Registered Number: 09899024

Honeycomb Investment Trust plc

Annual Report and Audited Financial Statements

For the year ended 31 December 2017

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1 Strategic Report

Investment Objective

The investment objective of Honeycomb Investment Trust plc (the “Company”) and its subsidiary (together, the “Group”) is to provide shareholders with an attractive level of dividend income and capital growth through the acquisition of loans made to consumers and small businesses as well as other counterparties, together with related investments (“Credit Assets”) and selected equity investments that are aligned with the Company’s strategy and that present opportunities to enhance the Company’s returns from its investments (”Equity Assets”).

Financial and Operational Highlights

	31 December 2017	31 December 2016
NET ASSET VALUE		
NET ASSET VALUE (CUM INCOME) (£'000) (1)	304,759	202,051
NET ASSET VALUE (EX INCOME) (£'000) (2)	300,252	196,969
MARKET CAPITALISATION (£'000)(3)	346,395	203,346
PER SHARE METRICS		
SHARE PRICE (AT CLOSE) (4)	1,157.5p	1,020.5p
NAV PER SHARE (CUM INCOME)	1,018.4p	1,014.0p
NAV PER SHARE (EX INCOME)	1,003.3p	988.5p
SHARES IN ISSUE	29,926,110	19,926,110
PERFORMANCE INDICATORS AND KEY RATIOS		
PREMIUM / (DISCOUNT) (5)	13.7%	0.6%
ITD TOTAL NAV PER SHARE RETURN (6) (7)	17.2%	7.8%
DEBT TO EQUITY	29.4%	-%
REVENUE RETURN (8)	7.7%	8.8%
DIVIDEND RETURN (9)	8.4%	8.0%
ONGOING CHARGES (10)	1.3%	1.5%

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

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

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

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

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

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

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

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

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

(10) ONGOING CHARGES RATIO: is calculated as a percentage of annualised ongoing charge over average reported Net Asset Value. Ongoing charges are those expenses of a type which are likely to recur in the foreseeable future. The annualised ongoing charge is calculated using the Association of Investment Companies recommended methodology.

Investment Characteristics

THE COMPANY IS AN INVESTMENT TRUST FOCUSING ON UK CONSUMER AND SME SPECIALIST LENDING

The Company believes that consumer and SME loans are an asset class that has the potential to provide attractive returns for investors on a risk-adjusted basis. The market for lending to SMEs and consumers is large and growing with £1.6 trillion[1] lent annually.

MANAGED BY POLLEN STREET CAPITAL, A DEDICATED INVESTOR IN LENDING BUSINESSES

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

LONG-TERM OPPORTUNITY TO DELIVER ATTRACTIVE RETURNS FROM UK CONSUMER AND SME LOANS

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

DIRECT LENDING THROUGH TRUSTED ORIGINATION PARTNERS

Provides access to sectors and lending with the most attractive return characteristics. The Company partners with organisations with an ability to integrate technologies and respond quickly to new customer demands.

EQUITY INVESTMENTS IN HIGH-GROWTH PARTNERS

The Company invests in high growth partners to enhance returns for shareholders. These investments are aligned with the Company's strategy to generate attractive return lending.

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

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

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[1] Source: Bank of England November 2017

