mr Mouchotte, by virtue of his directorship of the AIFM and other funds within the Chenavari group, is not considered independent. The Audit Committee has concluded that its membership and competence continues to meet the requirements of C.3.1 of the UK Code.

Each member is financially literate and has knowledge of the following key areas:

- financial reporting principles and accounting standards;
- the regulatory framework within which the Company operates;
- the Company's internal control and risk management environment; and
- factors impacting the Company's financial statements.

The Audit Committee meets at least three times a year. Representatives from the Company's Outsourced Service Providers along with representatives of the Company's external auditor, Deloitte LLP ("Deloitte"), attend Audit Committee meetings when appropriate.

In his role as a member of the Audit Committee, each member is available to discuss any particular matter with his fellow Board members and in addition the Audit Committee has the opportunity to meet with Deloitte without the presence of Outsourced Service Providers. In order to ensure that all Directors are kept up to date and informed of the Audit Committee's work, I provide a verbal report to the Board at Board meetings on key matters discussed at the Audit Committee meetings. In addition, the minutes of all Audit Committee meetings are available to the Board.

**How the Audit Committee has Discharged its Responsibilities**
In the year under review, the Audit Committee met 3 times, attendance at which is set out on page 24. The Audit Committee meetings focused on the following key areas:

*Monitoring the integrity of the financial statements including significant judgements*

- We reviewed the appropriateness of the Company's significant accounting policies, critical accounting judgements and key sources of uncertainty and monitored changes to, and compliance with, accounting standards on an ongoing basis.
- Prior to making any recommendations to the Board, we reviewed the Annual Report and Audited Financial Statements for the year ended 30 September 2019 (the "Annual Report"). We compared the results with investment models, management accounts, budgets and monthly NAVs, focusing on the significant accounting matters set out below.
- In undertaking this review, we discussed with the Investment Manager, AIFM, Investment Adviser, Administrator, Sub-Administrator and Deloitte the critical accounting policies and judgements that have been applied and at the request of the Audit Committee, the Administrator and Sub-Administrator confirmed that they were not aware of any material misstatements including matters relating to the Annual Report presentation. Deloitte also reported to the Audit Committee on any misstatements that they had found during the course of their work and confirmed no material amounts remained unadjusted.
- At its meeting to review the Annual Report, the Audit Committee received and reviewed a report on the audit from Deloitte. On the basis of its review of the report, the Audit Committee is satisfied Deloitte has fulfilled its responsibilities with diligence and professional scepticism.
- The Audit Committee is satisfied that the Annual Report appropriately addresses the critical judgements and key estimates (both in respect to the amounts reported and the disclosures) and that the significant assumptions used for determining the value of assets and liabilities determined were in compliance with IFRS and were reasonable.
- The Audit Committee is therefore satisfied that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for Shareholders to assess the Company's performance, business model and strategy.

# Audit Committee Report (continued)

**Significant Accounting Matters**
During the year the Audit Committee considered key accounting issues, matters and judgements regarding the Company's financial statements and disclosures including those relating to:

*Going concern*
At Year End, in aggregate 64.9% of share capital as at IPO has been returned to Shareholders. The Company, in accordance with the Realisation Period as detailed in the circular dated 15 February 2017, will commence the orderly wind up of the Company upon completion of the realisation of the investment portfolio. The financial statements have therefore been prepared on a basis other than that of a going concern as described in note 2.1 of the financial statements. Where fair value is referred to in the financial statements, this is assumed to approximate the net realisable value. However the Directors have determined there are no significant differences than had the financial statements been prepared on a going concern basis.

*Valuation and Classificationof Financial Assets at Fair Value through Profit or Loss*
At 30 September 2019, the Company's investments had a fair value of £30.7m and represent a substantial portion of net assets of the Company. As such this is the largest factor in relation to the accuracy of the financial statements and is monitored by the Investment Manager, the Investment Adviser, the Administrator, the Sub-Administrator, the Custodian, the Audit Committee and the Board.

In accordance with IFRS 9 the Company classifies financial assets as measured at amortised cost or fair value through profit or loss by making an assessment of the objective of the business model in which the financial assets are held. All financial assets previously held at fair value continue to be measured at fair value having assessed the business model of the Company and having assessed that the cash flows arising from its investments in bank capital solutions transactions do not meet the Solely Payments of Principal and Interest criteria.

Investments are valued in accordance with the Company's Valuation Policy and with the Accounting Policies set out in note 2 of the financial statements. The Valuation Policy is compiled with reference to key principles comprising independence, documentation, transparency, consistency and relevance, and it documents the pricing process and timeline, with particular reference to difficult to value securities, and sets out escalation procedures.

The Audit Committee required the Investment Manager to provide detailed analysis of the broker quotes obtained for investments, including the liquidity, the number of quotes received, and the range of quotes. For primary transactions, the Investment Manager's own analysis of the fair value of the deal was compared to the quotes obtained and where pricing was obtained from the manager of the transaction, the Investment Manager provided an assessment of the manager's independence and reliability.

Where broker quotes are not available, and pricing is the result of the Investment Adviser's internal models, a specialist third party, Duff and Phelps, was engaged to provide estimated ranges of Fair Value for those transactions as at 30 September 2019. In addition to assessing the internal models, the review considered underlying portfolio performance, the requirements of IFRS 13 to use 'market participant' assumptions that are as realistic as possible and the income, market and cost approach to estimate Fair Value. The Audit Committee met with the Investment Adviser and further challenged the key assumptions of the internal models, in particular their sensitivities using test scenarios. Additionally, the Audit Committee required the Investment Manager to provide a reasoned assessment of fair value for each investment held and its classification in the fair value hierarchy.

Following discussion, we were satisfied that the judgements made and methodologies applied were prudent and appropriate and that the correct accounting treatment has been adopted. Please see further details outlined in notes 2 and 7 to the financial statements.

*Income Recognition*
For primary and secondary transactions, the Audit Committee considered whether the separate presentation of interest income in the Statement of Comprehensive Income is required or if a net fair value movement is more appropriate.

Due to the nature of the Company's investment strategy resulting in the possibility of investments being sold before maturity and given the consequent inherent uncertainty of using maturity dates to calculate income using the Effective Interest Rate method, for both primary and secondary investments, the Company's accounting policy recognises only a net fair value movement rather than reporting a split between fair value movement and interest income in the Statement of Comprehensive Income. This is explained further in notes 7 and 11 to the financial statements.

## Audit Committee Report (continued)

*Assessment of Principal Risks and Uncertainties*
The risks associated with the Company's financial assets, as disclosed in the financial statements, particularly in note 6 to the Financial Statements, represent a key accounting disclosure. The Audit Committee critically reviews, on the basis of input from relevant Outsourced Service Providers, the process of ongoing identification and measurement of these risks disclosures.

**Risk Management and Internal Controls**
The Board as a whole is responsible for the Company's system of internal control; however, the Audit Committee assists the Board in meeting its obligations in this regard. The daily operational activities of the Company were delegated to the Outsourced Service Providers and as a result the Company has no direct internal audit function and instead places reliance on the external and internal audit controls applicable to the Outsourced Service Providers as regulated entities. The Audit Committee regularly monitors confirmations from the Outsourced Service Providers to the Company that no material issues have arisen in respect of the system of internal controls and risk management operated within the Company's Outsourced Service Providers also considers the Management Engagement Committee's conclusions that the Company's Outsourced Service Providers are performing in accordance with the Company's expectations and contractual arrangements. Annually, the Audit Committee reviews the effectiveness of the Company's material controls, including financial, operational and compliance controls.

**External Audit**
It is the responsibility of the Audit Committee to monitor the performance, independence, objectivity and re-appointment of Deloitte. Deloitte attends our Audit Committee meetings throughout the year, as appropriate, which allows the opportunity to discuss any matters the auditor may wish to raise without the Investment Manager or other Outsourced Service Providers being present. Deloitte provides feedback at each Audit Committee meeting on topics such as the key accounting matters, mandatory communications and the control environment.

In September 2019, we met with Deloitte who presented their Audit Strategy and Plan for the year; we agreed the audit plan for the year, highlighting the key financial statement and audit risks, to seek to ensure that the audit was appropriately focused. We met informally with Deloitte during the audit process and prior to the Board approving the financial statements for the Year, critically reviewed Deloitte's final report to the Audit Committee in respect of the audit for the Year. The Audit Committee noted Deloitte's robust challenge of the key judgements taken in the preparation of the financial statements and their observations on the Company's internal control environment

Deloitte was appointed as the Company's auditor on incorporation in 2013 and has served since. Deloitte was formally re-appointed as the Company's auditor for the 2019 year-end audit following the AGM on 28 March 2019. Deloitte have expressed their willingness to continue in office as Auditor. The Audit Committee continues to be satisfied with the performance of Deloitte. We have therefore recommended to the Board that Deloitte, in accordance with agreed terms of engagement and remuneration, should continue as the Company's auditor and a resolution proposing their reappointment will be submitted at the forthcoming AGM. The lead audit partner will be rotated every five years to ensure continued independence and objectivity.To comply with the five years rotation requirement John Clacy was appointed as partner for the current year. In advance of the commencement of the annual audit, the Audit Committee reviewed a statement provided by Deloitte confirming their independence within the meaning of the regulations and professional standards. In addition, in order to satisfy itself as to Deloitte's independence, the Audit Committee undertook a review of the auditor compensation and the balance between audit and non-audit fees.

During the year the value of non-audit services provided by Deloitte amounted to £13,000 Non-audit services mainly comprising tax compliance reporting, are not deemed to be material and amounted to approximately 28.0% of the total fees paid by the Company to Deloitte.

**Committee Effectiveness**
The effectiveness of the Audit Committee is reviewed on an annual basis by both the Board and the Audit Committee. Following such reviews, I am pleased to advise that the Audit Committee is considered to continue to operate effectively and efficiently. A member of the Audit Committee will be available to Shareholders at the forthcoming AGM of the Company to answer any questions relating to the role of the Audit Committee.

Signed on behalf of the Audit Committee by:

Iain Stokes
Audit Committee Chairman

21 January 2020

## Directors’ Remuneration Report

The Directors’ remuneration report has been prepared on behalf of the Directors in accordance with the UK Code.

The Directors do not consider it necessary for the Company to establish a separate Remuneration Committee since the Board’s remuneration forms part of the schedule of matters reserved for the Board and the matters recommended by the UK Code that would be delegated to such a committee, is considered by the Board as a whole.

The Company’s policy is to ensure that the fees payable to the Directors reflect the time spent by the Directors on the Company’s affairs, the responsibilities borne by the Directors and are sufficient to attract, retain and motivate Directors of a quality required to run the Company successfully.

The Company’s policy is to review fee rates periodically. Where fee rates are reviewed, such a review will take account of fees paid to directors of comparable companies but will not necessarily result in any changes to the fee levels.

No element of the Directors’ remuneration is performance related, nor does any Director have any entitlement to pensions, Share options or any long term incentive plans from the Company.

Following a recommendation from the Chairman, having regard to the level of fees payable to non-executive Directors that reflects comparable compensation levels of the peer universe for the Company, the role that individual Directors fulfil in respect of Board and Committee responsibilities, it is the responsibility of the Board as a whole to determine and approve the Directors’ fees.

The Chairmans’ remuneration is decided separately and is approved by the Board as a whole.

The Directors are currently subject to the following annual remuneration in the form of Directors’ fees:

| | |
|---|---|
| Rob King | £25,000 |
| Iain Stokes | £25,000 |
| Rene Mouchotte | £25,000 |
| Total | £75,000 |

The Company’s Articles limit the fees payable to Directors in aggregate to £300,000 per annum.

The remuneration policy set out above is the one applied for the year ended 30 September 2019. In the context of the Realisation Period, the Board is committed to continuing to review its current composition and fee basis.

Directors’ and Officers’ liability insurance cover is maintained by the Company on behalf of the Directors.

Mr. King was appointed as a non-executive Director on 21 July 2015 whilst Mr. Stokes and Mr. Mouchotte have served as non-executive Directors since 21 August 2013. Each Director’s appointment letter provides that all records received by them during the course of their directorship remain the property of the Company. The Directors’ appointments can be terminated in accordance with the Articles and without compensation. There is no notice period specified in the Articles for the removal of Directors. The Articles provide that the office of Director shall be terminated by, among other things: (a) written resignation; (b) unauthorised absences from Board meetings for a consecutive period of twelve months and the Board resolve that the Director in question’s office be vacated; (c) unanimous written request of the other Directors; and (d) the Director in question becomes ineligible to be a Director in accordance with Section 137 of the Law.

Under the terms of their appointment, each Director is required to retire by rotation and be subject to re-election at least every three years. The Directors are required to annually seek re-election if they have already served for more than nine years. The Company may terminate the appointment of a Director immediately on serving written notice and no compensation is payable upon termination of office as a Director of the Company becoming effective.

The amounts payable to Directors shown in note 4 to the Financial Statements were for services as non-executive Directors. No Director has a service contract with the Company, nor are any such contracts proposed.

## Directors' Remuneration Report (continued)

At 30 September 2019 the Directors held the following Shares in the Company: Mr King 10,511, Mr Stokes 14,015 and Mr Mouchotte 1,753.

Signed on behalf of the Board of Directors by:

Rob King,
Non-executive Chairman

Iain Stokes,
Non-executive Director

21 January 2020

# Statement of Directors' Responsibilities

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable Guernsey law and regulations.

The companies (Guernsey) law,2008 requires the Directors to prepare financial statements for each financial year. Under that law, the directors are required to prepare the financial statements in accordance with IFRS as adopted by the European Union and applicable law.

Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the Directors are required to:

- properly select and apply accounting policies;
- 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 are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with The Companies (Guernsey) Law 2008. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

**Directors' Responsibilities Statement**
We confirm that to the best of our knowledge:

- the 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 directors' report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces;
- the Annual Report and Financial Statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for Shareholders to assess the Company's position and performance, business model and strategy; and
- the Annual Report includes information required by the LSE and the Company complies with the relevant provisions of the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority.

This responsibility statement was approved by the Board of Directors on 21 January 2020 and is signed on its behalf by:

| | |
|---|---|
| Non-Executive Director: | Non-Executive Director: |
| Date: 21 January 2020 | Date: 21 January 2020 |

# Independent Auditor's Report to the Members of Chenavari Capital Solutions Limited

## Report on the audit of the financial statements

### Opinion

**In our opinion the financial statements of Chenavari Capital Solutions Limited (the 'company'):**

- **give a true and fair view of the state of the company's affairs as at 30 September 2019 and of the its loss for the year then ended;**
- **have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and**
- **have been prepared in accordance with the requirements of the Companies (Guernsey) Law, 2008.**

We have audited the financial statements which comprise:

- the statement of comprehensive income;
- the statement of financial position;
- the statement of changes in equity;
- the statement of cash flow;
- the condensed schedule of investments; and
- the related notes 1 to 21.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Summary of our audit approach

| | |
|---|---|
| **Key audit matters** | The key audit matter that we identified in the current year was the valuation of investments and classification in the fair value hierarchy.<br><br>This key audit matter is in line with the prior year. |
| **Materiality** | The materiality that we used in the current year was £694k (2018: £1,120k) which was determined on the basis of approximately 2% of net assets value (2018: 2% of net assets value). |
| **Scoping** | Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team. |
| **Significant changes in our approach** | There has been no significant changes in our approach from the prior year. |

## Emphasis of matter – Financial statements prepared other than on a going concern basis

We draw attention to note 2.1 in the financial statements, which indicates that the financial statements have been prepared on a basis other than that of a going concern. Our opinion is not modified in respect of this matter.

## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Valuation of investments and classification in the fair value hierarchy | |
|---|---|
| **Key audit matter description** | Investments at fair value through profit or loss held by the Company as at 30 September 2019 had a fair value of £31m (2018: £46m) representing 89% of the net asset value of the company. Details of investments are disclosed in note 7 and note 10. Investments comprise the most quantitatively significant balance and are an area of focus because they are the main driver of the company's performance and net asset value.<br><br>Most investments are not actively traded and their valuation is reliant either on broker quotes or derived from valuation models prepared by the Investment Manager. The inputs to those valuation models can be judgemental and may include but are not limited to pre-payment rates, discount rates and credit default rates. As these assumptions involve a degree of management judgement and drive the performance of the Company, we consider these valuations to represent a fraud risk.<br><br>In addition, the classification within the fair value hierarchy also requires significant judgement. In particular determining what constitutes observable evidence of trading in investments is subjective in the absence of public sources of information. This includes the determination of the appropriate disclosure of risks and sensitivities of level 3 investments.<br><br>Further details of the accounting policy and methodology for the valuation of investments are described in note 2.2 to the financial statements. |
| **How the scope of our audit responded to the key audit matter** | To test the valuation of investments as at 30 September 2019 we performed the following procedures:<br>• assessed the design and implementation of controls over the valuation of investments to determine whether appropriate oversight had been exercised within the valuation process;<br>• assessed the valuation policy and methodology adopted by management in comparison to IFRS and industry practice;<br>• where valuation models were used, we engaged our internal valuation specialists to review the models and methodology used and challenged the appropriateness thereof. This included assessing any changes to model parameters, and other inputs against actual loan performance data, as well as challenging key assumptions made;<br>• assessed the company appropriately priced their investments valued using models by assessing consistency with an independent valuation specialist's review and assessing the competency, objectivity and |

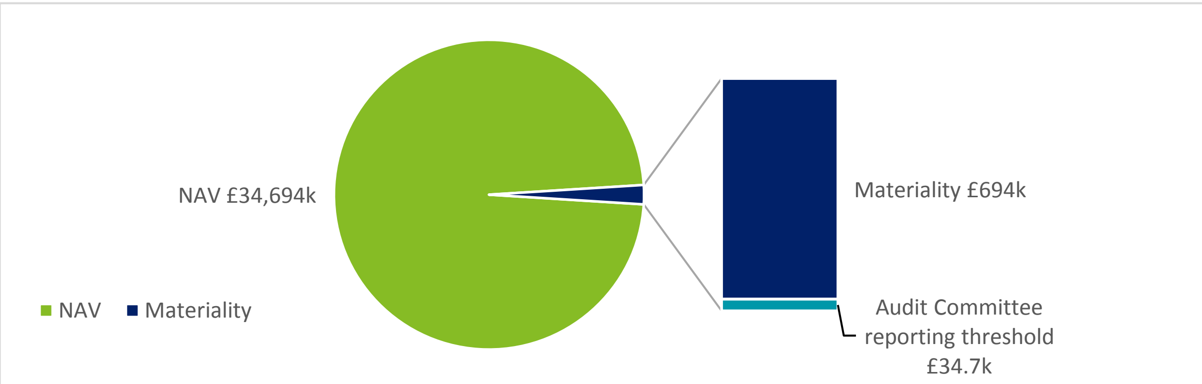
| | |
|---|---|
| | independence of the specialist;<br>• where broker pricing was used, we obtained independent price quotes directly from the brokers;<br>• for a sample of investments realised during the year and also post the year end, we reviewed the accuracy of management's valuations by comparing the price at which investments were realised to the price recorded by the company prior to the disposal.<br><br>To test the classification of the investments on the fair value hierarchy, we reviewed and challenged management's classification of investments within the fair value hierarchy and the associated disclosures by performing the following procedures to assess whether fair value classification is in line with the levelling policy:<br>• reviewed the number of broker quotes obtained by management;<br>• reviewed evidence of third party transactions used to corroborate broker valuations; and<br>• reviewed the disclosures provided, including sensitivity analysis to movements in key inputs for investments classified as level 3 in the fair value hierarchy. |
| **Key observations** | Based on our audit work, we are satisfied that the key assumptions, judgements and estimates applied by the directors underlying the valuation of investments and their classification in the fair value hierarchy are appropriate. |

## Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

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

| | |
|---|---|
| **Materiality** | £694,000 (2018: £1,120,000) |
| **Basis for determining materiality** | Approximately 2% of net asset value (2018: 2% of net asset value). |
| **Rationale for the benchmark applied** | We have derived our materiality based on the net asset value of the company as we consider it to be the most important balance upon which the shareholders would judge the performance of the company. |



We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £34,700 (2018: £56,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

## An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of the company and its environment, including internal control, and assessing the risks of material misstatement. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

The administrator and sub-administrator maintain the books and records of the entity. The investment manager and investment adviser maintain detailed documentation pertaining to the investment activities of the entity. Our audit therefore included obtaining an understanding of these service organisations (including, in respect of the sub-administrator, obtaining their internal controls report) and their relationship with the company.

## Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

***We have nothing to report in respect of these matters.***

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

## Responsibilities of directors

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

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

### Auditor's responsibilities for the audit of the financial statements

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

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

## Report on other legal and regulatory requirements

### Matters on which we are required to report by exception

*Adequacy of explanations received and accounting records*

Under the Companies (Guernsey) Law, 2008 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records.

***We have nothing to report in respect of these matters.***

### Use of our report

This report is made solely to the company's members, as a body, in accordance with Section 262 of the Companies (Guernsey) Law, 2008. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

John Clacy, FCA

For and on behalf of Deloitte LLP
Recognised Auditor
Guernsey, Channel Islands

21 January 2020

## Statement of Comprehensive Income

**For the year ended 30 September 2019**

| | Note | For the year ended 30 September 2019 £ | For the year ended 30 September 2018 £ |
|---|---|---|---|
| **Income** | | | |
| Interest income | 2 | 14,331 | 14,572 |
| Net gain on financial assets and financial liabilities held at fair value through profit or loss | 11 | 545,967 | 2,742,225 |
| **Total income** | | **560,298** | **2,756,797** |
| **Expenses** | | | |
| Management fee | 4 | 477,473 | 849,959 |
| Administration fee | 5(b) | 32,897 | 52,000 |
| Sub-administration fee | 5(c) | 32,727 | 51,693 |
| Custodian fees | 5(d) | 31,500 | 31,500 |
| Corporate broking fee | 5(a) | 30,000 | 75,000 |
| Recharge fee | 5(c) | 14,597 | - |
| Legal and transaction fees | | 8,110 | 20,000 |
| Directors' fee | 4 | 75,000 | 117,500 |
| Audit fee | | 46,350 | 82,000 |
| Other operating expenses | | 47,606 | 167,517 |
| **Total operating expenses** | | **796,260** | **1,447,169** |
| **Financing costs** | | | |
| Interest expense | | 52,165 | 52,667 |
| **(Loss)/profit for the year** | | **(288,127)** | **1,256,961** |
| Other comprehensive income | | - | - |
| **Total comprehensive (loss)/income** | | **(288,127)** | **1,256,961** |
| Basic and diluted | 8 | (0.54p) | 1.32p |

There were no items recognised as other comprehensive income that have not already been recognised in profit for the year. As such, this represents total comprehensive (loss)/income for the year.

**All items in the above statement derive during the realisation period.**

**The condensed schedule of investments and the notes to the financial statements are an integral part of the financial statements.**

## Statement of Financial Position

**As at 30 September 2019**

| | Note | 30 September 2019 £ | 30 September 2018 £ |
|---|---|---|---|
| **Assets** | | | |
| Financial assets at fair value through profit or loss | 2,10 | 30,780,452 | 46,063,326 |
| Due from broker | 12 | 2,767,380 | 2,142,484 |
| Other receivables and prepayments | 13 | 16,879 | 6,004 |
| Cash and cash equivalents | 2,6 | 5,766,095 | 8,017,025 |
| **Total assets** | | **39,330,806** | **56,228,839** |
| **Equity** | | | |
| Share capital and share premium | 15 | 46,791,857 | 66,591,746 |
| Retained deficit | | (12,096,915) | (10,590,454) |
| **Total equity** | | **34,694,942** | **56,001,292** |
| **Current liabilities** | | | |
| Financial liabilities at fair value through profit or loss | 2,10 | - | 16,538 |
| Redemption payable | 19 | 4,499,965 | - |
| Accrued expenses | 14 | 135,900 | 211,009 |
| **Total liabilities** | | **4,635,865** | **227,547** |
| **Total equity and liabilities** | | **39,330,807** | **56,228,839** |
| **Shares outstanding** | 15 | 40,356,995 | 62,664,726 |
| **NAV per Share** | 9 | 85.97p | 89.37p |

The financial statements on pages 42 to 47 were approved by the Board of Directors and authorised for issue on 21 January 2020.