How the Business Works

Credit Assets

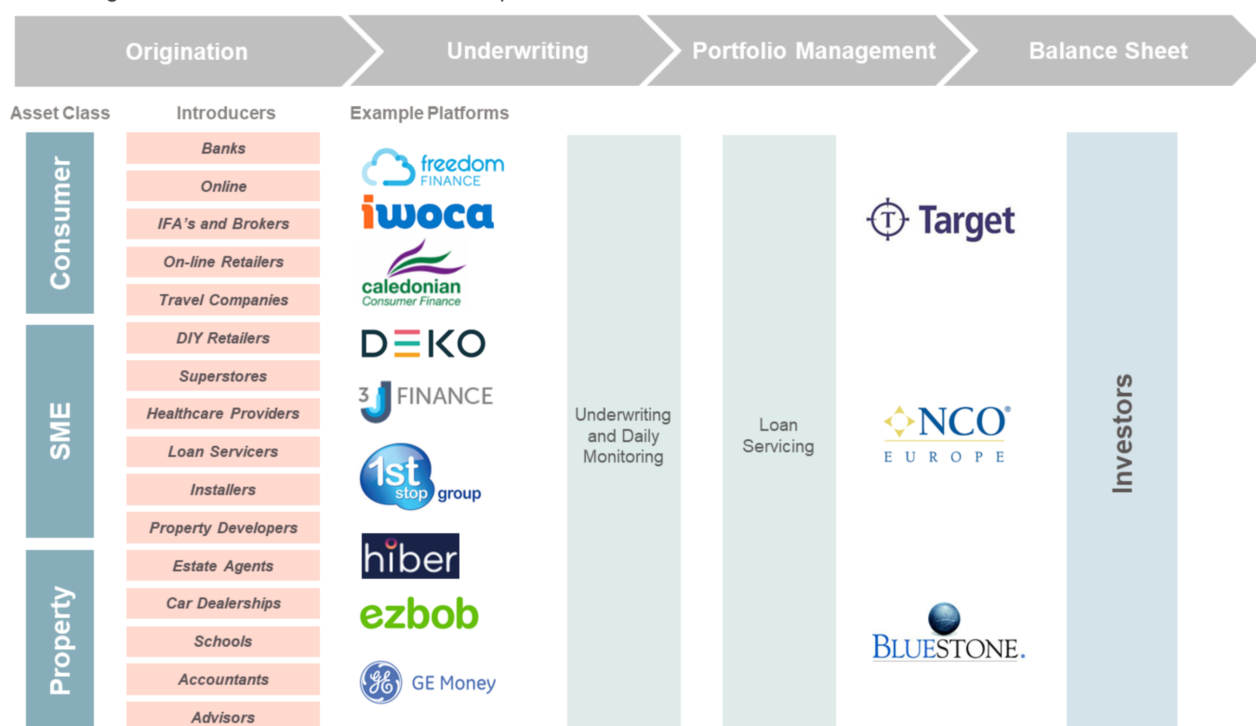
The Investment Manager, on behalf of the Group, actively identifies sub-segments of the large consumer, property and SME lending market that it believes delivers attractive net returns. It then targets channels, origination partners and loan portfolio vendors through which to develop Credit Assets and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

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

The Group, either directly or via the Origination Partner, has arrangements with a number of referral partners, including the Example Platforms below, through which the Group either acquires Credit Assets, either individually, as portfolios or via structured investments. The Directors believe that the Group has access to diverse investment opportunities across its market segments of Property, Consumer and SME, each with different borrower profiles and different risk return characteristics. Through access to multiple referral partners and other counterparties, the Group will reduce its dependence on any one single source of opportunities to acquire Credit Assets and expects to gain a strong visibility of high quality assets.

The Group believes it is important to provide best-in-class loan servicing to ensure that Credit Assets forming part of the portfolio are managed efficiently throughout their lifecycle. As such, the Group appoints servicers best placed to service the investment asset.

The arrangements above can be summarised in the following diagram:



Equity Assets

The Group's may invest in Equity Assets that are aligned with the Group strategy and that present opportunities to enhance the Group's returns from its investments. The Group expects, that most of its investments in Equity Assets will take the form of minority interests in referral partners, in pursuit of the Group's investment policy. The Directors believe that an ancillary benefit of these investments in Equity Assets will be to more closely align the interests of the Company with those of its commercial partners, and thereby improve the Group's underwriting and analysis capabilities and visibility of trends and opportunities in the specialist finance market.

Chairman's Statement

I am delighted to present the second Annual Report for Honeycomb Investment Trust plc (the "Company") which covers the year ended 31 December 2017.

The Board has been pleased with the continued progress made by the Company. Investment asset growth has been achieved while maintaining a stable return. At the start of 2017 we had successfully completed three share offerings raising a total of £200 million of gross proceeds. In May 2017 we raised a further £105 million excluding issue costs. These gross proceeds were deployed by the end of July 2017, with further investment asset growth driven by the utilisation and extension of the Company's debt facility.