Non-Executive Director:

Date: 21 January 2020

Non-Executive Director:

Date: 21 January 2020

**The condensed schedule of investments and the notes to the financial statements are an integral part of the financial statements.**

## Statement of Changes in Equity

**For the year ended 30 September 2019**

| | Note | Retained deficit £ | Share capital and share premium £ | Total £ |
|---|---|---|---|---|
| **At 30 September 2018** | | **(10,590,454)** | **66,591,746** | **56,001,292** |
| Total comprehensive loss | | (288,127) | - | (288,127) |
| Redemption of redeemable participating shares | 15 | - | (19,799,889) | (19,799,889) |
| Declared dividends | 17 | (1,218,334) | - | (1,218,334) |
| **At 30 September 2019** | | **(12,096,915)** | **46,791,857** | **34,694,942** |

**For the year ended 30 September 2018**

| | Note | Retained deficit £ | Share capital and share premium £ | Total £ |
|---|---|---|---|---|
| **At 30 September 2017** | | **(6,649,631)** | **115,591,616** | **108,941,985** |
| Total comprehensive income | | 1,256,961 | - | 1,256,961 |
| Redemption of redeemable participating shares | 15 | - | (48,999,870) | (48,999,870) |
| Declared dividends | 17 | (5,197,784) | - | (5,197,784) |
| **At 30 September 2018** | | **(10,590,454)** | **66,591,746** | **56,001,292** |

**The condensed schedule of investments and the notes to the financial statements are an integral part of the financial statements.**

## Statement of Cash Flows

**For the year ended 30 September 2019**

| | For the year ended 30 September 2019 | For the year ended 30 September 2018 |
|---|---|---|
| | £ | £ |
| **Cash flows from operating activities** | | |
| (Loss)/profit for the year | (288,127) | 1,256,961 |
| | | |
| *Adjustments for non-cash items and working capital:* | | |
| Disposal and pay downs of financial instrument at fair value through profit or loss | 12,022,847 | 33,585,913 |
| Net loss on financial assets and derivatives at fair value | 3,243,487 | 11,576,836 |
| Increase in amounts due from brokers | (624,896) | (384,409) |
| (Increase)/decrease in other receivables and prepayments | (10,875) | 10,378 |
| Decrease in amounts due to brokers | - | (28,921) |
| Decrease in accrued expenses | (75,109) | (123,945) |
| **Net cash inflow from operating activities** | **14,267,327** | **45,892,813** |
| | | |
| **Cash flows from financing activities** | | |
| Redemption of redeemable participating shares | (15,299,924) | (48,999,870) |
| Paid dividends | (1,218,334) | (5,197,784) |
| **Net cash outflow from financing activities** | **(16,518,258)** | **(54,197,654)** |
| | | |
| Net decrease in cash and cash equivalents | (2,250,931) | (8,304,841) |
| **Cash and cash equivalents at beginning of the year** | 8,017,026 | 16,321,866 |
| **Cash and cash equivalents at end of the year** | **5,766,095** | **8,017,025** |

**The condensed schedule of investments and the notes to the financial statements are an integral part of the financial statements.**

## Condensed Schedule of Investments, at Fair Value
## As at 30 September 2019

| | U.K. | France | Germany | Italy | Netherlands | Spain | Switzerland | Luxembourg | Denmark | Austria | Belgium | Others | Total | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | % |
| **Financial assets at fair value through profit or loss** | | | | | | | | | | | | | | |
| **Debt securities/asset backed securities** | | | | | | | | | | | | | | |
| Corporate loans | 11,408,419 | - | - | - | - | - | - | - | - | - | - | - | 11,408,419 | 32.88% |
| SME loans | - | 1,856 | 144,750 | 7,229,750 | 14,318 | 9,737,952 | 17,432 | 1,558 | 3,258 | 3,506 | 5,548 | - | 17,159,928 | 49.46% |
| Mortgages | 64,598 | - | - | - | - | 1,981,442 | - | - | - | - | - | - | 2,046,040 | 5.90% |
| **Debt securities/asset backed securities total** | **11,473,017** | **1,856** | **144,750** | **7,229,750** | **14,318** | **11,719,394** | **17,432** | **1,558** | **3,258** | **3,506** | **5,548** | **-** | **30,614,387** | **88.24%** |
| Forward FX contracts | - | - | - | - | - | - | - | - | - | - | - | 166,066 | 166,066 | 0.48% |
| Forward FX contracts total | - | - | - | - | - | - | - | - | - | - | - | 166,066 | 166,066 | 0.48% |
| **Derivative financial assets total** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **166,066** | **166,066** | **0.48%** |
| **Financial assets at fair value through profit or loss total** | **11,473,017** | **1,856** | **144,750** | **7,229,750** | **14,318** | **11,719,394** | **17,432** | **1,558** | **3,258** | **3,506** | **5,548** | **166,066** | **30,780,453** | **88.72%** |
| **Financial liabilities at fair value through profit or loss total** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Total net investments** | **11,473,017** | **1,856** | **144,750** | **7,229,750** | **14,318** | **11,719,394** | **17,432** | **1,558** | **3,258** | **3,506** | **5,548** | **166,066** | **30,780,453** | **88.72%** |
| **Other assets and liabilities** | | | | | | | | | | | | | **3,914,489** | **11.28%** |
| **Net assets** | | | | | | | | | | | | | **34,694,942** | **100.00%** |

## Condensed Schedule of Investments, at Fair Value
## As at 30 September 2018

| | U.K. | France | Germany | Italy | Netherlands | Portugal | Spain | Switzerland | Luxembourg | Denmark | Austria | Belgium | Others | Total | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | £ | % |
| **Financial assets at fair value through profit or loss** | | | | | | | | | | | | | | | |
| **Debt securities/asset backed securities** | | | | | | | | | | | | | | | |
| Corporate loans | 11,433,855 | - | - | - | - | - | - | - | - | - | - | - | - | 11,433,855 | 20.42% |
| SME loans | - | 1,774 | 153,979 | 10,631,194 | 13,684 | 5,237,238 | 12,182,784 | 3,909,496 | 1,489 | 3,114 | 3,351 | 5,302 | - | 32,143,405 | 57.39% |
| Mortgages | 70,640 | - | - | - | - | - | 2,386,912 | - | - | - | - | - | - | 2,457,552 | 4.39% |
| **Debt securities/asset backed securities total** | **11,504,495** | **1,774** | **153,979** | **10,631,194** | **13,684** | **5,237,238** | **14,569,696** | **3,909,496** | **1,489** | **3,114** | **3,351** | **5,302** | **-** | **46,034,812** | **82.20%** |
| Forward FX contracts | - | - | - | - | - | - | - | - | - | - | - | - | 28,514 | 28,514 | 0.05% |
| Forward FX contracts total | - | - | - | - | - | - | - | - | - | - | - | - | 28,514 | 28,514 | 0.05% |
| **Derivative financial assets total** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **28,514** | **28,514** | **0.05%** |
| **Financial assets at fair value through profit or loss total** | **11,504,495** | **1,774** | **153,979** | **10,631,194** | **13,684** | **5,237,238** | **14,569,696** | **3,909,496** | **1,489** | **3,114** | **3,351** | **5,302** | **28,514** | **46,063,326** | **82.25%** |
| **Financial liabilities at fair value through profit or loss** | | | | | | | | | | | | | | | |
| **Derivative financial liabilities** | | | | | | | | | | | | | | | |
| Credit default swap | - | - | - | (4,181) | - | - | - | - | - | - | - | - | - | (4,181) | (0.01%) |
| Credit default swap total | - | - | - | (4,181) | - | - | - | - | - | - | - | - | - | (4,181) | (0.01%) |
| Forward FX contracts | - | - | - | - | - | - | - | - | - | - | - | - | (12,357) | (12,357) | (0.02%) |
| Forward FX contracts total | - | - | - | - | - | - | - | - | - | - | - | - | (12,357) | (12,357) | (0.02%) |
| **Financial liabilities at fair value through profit or loss total** | **-** | **-** | **-** | **(4,181)** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **(12,357)** | **(16,538)** | **(0.03%)** |
| **Total net investments** | **11,504,495** | **1,774** | **153,979** | **10,627,013** | **13,684** | **5,237,238** | **14,569,696** | **3,909,496** | **1,489** | **3,114** | **3,351** | **5,302** | **16,157** | **46,046,788** | **82.22%** |
| **Other assets and liabilities** | | | | | | | | | | | | | | **9,954,504** | **17.78%** |
| **Net assets** | | | | | | | | | | | | | | **56,001,292** | **100.00%** |

## Notes to the Financial Statements

### 1. General information

Chenavari Capital Solutions Limited (the "Company") is a closed-ended investment company limited by shares. The Company was incorporated with limited liability in Guernsey under the Companies Law (Guernsey) 2008 (the "Law") on 12 July 2013 with registered number 56977, to be a Registered closed-ended Collective Investment Scheme. The principal legislation under which the Company operates is the Law.

The Company is managed by the Investment Manager, a member of the Chenavari Financial Group. The Investment Manager has appointed the Investment Adviser, also a member of the Chenavari Financial Group, to provide investment advisory services to the Investment Manager.

The Company's Shares are admitted to trading on the SFS of the London Stock Exchange. The Shares were also listed on the Official List of The International Stock Exchange on 7 October 2013 but were delisted on 11 August 2014. The Initial Public Offering ("IPO") of the Company raised gross proceeds of £130,300,000.

*Investment objective*
The investment objective of the Company is to provide Shareholders with an attractive return, while limiting downside risk, through investment in bank capital solutions transactions primarily with UK and European banks.

*Investment policy*
The Company seeks to invest in a diversified portfolio of bank capital solutions transactions, entered into primarily with UK and European banks. The focus of the Portfolio is in newly issued transactions ("Primary Transactions") referenced to credit exposure although transactions have been acquired in the secondary market ("Secondary Transactions") where the Investment Adviser identified attractive opportunities.

*Realisation and dividend policy*
Returns to Shareholders will be predominantly from the return of unencumbered cash balances (as described below) and as dividend income.

Subject to compliance with the Law and the satisfaction of the solvency test, the Company intends to distribute all of its income from investments, net of expenses, by way of dividends on a quarterly basis with dividends declared in October, January, April and July and paid in November, February, May and August in each year. The Company may retain income for distribution in a subsequent quarter to that in which it arises in order to smooth dividend amounts or for the purpose of efficient cash management.

For the Year the Company has declared and paid three dividends totalling 1.8p per share (0.50p per share on 28 February 2019 for the period ending 31 December 2018, 0.70p per Share on 31 May 2019 for the period ending 31 March 2018 and 0.60p per Share on 31 August 2019 for the period ending 30 June 2019). During the current year a dividend of 0.5p per share was paid on 30 November 2018 for the previous period. Following the year end, the Company announced a dividend of 0.4p per Share for the final period of the Company's financial year which was paid on 29 November 2019.

Since the Company commenced its realisation programme, it is unlikely that the historical dividend levels will be maintained as the portfolio becomes more concentrated and becomes reliant on fewer investments to generate dividend income.

The target returns and dividend payments are targets only and there is no guarantee that they can or will be achieved and they should not be seen as an indication of the Company's actual return. Accordingly, investors should not place any reliance on the target returns and dividend payments in deciding whether to invest in the Shares. Dividend payments may fall short of or exceed, the amounts indicated above.

From 1 January 2017, the Company commenced its Realisation Period to return unencumbered cash balances to Shareholders by way of compulsory redemptions. As at 30 September 2019, the Company has returned capital of £80,799,673 via the redemption of 89,822,005 Shares. As at 30 September 2019 the Company had 40,356,995 Shares in issue after considering the 26 September 2019 announced redemption of 5,248,997 shares paid on 7 October 2019.

**Notes to the Financial Statements (continued)**

## 1. General information (continued)

*Investment Period and Realisation Period*
It is anticipated that future encumbered cash balances will arise predominantly as a result of investments maturing in accordance with their terms. Apart from cessation of new investments, no change to the Company's investment policy has been made or is proposed.

The precise mechanism for any return of cash to Shareholders will depend upon the relevant factors prevailing at the time and will be at the discretion of the Board, but may include a combination of capital distributions, share repurchases and redemptions. The amount and frequency of such distributions will be at the Company's absolute discretion.

As of 30 September 2019, the Company was invested in seven positions, including five Primary Transactions and two Secondary Transactions, with a significant representation of corporate and SME loans. Investments represented 88.7% of NAV.

The Company invests its assets with the aim of spreading investment risk.

Bank capital solutions transactions may expose the Company to the Bank Counterparty's credit risk. The terms of such transactions will generally include credit rating triggers to ensure that the transaction mitigates counterparty risk. The Company may enter into credit hedging arrangements to ensure that the net exposure to any Bank Counterparty is no more than 20% of the NAV as at the date that any relevant credit hedging contract matures or is adjusted or rolled over. This risk is monitored on a daily basis and OTC derivatives may be used to keep this risk within limits. However, due to the move to the realisation period, inevitable concentration increase could arise, due to the limited number of outstanding positions.

The Company invests in a variety of instruments to gain exposure to bank capital solutions transactions, including (but not limited to) debt instruments and synthetic securities ("Investment Instruments").

The Portfolio will have a weighted average expected maturity of no more than 5 years at the end of its Investment Period while each Investment Instrument in the Portfolio will have an expected maturity of no more than eight years. The Company only invests in an Investment Instrument which has a contractual maturity in excess of eight years provided: (i) the Advisers' assessment of such Investment Instrument's expected maturity is less than eight years; (ii) the Board approves such assessment; and (iii) the Portfolio's weighted average expected maturity continues to be less than 5 years from the end of its investment following such investment. The expected maturity of the Portfolio (or an Investment Instrument) is the number of years until the capital invested in the Portfolio (or such Investment Instrument) is expected to be repaid.

On reviewing the portfolio of assets of the Company, the Directors expect that a further capital return will be made in the first half of 2020.

Of the remaining assets there are three "significant positions" comprising a regulatory capital position with a scheduled maturity in February 2020 and two Spanish non-performing loan positions. Of the other positions, three are holdbacks following the realisation of regulatory capital investments and it is anticipated that they will be repaid and distributed to Shareholders by the end of November 2020.

During the Realisation Period, no further investments will be made.

**Notes to the Financial Statements (continued)**

**1. General information (continued)**

*Borrowing and gearing policy*
The Company does not intend to use borrowings for investment purposes. However, borrowings may be used from time to time for the purpose of short term bridging, financing repurchases of Shares or managing working capital requirements, including hedging facilities. In this regard, the Company will limit its borrowing from time to time to an amount, which, when aggregated with all outstanding borrowings, would be equivalent to a maximum of 20% of its NAV, at the time of drawdown. The Board will oversee the level of gearing in the Company, and will review the position with the Advisers on a regular basis.

*Hedging and derivatives*
The types of securities in which the Company invests may be sensitive to changes in interest rates and, to the extent not Sterling denominated, changes in foreign exchange rates.

The Company may implement hedging and derivative strategies designed to protect investment performance against material movements in exchange rates and interest rates and to protect against credit risk. Such strategies may include (but are not limited to) options, forwards and futures and interest rate or credit default swaps ("CDS") and will only be entered into when they are available in a timely manner and on terms acceptable to the Company. The Company may also bear risks that could otherwise be hedged where it is considered appropriate to the investment objective and investment policy.

Investment Instruments may be structured as synthetic securities by means of a CDS, or other derivative or risk transfer transaction, entered into between a Bank Counterparty and the Company. Such transactions would typically be fully collateralised, by means of the Company placing a cash deposit or equivalent (including, but not limited to, money market funds and/or investment grade instruments) in an account. The Company will not acquire Investment Instruments where it could lose more than the amount invested.

The Company will use derivative strategies for efficient portfolio management and may also have exposure where an Investment Instrument is structured as a synthetic security as described above. Derivatives will not be used for speculative purposes. There can be no certainty as to the efficacy of any hedging transactions.

In the event of a breach of the investment policy set out above, the Investment Manager shall inform the Directors upon becoming aware of the same and if the Directors consider the breach to be material, notification will be made to a Regulatory Information Service.

No material change will be made to the investment policy without the approval of Shareholders by ordinary resolution.

*Cash uses and cash management activities*
In accordance with the Realisation Period, the Company's principal use of unencumbered cash will be to return it to Shareholders. Cash will also be retained for working capital purposes (including, in particular, a cash reserve for meeting any required margin calls on derivative positions), for the payment of dividends in accordance with the Company's dividend policy.

Cash held by the Company pending distribution or for working capital purposes will be held in either cash or cash equivalents, including but not limited to money market instruments or funds, bonds, commercial paper or other debt obligations with banks or other counterparties having an investment grade credit rating (as determined by any reputable rating agency selected by the Company).

The Company's objectives when managing capital are to safeguard the Company's ability to provide returns to Shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. To maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to Shareholders, return capital to shareholders, issue new shares or sell assets.

**Notes to the Financial Statements (continued)**

## 2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below.

### 2.1 Basis of preparation

The Annual Financial Statements for the year ended 30 September 2019 have been prepared in accordance with Internantional Financial Reporting Standards (IFRS) as adopted by the European Union, the Disclosure Guidance and Transparency Rules of the Financial Conduct Authority and applicable legal and regulatory requirements of the Law.

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities held at fair value through profit or loss.

At Year End, in aggregate 64.9% of share capital as at IPO has been returned to Shareholders. In total (including Share buy backs) 96,591,348 Shares have been cancelled as at the date of these financial statements, being 74.14% of the Shares in Issue at IPO.

The Company, in accordance with the Realisation Period as detailed in the circular dated 15 February 2017, will commence the orderly wind up of the Company upon completion of the realisation of the investment portfolio. The financial statements have therefore been prepared on a basis other than that of a going concern. Where fair value is referred to in the financial statements, this is assumed to approximate the net realisable value. However the Directors have determined there are no significant differences than had the financial statements been prepared on a going concern basis

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the Board of Directors to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

*New standards and interpretations adopted*

- IFRS 9 Financial Instruments

  The Company adopted IFRS 9 Financial Instruments on 1 October 2018. IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement and introduces new requirements for classification and measurement, impairment and hedge accounting. IFRS 9 is not applicable to items that have already been derecognised at 1 October 2018, the date of initial application.

  As a result of the adoption of IFRS 9, the Company adopted consequential amendments to IAS 1 Presentation Finacial Statements which requires impairment of financial assets to be presented in a separate line item in the Statement of Comprehensive Income. Additionally, the Company adopted consequential amendments to IFRS 7 Financial Instruments.

- IFRS 15 Revenue from contracts with customers ("IFRS 15")

  IFRS 15 establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.

  IFRS 15 is effective for annual periods beginning on or after 1 January 2018 with early adoption permitted. All the Company revenue streams are under the scope of IFRS 9, hence no impact from adopting IFRS 15.

**Notes to the Financial Statements (continued)**

## 2. Summary of significant accounting policies (continued)

### 2.1 Basis of preparation (continued)

*New standards and interpretations not yet adopted*

The Company has not applied the following new and revised IFRS that have been issued but are not yet effective in these financial statements:

- IFRS 16 Leases ("IFRS 16")

  IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. 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 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. During the year ending 30 September 2019 the company is not party of any lease contract hence no impact is anticipated.

  Other IFRS and amendments that are issue but not yet effective which are not envisaged to have a material impact on the financial statements:

| **Title** | **Effective for periods beginning on or after** |
|---|---|
| Interpretations 23 uncertainty over tax treatments | 01 January 2019 |
| Prepayment Features with negative Compansation - Amendments to IFRS 9 | 01 January 2019 |
| Long- term interest in Associates and Joint Ventures - Amendments to IAS 28 | 01 January 2019 |
| Annual Improvements to IFRS Standards 2015 - 2017 Cycle | 01 January 2019 |
| Plan amendements, curtailment or Settlement - Amendements to IAS 19 | 01 January 2019 |
| Amendments to References to conceptual Framework in IFRS Standard | 01 January 2020 |
| IFRS 17 Insurance Contracts | 01 January 2021 |

### 2.2 Financial assets and financial liabilities at fair value through profit or loss

*(a) Classification*

IFRS 9 eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

IFRS 9 has not resulted in changes in the carrying amount of the Company's financial instruments due to changes in measurement categories. All financial assets previously held at fair value continue to be measured at fair value having assessed the business model of the Company (see below). All financial assets that were classified as receivables and measured at amortised cost continue to be classified in this way.

The category of financial assets and financial liabilities at fair value through profit or loss comprises investments in bank capital solutions transactions and derivatives.

Changes in accounting policies resulting from the adoption of IFRS 9 were applied retrospectively, except as described below:

The Company has taken advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 would be recognised in retained earnings and reserves as at 1 October 2018.

**Notes to the Financial Statements (continued)**

## 2. Summary of significant accounting policies (continued)

### 2.2 Financial assets and financial liabilities at fair value through profit or loss (continued)

*(a) Classification (continued)*

*Business model assessment*
In making an assessment of the objective of the business model in which a financial asset is held, the Company considers all of the relevant information about how the business is managed, including:

- the documented investment strategy and the execution of this strategy in practice. This includes whether the investment strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Company's management;
- 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;
- how the investment manager is compensated: e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered for this purpose, consistent with the Company's continuing recognition of the assets.

All financial assets previously held at fair value continue to be measured at fair value having assessed the business model of the Company and having assessed that the cash flows arising from its investments in bank capital solutions transactions do not meet the Solely Payments of Principal and Interest ("SPPI") criteria .

The Company has determined that it has two business models.

- Held-to-collect business model: this includes only cash and cash equivalents and balances due from brokers. These financial assets are held to collect contractual cash flow.
- Other business model: this includes investments in bank capital solutions transactions and other investments. These financial assets are managed and their performance is evaluated, on a fair value basis, with frequent sales taking place.

*Policy effective before 1 October 2018 (IAS 39)*
The Company classifies its investments as financial assets or financial liabilities at fair value through profit or loss. These financial assets and financial liabilities are classified as held for trading or designated by the Board of Directors at fair value through profit or loss at inception.

Financial assets or financial liabilities held for trading are those acquired or incurred principally for the purposes of selling or repurchasing in the short term. Derivatives are also categorised as financial assets or financial liabilities held for trading. The Company does not classify any derivatives as hedges in a hedging relationship.

Financial assets and financial liabilities designated at fair value through profit or loss at inception are those that are managed and their performance evaluated on a fair value basis in accordance with the Company's documented investment strategy. The Company's policy is for the Investment Manager and the Board of Directors to evaluate the information about these financial assets on a fair value basis together with other related financial information.

*Policy effective from 1 October 2018 (IFRS 9)*
All financial assets and financial liabilities previously held at fair value through profit or loss continue to be measured at fair value through profit or loss.

*(b) Recognition/derecognition*
Regular-way purchases and sales of investments are recognised on the trade date – the date on which the Company commits to purchase or sell the investment. Investments are derecognised when the rights to receive cash flows from the investments have expired or the Company has transferred substantially all risks and rewards of ownership.

**Notes to the Financial Statements (continued)**

**2. Summary of significant accounting policies (continued)**

Regulatory capital transactions may be structured in a variety of ways and are highly bespoke to the needs of the bank involved and the investors in the transaction. In all situations, the amount of interest and principal payable on the instrument will be linked to the credit performance of the underlying collateral. The investment characteristics of regulatory capital transactions are such that principal payments are made more frequently than traditional debt securities. The principal may be repaid at any time because the underlying debt or other assets generally may be repaid at any time.

*(c) Measurement*

Financial assets and financial liabilities at fair value through profit or loss are initially recognised at fair value. Transaction costs are expensed in the Statement of Comprehensive Income. Subsequent to initial recognition, all financial assets and financial liabilities at fair value through profit or loss are measured at fair value. Gains and losses arising from changes in the fair value of the 'financial assets or financial liabilities at fair value through profit or loss' category are presented in the Statement of Comprehensive Income in the period in which they arise. The net gain on financial assets and financial liabilities held at fair value through profit or loss consists of coupons and interest received and both realised and unrealised gains and losses on financial assets and financial liabilities at fair value through profit or loss, calculated as described in note 7. For the purposes of the Statement of Cash Flows, all income is considered an operating activity.