PERFORMANCE

The Company has performed well in the year driven by the performance of investments made in 2016 and the careful selection of new attractive risk-adjusted assets. A detailed assessment of the progress of the Company follows in the Investment Manager's review. At 31 December 2017, the Company's net assets were £304.8 million (cumulative of income), with market capitalisation at £346.4 million. NAV per share (cumulative of income) was 1,018.4 pence, with the share price (at close) 1,157.5 pence, representing a premium of 13.7 per cent. Total NAV per share return was 17.2 per cent since inception. This includes the 1.03 per cent benefit of the May share placing being completed at a premium to NAV.

DIVIDEND

The Q1 2017 dividend increased from 23.50 pence per share in Q4 2016 to 24.50 pence per share in Q1 2017. This provided an above target yield on an annualised dividend of 9.8 per cent compared with 9.4 per cent (undiluted 12.5 per cent) in Q4 2016. The dividend remained at 20.00 pence per share for Q2 and Q3 2017 to provide the target annualised dividend.

GEARING

The Group has £88.2 million drawn debt at year end of which £56.5 million relates to the Company's debt facility, which on 21 June 2017 had the committed limit upsized to £80.0 million, the term extended and another European bank bought in to the lending syndicate. The facility was further extended to a committed facility of £150 million in the first half of 2018, in order to fund further investment opportunities.

OUTLOOK

Despite the competitive consumer finance marketplace, the Company has deployed capital ahead of schedule. We believe that the retrenchment of mainstream lenders from specialist markets continues to present an opportunity to engage with customers in markets which are underserved by traditional lenders and platforms. We further believe that through our differentiated approach and by targeting verticals that require specialist understanding, more detailed underwriting, or which pre-select higher quality borrowers, attractive risk-adjusted returns can be delivered with low volatility throughout the cycle.

We have a clear strategy to protect, improve and extend this successful model, and continue to closely monitor the political and economic uncertainty created by Brexit. Although current market conditions remain benign, the longer-term economic outlook and impact of Brexit on our customers and wider markets remain uncertain. There remains competition, whilst credit losses within the portfolio have remained stable. We remain vigilant.

The supervisory framework remains an ever-present factor as consumer credit regulation continues to develop. The Company continues to take a prudent approach to managing its business and its regulatory responsibilities and the continued focus on good customer outcomes, income verification, affordability and forbearance, are all subjects which are at the heart of our business. Developments in these areas have the potential to require changes to the way the industry transacts business, but we welcome oversight which encourages good customer outcomes. We will continue to closely monitor the impact of the removal of the Term Funding Scheme ("TFS") by the Bank of England in February 2018, and while we are not directly impacted by this, it may have some impact on the overall liquidity and competitive dynamics in the market: opportunities as well as risks may exist.

On 1 January 2018 the Company implemented and transitioned to IFRS 9 "Financial Instruments" with a £2.3 million impact on reserves, equating to 0.75 per cent of year-end NAV. More details can be found on pages 61 to 65.

We have had another excellent year and the Board remains confident of the long-term prospects for the Company. The Investment Manager continues to exercise strong discipline in assessing risk adjusted returns and is well positioned to manage a range of different market conditions, and to make the most of any opportunities which may arise.

Robert Sharpe

Chairman
27 April 2018

Investment Manager's Report

The Group was established in December 2015 to provide investors with access to UK lending opportunities which the Investment Manager believes have potential to provide attractive and consistent risk-adjusted returns throughout the cycle. These returns are delivered through the Investment Manager's focus on high-quality underwriting of borrowers in markets that are underserved by mainstream finance providers.

The Investment Manager has significant experience in specialist lending, providing the Group with both deep insight to high quality underwriting and access to the Investment Manager's established eco-system, enabling whole of market, high-quality origination flow and portfolio acquisition opportunities.

After the Company completed its initial public offering on 23 December 2015, and subsequently raised a further total gross proceeds of £100.0 million during 2016, the Company raised further gross proceeds of £105.0 million in May 2017. This was in conjunction with the Company increasing the size of its debt facility to £80.0 million, extending the term and bringing in another European bank to the lending syndicate.