*(d) Fair value estimation*

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of financial assets and liabilities traded in active markets (such as publicly traded derivatives and trading securities) are based on quoted market prices at the close of trading on the reporting date. IFRS 13 requires the Company to use an exit price (a traded market price or mid-price) for both financial assets and financial liabilities where such price falls within the bid-ask spread. In circumstances where the exit price is not within the bid-ask spread, management will determine the point within the bid-ask spread that is most representative of fair value.

If a significant movement in fair value occurs subsequent to the close of trading up to midnight on the period end date, valuation techniques will be applied to determine the fair value. A significant event is any event that occurs after the last market price for a security, close of market or close of the foreign exchange, but before the Company's valuation time that materially affects the integrity of the closing prices for any security, instrument, currency or securities affected by that event so that they cannot be considered 'readily available' market quotations.

Where broker quotes are not available, investment valuations are based on the Investment Adviser's internal models, together with an assessment of underlying portfolio performance and the consideration of the requirements of IFRS 13 to use 'market participant' assumptions that are as realistic as possible and the income, market and cost approach to estimate fair value.

The fair value of financial assets and liabilities at fair value through profit or loss is measured through a combination of dedicated price feeds from recognised valuation vendors and the application of relevant broker quotations where the broker is a recognised market maker in the respective position.

The fair value of financial assets and liabilities that are not traded in an active market (for example, over-the-counter derivatives) is determined using counterparty valuations for regulatory capital transactions or Markit for credit derivatives instruments. In the opinion of the Directors Markit is the benchmark for CDS pricing data. Markit receives data from the official books of market makers, and then subjects it to a rigorous testing process.

*(e) Offsetting financial instruments*

Financial assets and liabilities are offset and the net amount reported in the Statement of Financial Position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

The financial instruments at fair value through profit or loss on the Statement of Cash Flow are considered operating activities rather than investing activities.

*(f) Impairment*

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost. Under IFRS 9, credit losses are recognised earlier than under IAS 39. The Company has taken a simplified approach to short term receivables and deems there is no material impact of applying the ECL model.

**Notes to the Financial Statements (continued)**

## 2. Summary of significant accounting policies (continued)

### 2.3 Due from and to brokers
Amounts due from and to brokers represents receivables for securities sold and payables for securities purchased that have been contracted for but not yet settled or delivered on the Statement of Financial Position date, respectively as well as collateral posted to derivatives counterparts.

These amounts are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment for amounts due from brokers.

### 2.4 Interest income
For primary and secondary transactions, interest income is recognised in the Statement of Comprehensive Income in net gain on financial assets and financial liabilities held at fair value through profit or loss. Income receivable on cash and cash equivalents is recognised separately through profit or loss in the Statement of Comprehensive Income.

### 2.5 Cash and cash equivalents
Cash and cash equivalents represents cash in-hand, demand deposits, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts.

### 2.6 Share Capital
Shares are classified as equity. Incremental costs directly attributable to the issue of Shares are shown in equity as a deduction, net of tax, from the proceeds.

### 2.7 Foreign currency
*(a) Functional and presentation currency*
The functional and presentation currency of the Company is GBP (£). The performance of the Company is measured and reported to the investors in GBP.

*(b) Foreign currency translation*
Foreign currency transactions are translated into the functional currency of the Company using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income. Translation differences on non-monetary financial assets and liabilities at fair value through profit or loss are recognised in the Statement of Comprehensive Income within the fair value net gain or loss.

*(c) Exchange rates*
The foreign currency exchange rates at 30 September 2019 were as follows: EUR 0.8847, USD 0.8115, CHF 0.8138 (30 September 2018: EUR 0.8907, USD 0.7668, CHF 0.7851).

### 2.8 Transaction costs
Transaction costs on financial assets at fair value through profit or loss include fees and commissions paid to agents, advisers, brokers and dealers. Transaction costs, when incurred, are immediately recognised in the Statement of Comprehensive Income.

### 2.9 Segment reporting
Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board. The Directors are of the opinion that the Company is engaged in a single segment of business, being investments in bank capital solutions transactions. The Directors manage the business in this way.

### 2.10 Accrued expenses
Expenses are accounted for on an accruals basis.

### 2.11 Other receivables and prepayments
Other receivables are amounts due in the ordinary course of business. Other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

**Notes to the Financial Statements (continued)**

**2.12 Dividend distribution**
Dividend distribution to the Company's Shareholders is recognised as a liability in the Company's financial statements and disclosed in the Statement of Changes in Equity in the period in which the dividends are approved by the Board.

**2.13 Taxation**
The Company is exempt from Guernsey taxation on income derived outside of Guernsey and bank interest earned in Guernsey. A fixed annual fee of £1,200 is payable to the States of Guernsey in respect of this exemption. No charge to Guernsey taxation arises on capital gains.

**3. Critical accounting judgements and key sources of estimation uncertainty**

The preparation of the Company's Financial Statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the accompanying disclosures. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

**3.1 Key sources of estimation uncertainty**
*Fair value of financial instruments*
The assets held by the Company are mostly valued through a combination of dedicated price feeds from recognised valuation vendors and the application of relevant broker quotations where the broker is a recognised market maker in the respective position and where there are not readily available, internal valuations are used.

A documented valuation policy determines the hierarchy of prices to be applied to the fair value. Prices are sourced from third party broker or dealer quotes for the relevant security. Where no third party price is available, or where the Investment Manager determines that the third party quote is not an accurate representation of the fair value, the Investment Manager will determine the valuation based on the valuation policy. This may include the use of a comparable arm's length transaction, reference to other securities that are substantially the same, discounted cash flow analysis and other valuation techniques commonly used by market participants making the maximum use of market inputs and relying as little as possible on entity-specific inputs.

Where broker quotes are not available, and pricing is the result of the Investment Adviser's internal models, a specialist third party, Duff and Phelps, was engaged to provide estimated ranges of fair value for those transactions as at 30 September 2019.

The monthly NAV is derived from the Company's valuation policy. In particular, fair values of CDS are determined with the independent pricing by Markit, which is the benchmark of the industry for CDS pricing data. Markit receives data from the official books of market-makers and then subjects it to a rigorous testing and consistency process to provide closing prices, from which are derived the reported fair values of the financial instruments held by the Company.

Note 7 outlines the Level 3 classifications and the analysis of the impacts of Level 3 investments on the performance of the Company.

**3.2 Critical judgements in applying accounting policies**
*Functional currency*
The Company transacts and holds investments and cash balances in multiple currencies. The Board of Directors considers GBP (£) as the currency that most fairly represents the economic effect of the underlying transactions, events and conditions. The performance of the Company is measured and reported to the investors in GBP.

*Classification of investments*
The Board of Directors consider the classification of investments in the fair value hierarchy as a critical judgement. The fair value of investments is described in 3.1 above and the judgements associated with the disclosures in the fair value hierarchy are described in note 7.

*Financial statements basis of preparation*
The Directors consider it is appropriate for the financial statements to have been prepared on a basis other than that of a going concern since upon completion of the realisation of the investment portfolio, an orderly wind up of the Company will commence.

**Notes to the Financial Statements (continued)**

**3. Critical accounting judgements and key sources of estimation uncertainty (continued)**

*Classification of debt instrument at FVTPL under IFRS 9*
The Company classifies its debt instruments at FVTPL as they are not held to collect contractual cash flows or held both to collect contractual cash flows and to sell financial assets.

**4. Related parties**

*(a) Directors' remuneration & expenses*
The Directors of the Company are remunerated for their services at such a rate as the Directors determine. The fee for Mr. Mouchotte is £25,000. The fee for Mr. Stokes as Chairman of the Audit Committee is £25,000 per annum. The fee for Mr. King as Chairman is £25,000 per annum.

During the year ended 30 September 2019, directors fees of £75,000 (2018: £117,500) were charged to the Company, of which £nil (2018: £nil) remained payable at the end of the year.

None of the Directors or any persons connected with them have had a material interest in the Company's transactions or agreements during the Year. Mr Mouchotte, by virtue of his directorship of the AIFM and other funds within the Chenavari group, is not considered independent.

*(b) Shares held by related parties*
At 30 September 2019 the Directors held the following Shares in the Company: Mr King 10,511 , Mr Stokes 14,015 and Mr Mouchotte 1,753.

As of 30 September 2019, Chenavari Investment Managers Holdings, its affiliates and employees, held 458,936 shares of the Company (approximately 1% of the shares of the Company).

In addition, as at 30 September 2019, a fund managed by the Investment Manager held 8,109,860 shares of the Company, which is 20.1% of the available shares (30 September 2018: 12,592,700 and 20.1%).

*(c) Investment Manager and AIFM*
The Company receives investment management services from the Investment Manager, a limited company (Société à Responsabilité Limitée de Droit Luxembourgeois) incorporated in Luxembourg. Under the terms of the investment management agreement dated 23 September 2013 as novated on 22 July 2014 the Investment Manager receives in return a fee of one-twelfth of 1% on the NAV, payable monthly in arrears. The Investment Manager has appointed the Investment Adviser, to provide investment advisory services to the Investment Manager. The Investment Manager is responsible for paying the Investment Adviser. The Investment Management Agreement is terminable by either the Investment Manager or the Company giving to the other not less than 12 months' written notice, such notice not to be served before the fourth anniversary of Admission.

Total management fees for the year amounted to £477,473 for Chenavari Investment Managers (Luxembourg) S.àRL. (30 September 2018: £849,959) with £32,581 (2018: £46,325) in outstanding accrued fees at the year end.

The Investment Manager is also entitled to receive from the Company a performance fee equal to 20% of realised returns (i.e. dividends and capital repayments/returns) to Shareholders, subject to a hurdle of 7.5% per annum with a catch up. The catch-up operates such that a performance fee shall not become payable until the Company has distributed to Shareholders an amount equal to the Gross Issue Proceeds as increased by a hurdle rate of 7.5% per annum (the "Hurdle"). Thereafter, amounts available for distribution in excess of the Hurdle shall be distributed by the Company as to 50% to Shareholders and paid as to 50% to the Investment Manager until the Investment Manager has received 20% of all amounts in excess of the Gross Issue Proceeds. Thereafter, all further amounts available for distribution by the Company shall be distributed as to 80% to Shareholders and paid as to 20% by way of payment of the performance fee to the Investment Manager.

As of 30 September 2019, no performance fee was accrued according to those principles as the hurdle rate was not achieved.

An amount of $33,851 was recharged during the year (at cost) by the Investment Adviser for the period from 1 January to 31 December 2019 to compensate for market data and fund-specific fees.

**Notes to the Financial Statements (continued)**

## 4. Related parties (continued)

The Company has funded investments with a value of £30.4m via Convertible Preferred Equity Certificates and/or occasionally beneficiary shares issued by legally segregated compartments of AREO S.àRL, a company incorporated in Luxembourg under the Securitization Law of 2004. Areo is owned by the Chenavari group and Chenavari funds and is managed by a Board of Directors composed of a majority of independent directors that consider investment opportunities sourced by the Investment Adviser. The Company is currently invested in six compartments of Areo, and which it fair values in accordance with IFRS 13 as set out in the Company's accounting policies. The Investment Manager and Investment Adviser receive no fees from Areo in relation to these transactions.

## 5. Material agreements

*(a) Administration fee*
Estera Administration (Guernsey) Limited (the "Administrator") serves as the Company's administrator and secretary. The Administrator is entitled to a fee of £27,500 per annum. Up to 30 September 2018 the Administrator was entitled to a fee of £52,000 per annum. All fees are payable quarterly in advance. Administration fees for the year amounted to £32,897 (2018: £52,000).

(b) *Sub-administration fee*
The Administrator has appointed U.S. Bank Global Fund Services (Ireland) Limited (the "Sub-Administrator") as the Company's sub-administrator.

The Sub-Administrator is entitled to a fee of £27,500 per annum, excluding certain expenses. Up to 30 April 2019 the Sub-Administrator was entitled to receive a annual asset-based fee of up to 0.085% per annum of NAV, excluding certain expenses. Sub-administration fees for the period amounted to £32,727 (period ended 30 September 2018: £51,693) of which £2,926 (30 September 2018: £2,253) remained payable at the end of the period.

*(c) Custodian fee*
JPMorgan Chase Bank N.A has been appointed to act as custodian to the Company and to provide custodial, settlement and other associated services to the Company. Under the provisions of the custodian agreement dated 5 September 2013 the Custodian is entitled to a safekeeping and administration fee on each transaction calculated using a basis point fee charge based on the country of settlement and the value of the assets together with various other payment/wire charges on outgoing payments, subject to an aggregate minimum fee of £31,500 per annum..

*(d) Depository fee*
Elavon Financial Services Limited has been appointed to act as depository to the Company. The Depository is entitled to 0.05% per annum of NAV. Depository fees for the period amounted to £2,387 (2018: £4,250) of which £530 remained payable at the year end (2018: £232).

*(f) Investment Manager*
Contractual arrangements relating to the Investment Manager are detailed in note 4.

## 6. Financial risk management

The responsibility for financial risk management lies with the Board of the Company but it has delegated the day to day monitoring of this to the Investment Manager.

The Investment Adviser will be responsible for sourcing potential investments. Recommended investments will be presented to the Investment Manager for its approval. The Investment Manager will not be required to, and generally will not, submit decisions concerning the discretionary or ongoing management of the Company's assets for the approval of the Board, except where such approval relates to an application of the investment guidelines or a conflict of interest. Any investment recommended by the Investment Adviser which the Investment Manager rejects will however, be promptly notified to the Board.

### 6.1 Credit risk

The main concentration of credit risk to which the Company is exposed arises from the Company's investments in Bank Capital Solutions Transactions.

The Company mitigates its credit risk in Bank Capital Solutions transactions through extensive due diligence before investment.

**Notes to the Financial Statements (continued)**

## 6. Financial risk management (continued)

### 6.1 Credit risk (continued)

To the extent that the Portfolio is exposed to underlying concentrations in any one geographical region, borrower sector or credit or asset type, an economic downturn relating generally to such geographical region, borrower type or credit or asset type may result in an increase in underlying defaults or prepayments within a short time period. This could reduce the Company's income (and thus the ability to pay dividends to Shareholders), the NAV and the value of the Shares. The Portfolio is expected to carry leveraged exposure and an increase in credit losses with respect to any or all Collateral could reduce the Company's income (and thus the ability to pay dividends to Shareholders), the NAV and the value of the Shares.

No more than 20% of the NAV, calculated at the time of investment, will be exposed to any one Bank Counterparty. Such exposure will be calculated on a net basis, taking into account effective credit hedging arrangements entered into by the Company in relation to the relevant Bank Counterparty. This limit shall increase to 25% net exposure to any one Bank Counterparty where, in the Board's opinion, the relevant Investment Instrument is expected to amortise such that, within one year of investment, the expected capital balance outstanding is less than 20% of NAV, calculated at the time of investment.

As at 30 September 2019, the Company had 2 exposures above 20% (one in a SME loan for 28.07% and one in a Corporate loan for 32.46%), as direct consequence of the distribution/redemption phase.

For the avoidance of doubt, cash held on deposit under the terms of an Investment Instrument may be held without limit with a financial institution with short term credit ratings of A-2 (Standard & Poor's) or P-2 (Moody's) or better.

The Company manages the portfolio with appropriate diversification in terms of sectors and geographical breakdowns.

As at 30 September 2019 and 30 September 2018, the breakdown of the NAV per asset class and geography was as follows:

| **Asset class breakdown** | **30 September 2019 % NAV** | **30 September 2018 % NAV** |
|---|---|---|
| Corporate loans | 32.88% | 20.41% |
| SME loans | 49.46% | 57.40% |
| Cash, Collateral & Derivatives | 11.76% | 17.80% |
| Mortgages | 5.90% | 4.39% |
| **Total** | **100.00%** | **100.00%** |

| **Geographic breakdown** | **30 September 2019 % NAV** | **30 September 2018 % NAV** |
|---|---|---|
| Spain | 33.78 % | 26.02 % |
| U.K. | 33.07 % | 20.54 % |
| Cash, Collateral & Derivatives | 11.76 % | 17.8 % |
| Italy | 20.85 % | 18.99 % |
| Germany | 0.42% | 0.27% % |
| Netherlands | 0.04% | 0.02 % |
| Switzerland | 0.05% | 6.98% |
| Denmark | 0.01% | 0.01% |
| Austria | 0.01% | 0.01% |
| Belgium | 0.01% | 0.01% |
| Portugal | - | 9.35 % |
| **Total** | **100.00%** | **100.00%** |

**Notes to the Financial Statements (continued)**

## 6. Financial risk management (continued)

### 6.1 Credit risk (continued)

The Company is also exposed to counterparty credit risk on forwards, cash and cash equivalents, amounts due from brokers and other receivable balances, as shown in the following table:

| | **Bank of America** | **Citigroup** | **JP Morgan*** | **RBS** | **Total** |
|---|---|---|---|---|---|
| **S&P Rating** | **A-1** | **A-1** | **A-1** | **A-1** | |
| | **£** | **£** | **£** | **£** | **£** |
| **30 September 2019** | | | | | |
| Cash and cash equivalents | - | - | 5,766,095 | - | 5,766,095 |
| Due from broker | 1,758,166 | 484 | - | 1,008,729 | 2,767,380 |
| Forward FX contracts | 166,066 | - | - | - | 166,066 |
| **Total counterparty exposure** | **1,924,232** | **484** | **5,766,095** | **1,008,730** | **8,699,541** |
| **Net asset exposure %** | **5.55%** | **0.00%** | **16.62%** | **2.91%** | **25.07%** |
| **30 September 2018** | | | | | |
| Cash and cash equivalents | - | - | 8,017,025 | - | 8,017,025 |
| Due from broker | 1,938,663 | 176,002 | 27,819 | - | 2,142,484 |
| CDS | (4,181) | - | - | - | (4,181) |
| Forward FX contracts | 16,157 | - | - | - | 16,157 |
| **Total counterparty exposure** | **1,950,639** | **176,002** | **8,044,844** | **-** | **10,171,485** |
| **Net asset exposure %** | **3.48%** | **0.31%** | **14.37%** | **-** | **18.16%** |

*Offsetting financial assets and financial liabilities*

The Company enters into transactions with a number of counterparties whereby the resulting financial instrument is subject to an enforceable master netting arrangement or similar agreement, such as an International Swaps and Derivatives Association ("ISDA") Master Agreement (a "Master Netting Agreement"). Such Master Netting Agreements may allow for net settlement of certain open contracts where the Company and the respective counterparty both elect to settle on a net basis. In the absence of such an election, contracts will be settled on a gross basis. All Master Netting Agreements allow for net settlement at the option of the non-defaulting party in an event of default, such as failure to make payment when due or bankruptcy.

The Company mitigates the credit risk of derivatives and reverse sale and repurchase agreements by entering into master netting agreements and holding collateral in the form of cash and marketable securities.

The Company receives and provides cash collateral in respect of derivative transactions subject to the standard industry terms of ISDA's Credit Support Annex.

None of the financial assets and financial liabilities are offset in the Statement of Financial Position, as the Master Netting Agreements create a right of set-off of recognized amounts that is enforceable only following an event of default, insolvency or bankruptcy of the Company or counterparties. In addition, the Company and its counterparties do not intend to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

* JP Morgan cash and cash equivalents represents cash held in a custodian account.

**Notes to the Financial Statements (continued)**

## 6. Financial risk management (continued)

### 6.2 Foreign currency risk

Foreign currency risk is the risk of gain or loss resulting from exposure to movements on exchange rates on investments priced in currencies other than the base currency of the Company. The Company does not actively take risk in foreign currency, but incurs it as a normal course of business and employs a series of economic hedges to minimise these risks.

The currency exposure as at 30 September 2019 is as follows:

| Currency | Investments | FX hedges | Cash | Other net assets | 30 September 2019 Total exposure | 30 September 2019 Total exposure over NAV | NAV impact for a +/-10% FX rate move |
|---|---|---|---|---|---|---|---|
| | £ | £ | £ | £ | £ | % | % |
| CHF | - | - | 45,650 | - | 45,650 | 0.13% | 0.01% |
| EUR | 19,141,370 | (19,495,114) | 382,285 | 11,299 | 39,840 | 0.11% | 0.01% |
| USD | - | - | 5,519 | (24,184) | (18,665) | (0.05%) | (0.01%) |
| | **19,141,370** | **(19,495,114)** | **433,454** | **(12,885)** | **66,825** | **0.19%** | **0.01%** |

The currency exposure as at 30 September 2018 is as follows:

| Currency | Investments | FX hedges | Cash | Other net assets | 30 September 2018 Total exposure | 30 September 2018 Total exposure over NAV | NAV impact for a +/-10% FX rate move |
|---|---|---|---|---|---|---|---|
| | £ | £ | £ | £ | £ | % | % |
| CHF | 3,908,469 | (3,900,837) | 551 | - | 8,183 | 0.01% | 0.00% |
| EUR | 30,617,667 | (31,197,007) | 838,833 | 19,301 | 278,794 | 0.50% | 0.05% |
| USD | - | - | 12,327 | 2,093 | 14,420 | 0.03% | 0.00% |
| | **34,526,136** | **(35,097,844)** | **851,711** | **21,394** | **301,397** | **0.54%** | **0.05%** |

### 6.3 Interest rate risk

Interest rate risk is the risk of gain or loss resulting from exposure to movements on interest rates. The Company holds floating rate financial instruments which have little exposure to fair value interest rate risk as, when the short term interest rates increase, the interest on a floating rate note will increase. The value of asset backed securities may be affected by interest rate movements, i.e. if interest rates increased/decreased this would have a negative/positive impact on NAV. Interest receivable on bank deposits or payable on bank overdraft positions will be affected by fluctuations on interest rates; however the underlying cash positions will not be affected.

As at 30 September 2019 an increase in credit spread by 1 basis point would decrease the NAV by £7.184 (30 September 2018: £6,624). An increase in the risk free rate by 1 basis point would decrease the NAV by £3.448 (30 September 2018: £7,551).

**Notes to the Financial Statements (continued)**

## 6. Financial risk management (continued)

### 6.3 Interest rate risk (continued)

The Company's continuing position in relation to interest rate risk is monitored by the Investment Manager.

| | Fixed rate interest | Floating rate interest | Non-interest bearing |
|---|---|---|---|
| | £ | £ | £ |
| **30 September 2019** | | | |
| Financial assets at fair value through profit or loss | 11,783,991 | 18,830,395 | 166,066 |
| Due from broker | 55,019 | 2,712,361 | - |
| Other receivables and prepayments | - | - | 16,879 |
| Cash and cash equivalents | - | 5,766,095 | - |
| Redemption payable | | | (4,499,965) |
| Accrued expenses | - | - | (135,900) |
| | **11,839,010** | **27,308,851** | **(4,452,920)** |
| **30 September 2018** | | | |
| Financial assets at fair value through profit or loss | 11,504,495 | 34,530,318 | 28,514 |
| Due from broker | - | 2,142,484 | - |
| Other receivables and prepayments | - | - | 6,004 |
| Cash and cash equivalents | - | 8,017,025 | - |
| Financial liabilities at fair value through profit or loss | - | (4,181) | (12,357) |
| Accrued expenses | - | - | (211,009) |
| | **11,504,495** | **44,685,646** | **(188,848)** |

### 6.4 Liquidity risk

A proportion of the Company's Statement of Financial Position is made up of assets and liabilities which may not be realisable as cash on demand. As a result an exposure to liquidity risk exists. This risk is mitigated by the closed-ended nature of the Company and the reinvestment Period and distribution features.