The Group focused on building a strong portfolio of assets in line with our investment mandate and at the end of the year, had built a total portfolio of investment assets of £377.1 million, with a strong pipeline of further opportunities to provide an attractive mix of assets combining both strong yields with low bad debt rates.

In Q1 2017, we focused on deploying the £50 million total gross proceeds from the December 2016 capital raise, and, as part of this, in January 2017 the Company provided financing of £40 million, which included the acquisition of a loan book from, and taking an equity stake in, Hiber Limited (formerly The Green Deal Finance Company). This portfolio contains an attractive mix of assets combining both strong yields with low bad debt rates.

Through the remainder of 2017 the Company purchased five further portfolios of consumer loans. Three were portfolios of secured loans and the other two were unsecured.

One of these secured portfolios was purchased on 20 December 2017 when the Company acquired certain interests of Commercial First DAC Limited which gave it accounting control of Business Mortgage Finance 3 plc. This is a special purpose vehicle ("SPV") holding commercial mortgages. As a result, the financial statements have been prepared on a consolidated basis.

At acquisition, the other four portfolios comprised in aggregate over 45,500 loans with an average balance of £2,600. Together with the portfolios we purchased in 2016, these provide a strong underpinning of results in 2017, with a total of £200.5 million investment remaining at the end of the year. All portfolios have performed in line or ahead of expectations.

In Q4 2017 the Company focused on the organic origination channels. With a backdrop of higher levels of consumer indebtedness and increasing competition in mainstream markets, we elected to grow our holdings of structured facilities, with six new facilities drawn down. In these facilities, we gain exposure to the underlying credit assets, but with added protection of first loss from the relevant partner. All the borrowers have performed well.

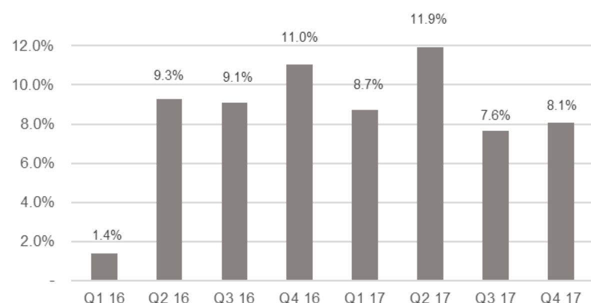
In an evolving and often challenging market and regulatory environment, we remain committed to our established business model. Our ability to build deep and sustainable relationships has helped the Company's Origination Partner to continue to develop. It has further developed its relationship with its referral partners and has seen continued steady growth of origination volumes during the year. Further referral partners have been on-boarded which have supported this growth with the profile of risk and return that is in line with expectations.

In aggregate, the organic channels have grown by £95.3 million in the last 12 months to give a total investment of £145.1 million at 31 December 2017.

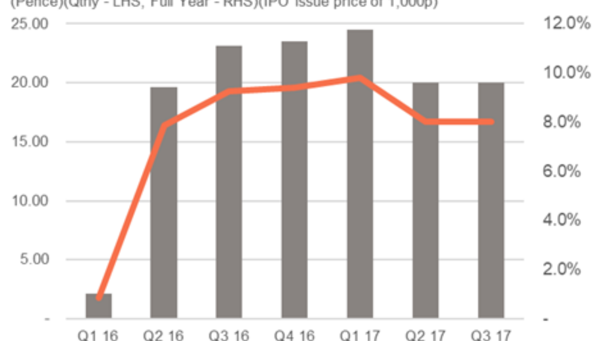
The financial performance of the Group has been strong. Investment income during 2017 was £31.8 million (2016: £17.8 million), an increase of 78 per cent, which has been driven by balances of investment assets increasing to £356.8 million at the year-end (2016: £162.6 million). Earnings for the year were £21.0 million (2016: £11.8 million), an increase of 77 per cent which is reflective of low levels of impairments and leverage of the fixed cost base. This translated into basic earnings per share of 81.2 pence (2016: 94.0 pence), and NAV return of 9.11 per cent (2016: 7.80 per cent) for the year, which benefited by 1.03 per cent from the issuance of shares at a premium in May 2017. This reflects the high levels of deployment and of the underlying assets having performed in line with expectations.