The table below analyses the Company's liabilities into relevant maturity groups based on the remaining period at the Statement of Financial Position date to the contractual maturity date.

| | Less than 3 months | Greater than 3 months | Total |
|---|---|---|---|
| | £ | £ | £ |
| **30 September 2019** | | | |
| Redemption payable | (4,499,965) | - | (4,499,965) |
| Accrued expenses | (135,900) | - | (135,900) |
| | (4,635,865) | - | (4,635,865) |
| **30 September 2018** | | | |
| Financial liabilities at fair value through profit or loss | (12,357) | (4,181) | (16,538) |
| Accrued expenses | (176,965) | (34,044) | (211,009) |
| | **(189,322)** | **(38,225)** | **(227,547)** |

The Company is all equity funded and has been established as a Registered Closed-ended Collective Investment Scheme. Other than in the circumstances and subject to the conditions set out in Part I of the prospectus, Shareholders will have no right to have their Shares redeemed or repurchased by the Company at any time. Shareholders wishing to realise their investment in the Company will normally therefore be required to dispose of their Shares through the secondary market.

**Notes to the Financial Statements (continued)**

## 6. Financial risk management (continued)

### 6.5 Price risk

Market price risk arises mainly from uncertainty about future prices of financial instruments and credit ratings of debt issuers in which the Company invests. Market price risk represents the potential loss the Company may suffer through price movements on its investments.

The Company is exposed to market price risk arising from the investments in equity securities, debt and derivatives.

The Investment Manager manages the Company's price risk and monitors its overall market positions on a daily basis in accordance with the Company's investment objective and policies. The Company's overall market positions are monitored on a quarterly basis by the Board of Directors.

As at 30 September 2019, a 5% movement in prices (with all other variables held constant) would have resulted in a change to the total net assets of £1,539,023 (2018: £2,302,339).

## 7. Fair value of financial instruments

The fair values of financial assets and liabilities traded in active markets (such as publicly traded derivatives and trading securities) are based on quoted market prices at the close of trading on the year end date. The Company has adopted IFRS 13, 'Fair value measurement' and this standard requires the Company to price its financial assets and liabilities using the price in the bid-ask spread that is most representative of fair value for both financial assets and financial liabilities. If a significant movement in fair value occurs subsequent to the close of trading up to midnight on the year end date, valuation techniques will be applied to determine the fair value. No such event occurred. An active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

For financial assets and liabilities not traded in active markets the fair value is determined by using various methods including internal models, alternative price sources including a combination of dedicated price feeds from recognised valuation vendors and the application of relevant broker quotations where the broker is a recognised dealer in the respective position. Where broker quotes are not available, investment valuations are based on the Investment Adviser's internal models.

The hierarchy is broken down into three levels based on the observability of inputs as follows:

Level 1: Quoted price (unadjusted) in an active market for an identical instrument.

Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques for which all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

The determination of what constitutes 'observable' requires significant judgement by the Company. The Company considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

**Notes to the Financial Statements (continued)**

## 7. Fair value of financial instruments (continued)

The following tables show the Company's assets at 30 September 2019 based on the hierarchy set out in IFRS 13:

| **Assets** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| | **£** | **£** | **£** | **£** |
| **Financial assets held at fair value through profit or loss** | | | | |
| Debt securities (by instrument currency) | | | | |
| Europe: Asset backed securities | - | - | 19,141,370 | 19,141,370 |
| UK: Asset backed securities | - | - | 11,473,016 | 11,473,016 |
| OTC derivatives | | | | |
| Forward FX contracts | - | 166,066 | - | 166,066 |
| **Total assets** | **-** | **166,066** | **30,614,386** | **30,780,452** |

As at 30 September 2019 there were no financial liabilities measured at fair value.

The following tables show the Company's assets and liabilities at 30 September 2018 based on the hierarchy set out in IFRS 13:

| **Assets** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| | **£** | **£** | **£** | **£** |
| **Financial assets held held at fair value through profit or loss** | | | | |
| Debt securities (by instrument currency) | | | | |
| Europe: Asset backed securities | - | - | 16,122,791 | 16,122,791 |
| UK: Asset backed securities | - | - | 15,342,324 | 15,342,324 |
| US: Asset backed securities | - | - | 14,569,697 | 14,569,697 |
| OTC derivatives | | | | |
| Forward FX contracts | - | 28,514 | - | 28,514 |
| **Total assets** | **-** | **28,514** | **46,034,812** | **46,063,326** |
| **Liabilities** | | | | |
| **Financial liabilities held for trading** | | | | |
| OTC derivatives | | | | |
| CDS | - | (4,181) | - | (4,181) |
| Forward FX contracts | - | (12,537) | - | (12,537) |
| **Total liabilities** | **-** | **(16,718)** | **-** | **(16,718)** |

Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within Level 2. These include corporate bonds, asset backed bonds, certain non-sovereign obligations and over-the-counter derivatives. As Level 3 investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information.

Investments classified within Level 3 have significant unobservable inputs, as they trade infrequently.

## Notes to the Financial Statements (continued)

## 7. Fair value of financial instruments (continued)

There has been no transfers from Level 3 to Level 2 (2018: no transfer) during the year. There has been no transfers from Level 2 to Level 3 (2018: no transfers from Level 2 to Level 3).

| | | | 30/09/2018 | | | | | | | 30/09/2019 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Product type** | **Transaction** | **Trade date** | **Fair value** | **Realised** | **Unrealised & FX** | **Purchases** | **Sales** | **Redemption** | **Transfer from/to Level 2** | **Fair value** |
| | | | **£** | **£** | **£** | **£** | **£** | **£** | **£** | **£** |
| BS CLO | 4 | 26/11/2013 | 5,237,238 | (42,316,014) | 41,306,721 | - | (4,227,945) | - | - | - |
| NPL | 8 | 07/10/2014 | 12,182,785 | (134,071) | (1,419,874) | - | (890,889) | - | - | 9,737,951 |
| NPL | 9 | 24/09/2015 | 2,386,912 | - | (405,471) | - | - | - | - | 1,981,441 |
| BS CLO | 11 | 19/12/2014 | 7,112,313 | (670,550) | 453,923 | - | - | - | - | 6,895,686 |
| BS CLO | 12 | 26/06/2015 | 3,518,881 | 194,696 | (264,851) | - | (3,114,662) | - | - | 334,064 |
| RMBS | 13 | 18/02/2015 | 70,640 | - | (6,042) | - | - | - | - | 64,598 |
| BS CLO | 15 | 11/05/2016 | 11,433,855 | - | (25,436) | - | - | - | - | 11,408,419 |
| BS CLO | 16 | 26/05/2016 | 3,908,469 | 437,507 | (514,072) | - | (3,831,904) | - | - | - |
| BS CLO | 17 | 15/07/2016 | 183,720 | - | 8,507 | - | - | - | - | 192,227 |
| | | | **46,034,813** | **(42,488,432)** | **39,133,405** | **-** | **(12,065,400)** | **-** | **-** | **30,614,386** |

| | | | 30/09/2017 | | | | | | | 30/09/2018 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Product type** | **Transaction** | **Trade date** | **Fair value** | **Realised** | **Unrealised & FX** | **Purchases** | **Sales** | **Redemption** | **Transfe r from/to Level 2** | **Fair value** |
| | | | **£** | **£** | **£** | **£** | **£** | **£** | **£** | **£** |
| BS CLO | 4 | 26/11/2013 | 10,855,815 | - | (5,618,577) | | - | - | | 5,237,238 |
| BS CLO | 5 | 30/04/2014 | 8,855,632 | 1,491,932 | (1,774,719) | | - | (8,572,845) | | - |
| NPL | 8 | 07/10/2014 | 13,918,681 | 3,104,546 | (3,603,307) | | (1,237,135) | - | | 12,182,785 |
| NPL | 9 | 24/09/2015 | 2,724,626 | - | (337,714) | | - | - | | 2,386,912 |
| BS CLO | 11 | 19/12/2014 | 7,192,168 | - | (79,855) | | - | - | | 7,112,313 |
| BS CLO | 12 | 26/06/2015 | 3,723,821 | - | (204,940) | | - | - | | 3,518,881 |
| RMBS | 13 | 18/02/2015 | 367,241 | - | (296,601) | | - | - | | 70,640 |
| BS CLO | 15 | 11/05/2016 | 14,058,036 | - | (2,624,181) | | - | - | | 11,433,855 |
| BS CLO | 16 | 26/05/2016 | 3,856,434 | - | 70,960 | | - | (18,925) | | 3,908,469 |
| BS CLO | 17 | 15/07/2016 | 11,197,765 | 1,960,851 | (1,617,508) | | - | (11,357,388) | | 183,720 |
| BS CLO | 18 | 23/05/2014 | 12,599,486 | 1,675,765 | (1,878,603) | | - | (12,396,648) | | - |
| | | | **89,349,705** | **8,233,094** | **(17,965,045)** | | **(1,237,135)** | **(32,345,806)** | | **46,034,813** |

| **Product type** | **Description** |
|---|---|
| BS CLO | Balance Sheet CLO |
| RMBS | Residential mortgage-backed security |
| NPL | Non-performing loan |

As of 30 September 2019, seven (2018: nine) investments were categorised within Level 3 of the fair value hierarchy, representing 88.24% (2018: 82.20%) of the NAV.

In order to measure Level 3 assets sensitivities, the Company is using the sensitivity scenario prepared by the Investment Adviser. Those scenario are testing all main parameters simultaneously and do not represent levels at which a transaction who occur on those investments in normal conditions. Typical parameters tested are default rates, recovery rates and prepayment rates. An increase in default rates would result in a decrease to the NAV. An increase in recovery rates and prepayments would result in an increase to the NAV. The intensity of test varies across the portfolio and differ according to asset class, sector, vintage and country.

**Notes to the Financial Statements (continued)**

## 7. Fair value of financial instruments (continued)

*Transaction 8*
The main sensitivity of the transaction is to the collection level on the pool of loans.

In the Investment Adviser's sensitivity scenario (6.25% reduction in cash flow collections) the impact to the Company's NAV is 1.31% (30 September 2018: 2.72 %).

*Transaction 9*
The main sensitivity of the transaction is to the collection level on the pool of loans.

In the Investment Adviser's sensitivity scenario (6.25% reduction in cash flow collections) the impact to the Company's NAV is 0.67% (30 September 2018: 1.35%).

*Transaction 11*
The main sensitivity of the transaction is to the occurrence of defaults and recovery rates in the underlying reference pool.

In the Investment Adviser's sensitivity scenario the impact to the Company's NAV is is 0.00% as this position was realised post year end (30 September 2018: 0.21%) and therefore stressing the position will have no impact..

*Transaction 12*
The main sensitivity of the transaction is to the occurrence of defaults and recovery rates in the underlying reference pool. In the Investment Adviser's sensitivity scenario the impact to the Company's NAV is 0.00% as this position was realised post year end (30 September 2018: 0.01%).

*Transaction 13*
The main sensitivity of the transaction is to the occurrence of defaults and recovery rates in the underlying reference pool.

In the Investment Adviser's sensitivity scenario the impact to the Company's NAV is 0.00% (30 September 2018: 0.00%). The position is marked at £nill, however the reported value represents the company's portion of a term deposit on the underlying Areo structure which is unaffected by this stress scenario.

*Transaction 15*
The main sensitivity of the transaction is to the occurrence of defaults in the underlying reference pool and extension risk.

In the Investment Adviser's sensitivity scenario (1.5x constant default rate) the impact to the Company's NAV is 0.10% (30 September 2018: 0.65%).

*Transaction 17*
The main sensitivity of the transaction is to the exit price for the portfolio.

In the Investment Adviser's sensitivity scenario the impact to the Company's NAV is 0.00% (30 September 2018: 0.00%). The majority of the position has paid, there are 4 outstanding credit events which are in workout and based on the information provided as of September 2019. The estimated recoverable amount based on credit event amount and expected loss given default on each default discounted is factored in the price.

## 8. Loss or Earnings per Share - Basic & Diluted

The loss/earnings per Share - Basic and Diluted of (0.54p) (2018: 1.32p) has been calculated based on the weighted average number of Shares of 53,474,661 (2018: 95,494,690) and a net loss of £288,127 (2018: £1,256,961 profit).

There were no dilutive elements to Shares issued or repurchased during the Year.

## 9. NAV per Share

The NAV per Share of 85.97p (2018: 89.37p) is determined by dividing the net assets of the Company attributed to the Shares of £34,694,941 (2018: £56,001,292) by the number of Shares in issue at 30 September 2019 of 40,356,995 (2018: 62,664,726).