In our initial guidance issued at the time of the Company's initial public offering, we stated that we were targeting a dividend yield of at least 8 per cent (based on issue price). As shown in the charts, we have outperformed this guidance.

Annualised Quarterly and Full Year NAV Returns (%)



Dividend Per Share and Annualised Fully Diluted Yield
(Pence)(Qtrly - LHS, Full Year - RHS)(IPO issue price of 1,000p)



After initial listing costs, the Company had a NAV of 982 pence per share at the time of listing, with the NAV per share (cumulative of income) growing to 1,014 pence per ordinary share at 31 December 2016. The Company has continued to see NAV per share (cumulative of income) grow and by 31 December 2017 it reached 1,018 pence, which, including dividends declared or paid, is equivalent to a NAV return of 17.2 per cent since inception. Additionally, the share price of the Company at 31 December 2017 was 1,157.5 pence per share, representing a 13.7 per cent premium to NAV (cumulative of income). We are pleased that the Company is trading ahead of its net asset position, which we hope reflects the strong underlying performance we have seen so far this year. Performance and dividend history can be seen in the table below.

On 1 January 2018 the Group implemented and transitioned to IFRS 9. The Investment Manager implemented a comprehensive programme that focused on the key areas affected. The impact equates to 0.75 per cent of year-end NAV. More details can be found on pages 61 to 65.

To date, we have seen minimal direct impact from the UK referendum vote to leave the European Union. However, looking ahead, we continue to position ourselves to address the economic challenges and opportunities that may arise as the long-term effects of Brexit become clearer. In the current more competitive mainstream unsecured lending environment it is particularly important to maintain the prudence and discipline of our lending. In addition, with household borrowing at high levels, we intend to proceed with caution. That said, we believe that the Group's business model, combined with our approach to risk, sets it in good stead to find suitable pockets of risk adjusted return. We believe that our ability to invest in structured facilities, combined with our focus on specialist markets where we expect enhanced credit performance, will allow us to continue to deploy the Group's funds and deliver strong returns. We continue to view the future with confidence.

		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	ITD[1]
Total NAV Return	2016	0.04%	0.13%	0.19%	0.92%	0.60%	0.79%	0.68%	0.70%	0.88%	0.89%	0.92%	0.94%	**7.85%**	**7.83%**
Total NAV Return	2017	0.69%	0.69%	0.78%	0.62%	1.80%[2]	0.55%	0.65%	0.62%	0.63%	0.61%	0.61%	0.79%	**9.11%**	**17.24%**
Share Price Performance [3]	2016	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	2.05%	**2.05%**	**2.05%**
Share Price Performance [3]	2017	6.05%	10.00%	10.50%	12.50%	11.50%	17.00%	20.25%	20.75%	19.25%	18.25%	17.50%	15.75%	**15.75%**	**15.75%**
Dividend Per Share (Pence) [4]	2016	-	-	-	-	2.11	-	-	-	19.66	-	23.13	-	**44.90**	**44.90**
Dividend Per Share (Pence) [4]	2017	-	-	23.50	-	24.50[5]	-	-	-	20.00	-	-	20.00	**88.00**	**132.90**

(1) ITD: inception to date – excludes IPO Issue Costs
(2) NAV return excluding effect of capital raise and issuance at a premium would have been 0.77%
(3) Based on IPO issue price of 1000p
(4) Recognised in the month when marked ex-dividend date
(5) Based upon the number of shares at the ex-dividend date.

Top Ten Holdings

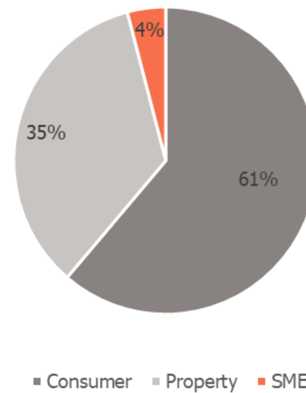
		Country	Value of holding at year-end (£m)	Percentage of assets [1]
1	1st Stop Group Limited [2]	United Kingdom	18.0	4.79%
2	IWOCA Limited	United Kingdom	14.7	3.91%
3	Amigo Loans Limited Bond Security	United Kingdom	10.3	2.73%
4	Hiber Limited [3] [4]	United Kingdom	8.5	2.24%
5	Amicus Finance plc	United Kingdom	5.8	1.54%
6	Freedom Finance Limited [2] [4]	United Kingdom	2.7	0.72%
7	TMLSHC Limited	United Kingdom	2.6	0.68%
8	Pay4Later Limited trading as Deko [4]	United Kingdom	2.0	0.53%
9	Sancus Loans Limited	United Kingdom	1.4	0.38%
10	D&B Finance Limited	United Kingdom	1.1	0.29%