**Notes to the Financial Statements (continued)**

## 10. Financial assets and financial liabilities at fair value through profit or loss

| | 30 September 2019 | 30 September 2018 |
|---|---|---|
| | £ | £ |
| Financial assets at fair value through profit or loss : | | |
| - Debt securities | 11,408,418 | 11,433,854 |
| - Asset backed securities | 19,205,968 | 34,600,958 |
| - Forward FX contracts | 166,066 | 28,514 |
| **Total financial assets at fair value through profit or loss** | **30,780,452** | **46,063,326** |
| | | |
| Financial liabilities at fair value through profit or loss : | | |
| - CDS | - | (4,181) |
| - Forward FX contracts | - | (12,357) |
| **Total financial liabilities at fair value through profit or loss** | **-** | **(16,538)** |

## 11. Net gain/(loss) on financial assets and financial liabilities at fair value through profit or loss

| | For the year ended 30 September 2019 | For the year ended 30 September 2018 |
|---|---|---|
| | £ | £ |
| **Net gain/(loss) on debt instruments at fair value through profit or loss** | | |
| - CDS | (68,553) | 172,461 |
| - Debt securities | 982,015 | (1,553,418) |
| - Asset backed securities | (768,881) | 3,390,870 |
| **Net gain on debt instruments at fair value through profit or loss** | **144,581** | **2,009,913** |
| | | |
| **Net gain/(loss) on foreign exchange and forward FX contracts** | | |
| Realised gain on forward FX contracts | 237,564 | 3,212,750 |
| Unrealised gain/(loss) on forward FX contracts | 149,908 | (2,214,379) |
| Realised gain/(loss) on foreign exchange | 30,499 | (479,961) |
| Unrealised (loss)/gain on foreign exchange | (16,585) | 213,902 |
| **Net gain on foreign exchange and forward FX contracts** | **401,386** | **732,312** |
| | | |
| **Net gain on financial assets and liabilities at fair value through profit or loss** | **545,967** | **2,742,225** |

## 12. Due from and to brokers

| | 30 September 2019 | 30 September 2018 |
|---|---|---|
| **Due from** | £ | £ |
| Collateral and funding cash | 2,767,380 | 2,114,665 |
| Receivables for securities sold | - | 27,819 |
| | **2,767,380** | **2,142,484** |

Collateral and funding cash is held in respect of the RBS Areo compartments as detailed in note 6.1

## 13. Other receivables and prepayments

| | 30 September 2019 | 30 September 2018 |
|---|---|---|
| | £ | £ |
| Prepayments | 16,879 | 5,248 |
| Interest receivable | - | 756 |
| | **16,879** | **6,004** |

**Notes to the Financial Statements (continued)**

## 14. Accrued expenses

| | 30 September 2019 | 30 September 2018 |
|---|---|---|
| | £ | £ |
| Management fee | 32,581 | 46,325 |
| Audit fee | 46,350 | 34,044 |
| Corporate brokering fee | 7,424 | 37,500 |
| Sub-administration fee | 2,926 | 2,253 |
| Legal fee | - | 10,149 |
| Custodian fees | - | 2,704 |
| Other fees | 46,619 | 78,034 |
| | **135,900** | **211,009** |

## 15. Share capital

The authorised share capital of the Company consists of an unlimited number of unclassified shares of no par value. The unclassified shares may be issued as, (a) Shares in such currencies as the Directors may determine; (b) C Shares in such currencies as the Directors may determine; and (c) such other classes of shares in such currencies as the Directors may determine in accordance with the Articles and the Law. Shares will be redeemable at the option of the Company and not Shareholders

The rights attaching to the Shares are as follows:

(a) As to income – subject to the rights of any Shares which may be issued with special rights or privileges, the Shares of each class carry the right to receive all income of the Company attributable to the Shares, and to participate in any distribution of such income by the Company, pro rata to the relative NAV of each of the classes of Shares and, within each such class, income shall be divided pari passu amongst the holders of Shares of that class in proportion to the number of Shares of such class held by them.

(b) As to capital – on a winding up of the Company or other return of capital (other than by way of a repurchase or redemption of Shares in accordance with the provision of the Articles and the Law), the surplus assets of the Company attributable to the Shares remaining after payment of all creditors shall, subject to the rights of any Shares that may be issued with special rights or privileges, be divided amongst the holders of Shares of each class pro rata to the relative NAV of each of the classes of Shares and, within each such class, such assets shall be divided pari passu amongst the holders of Shares of that class in proportion to the number of Shares of that class held by them.

(c) As to voting – the holders of the Shares shall be entitled to receive notice of and to attend, speak and vote at general meetings of the Company.

The rights attaching to C Shares are as follows:

(a) subject to the rights of any C Shares which may be issued with special rights or privileges, the C Shares of each class carry the right to receive all income of the Company attributable to the C Shares, and to participate in any distribution of such income by the Company, pro rata to the relevant NAV of each of the classes of C Shares and within each such class income shall be divided pari passu amongst the holders of that class in proportion to the number of C Shares of such class held by them;

(b) the Shares of the relevant class into which C Shares of the relevant class shall convert shall rank pari passu with the Existing Shares of the relevant class for dividends and other distributions made or declared by reference to a record date falling after the Calculation Date; and

(c) no dividend or other distribution shall be made or paid by the Company on any of its shares between the Calculation Date and the Conversion Date (both dates inclusive) and no such dividend shall be declared with a record date falling between the Calculation Date and the Conversion Date (both dates inclusive).

During the year and prior year the Company has not bought back any Shares and no Shares were held in Treasury as at 30 September 2019. Previously the Company had made two buy backs totalling 121,000 Shares. On 11 January 2017 106,000 Shares were bought at a price of 84.50 pence per Share and on 10 February 2017 15,000 Shares were bought at a price of 86.00 pence per Share. These Shares were cancelled.

**Notes to the Financial Statements (continued)**

## 15. Share capital (continued)

The following compulsory redemptions have been made in the realisation phase:

| Redemption date | Number of Shares redeemed | Redemption price, pence per Share | Total consideration, £ |
|---|---|---|---|
| 31 March 2017 | 5,511,416 | 90.72 | 4,999,956 |
| 1 September 2017 | 7,413,640 | 94.42 | 6,999,958 |
| 1 December 2017 | 12,908,729 | 92.96 | 11,999,954 |
| 1 May 2018 | 22,499,669 | 88.89 | 19,999,955 |
| 1 September 2018 | 19,180,820 | 88.63 | 16,999,960 |
| 2 January 2019 | 10,050,209 | 89.55 | 8,999,962 |
| 2 July 2019 | 7,008,525 | 89.89 | 6,299,962 |
| 7 October 2019 | 5,248,997 | 85.73 | 4,499,965 |
| 9 December 2019 | 6,769,343 | 85.68 | 5,799,973 |
| Total | 96,591,348 | | 86,599,646 |

*Capital management*

The Company's objectives when managing capital are to safeguard the Company's ability to provide returns to Shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. To maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to Shareholders, return capital to shareholders, issue new shares or sell assets.

## 16. Segmental reporting

The Board is responsible for reviewing the Company's entire portfolio and considers the business to have a single operating segment. The Board's asset allocation decisions are based on a single, integrated investment strategy being investments in bank capital solutions transactions and the Company's performance is evaluated on an overall basis.

The Company invests in a diversified portfolio of bank capital solutions transactions. The fair value of the major financial instruments held by the Company and the equivalent percentages of the total value of the Company, are reported in the Schedule of Investments.

Revenue earned is reported separately on the face of the Statement of Comprehensive Income as investment income being interest income received from bank capital solutions transactions.

## 17. Dividend policy

Subject to compliance with the Companies (Guernsey) Law, 2008 (as amended) and the satisfaction of the solvency test, the Company intends to distribute all its income received from investments, net of expenses, by way of dividends on a quarterly basis with dividends declared in October, January, April and July each year and paid in November, February, May and August.

Under the Companies (Guernsey) Law, 2008 (as amended), companies can pay dividends in excess of accounting profit provided they satisfy the solvency test prescribed by the Companies Law. The solvency test considers whether a company is able to pay its debts when they fall due, and whether the value of a company's assets is greater than its liabilities.

For further information reference note 1.

**Notes to the Financial Statements (continued)**

## 18. Derivative financial instruments

The following table shows the Company's derivative position as at 30 September 2019:

| | Financial assets at fair value | Financial liabilities at fair value | Notional amount | Maturity |
|---|---|---|---|---|
| | £ | £ | £ | |
| Forward FX contracts | | | | |
| EUR sell | 166,066 | - | (19,661,180) | 15 November 2019 |
| GBP buy | - | - | 19,661,180 | |
| | **166,066** | **-** | **-** | |

The following table shows the Company's derivative position as at 30 September 2018:

| | Financial assets at fair value | Financial liabilities at fair value | Notional amount | Maturity |
|---|---|---|---|---|
| | £ | £ | £ | |
| CDS buy protection | - | (4,181) | 4,008,150 | 20 September 2020 |
| Forward FX contracts | | | | |
| CHF sell | 28,514 | - | (3,929,351) | 14 December 2018 |
| EUR sell | - | (12,357) | (31,184,650) | 19 Ocober 2018 |
| GBP buy | - | - | 35,114,001 | |
| | **28,514** | **(16,538)** | **4,008,150** | |

The Company held the following derivative instruments during the year:

*CDS*
These are derivative contracts referencing an underlying credit exposure, which can either be a single credit issuer or a portfolio of credit issuers. The Company pays or receives an interest flow in return for the counterparty accepting or selling all or part of the risk of default or failure to pay of a reference entity on which the swap is written. Where the Company has bought protection the maximum potential payout is the value of the interest flows the Company is contracted to pay until the maturity of the contract.

*Forward FX contracts*
Forward FX contracts entered into by the Company represent a firm commitment to buy or sell an underlying 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 trade date and the value of the contract at settlement date/year-end date, and is included in the Statement of Comprehensive Income.

## 19. Significant events during the year

During the year four dividends were declared. The first for 0.50 pence per Share was declared on 31 October 2018 and paid on 30 November 2018. The second for 0.50 pence per Share was declared on 25 January 2019 and paid on 28 February 2019. The third for 0.70 pence per Share was declared on 30 April 2019 and paid on 31 May 2019. The forth for 0.40 pence per Share was declared on 31 October 2019 and paid on 29 November 2019

On 14 December 2018, the Company announced its sixth compulsory partial redemption payment to be paid to Shareholders on the record date of 2 January 2019. The amount of the redemption payment was £9,000,000, which was payable to Shareholders in respect of the redemption of approximately 1,603 Shares for every 10,000 Shares held, at a rate of 89.55 pence per Share redeemed.

The Company announced its seventh compulsory partial redemption payment to be paid to Shareholders on the record date of 1 July 2019. The amount of the redemption payment was £6,300,000, which was payable to Shareholders in respect of the redemption of approximately 1.332 Shares for every 10.000 Shares held, at a rate of 89.89 pence per Share redeemed.
On 26 September 2019, the Company also announced an additional eighth compulsory partial redemption payment to be paid to Shareholders on the record date of 7 October 2019. The amount of the redemption payment was £4,500,000, which was payable to Shareholders in respect of the redemption of approximately 1.15 Shares for every 10.000 Shares held, at a rate of 85.73 pence per Share redeemed.

**Notes to the Financial Statements (continued)**

## 20. Subsequent events

On 8 November 2019, one position representing 19.88% as at 30 September 2019 has been called, generating an inflow of €6.7million.

Following the Year End, a further dividend of 0.40 pence per Share was declared on 24 October 2019 and paid on 29 November 2019.

On 26 November 2019, the Company announced its ninth compulsory partial redemption payment to be paid to Shareholders on the record date of 9 December 2019. The amount of the redemption payment was £5,800,000, which was payable to Shareholders in respect of the redemption of approximately 1.677 Shares for every 10.000 Shares held, at a rate of 85.68 pence per Share redeemed.

## 21. Approval of the financial statements

The Audited Financial Statements were approved for issue to Shareholders by the Directors on 21 January 2020.