(1) Percentage of total investment assets of the Group (investment assets calculated as the carrying balance of all credit assets and related investments).
(2) 1st Stop Group Limited and Freedom Finance Limited are also portfolio companies of funds managed or advised by the Investment Manager.
(3) Value of holding is a combination of debt and equity investment.
(4) Indicates equity investment. Hiber Limited was formerly The Green Deal Finance Company.

Portfolio Composition

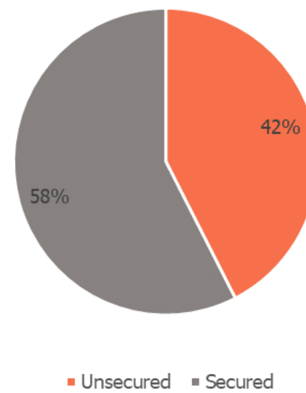
The composition of the Company's portfolio as at 31 December 2017 is set out below:

Portfolio Split by Sector (By balances)



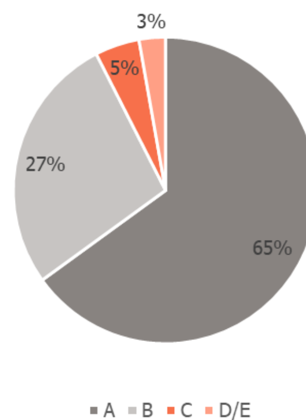
Loan Security

(excludes Equity investments)



Credit Risk Bands (By balances)

Credit Risk Bands
(excludes Equity Investments)



Geography (By balances)

All investments are located in the United Kingdom

Business Review

The strategic report on pages 3 to 21 has been prepared to help shareholders assess how the Group works and how it has performed. The strategic report has been prepared in accordance with the requirements of Section 414A to 414D of the Companies Act 2006 (the "Act"). The business review section of the strategic report discloses the Group's risks and uncertainties as identified by the Board, the key performance indicators used by the Board to measure the Group's performance, the strategies used to implement the Group's objectives, the Group's environmental, social and ethical policy and the Group's anticipated future developments.

PRINCIPAL ACTIVITY

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

STRATEGIC AND INVESTMENT POLICY

The Group's investment objective is to provide shareholders with an attractive level of dividend income and capital growth through the acquisition of loans made to consumers and small businesses as well as other counterparties, together with related investments ("Credit Assets") and selected equity investments that are aligned with the Group's strategy and that present opportunities to enhance the Group's returns from its investments ("Equity Assets").

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

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

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

Asset allocation and risk diversification

Credit Assets invested in by the Group consist of debt obligations, both secured and unsecured, within a range of sub-sectors selected based on their risk/return characteristics. These sub-categories may include, but are not limited to, personal loans, point of sale financing, home improvement loans and loans to small businesses, as well as secured loans and investments in loans to specialist lenders to provide structured finance for consumer and SME lending.

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

1. the acquisition of interests in loans (which may be secured or unsecured) to consumers, small businesses and other counterparties;
2. the acquisition of interests in seasoned portfolios of Credit Assets from third parties; and
3. the investment in loans to specialist lenders for the purposes of providing structured finance to those specialist lenders, secured against (amongst other things) granular portfolios of consumer and SME loan receivables.

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

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

INVESTMENT RESTRICTIONS

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

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

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

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

- no single Credit Asset comprising a consumer credit asset shall exceed 0.15 per cent of Gross Assets;
- no single SME or corporate loan, or trade receivable, shall exceed 5.0 per cent of Gross Assets; and
- no single facility, security or other interest backed by a portfolio of loans, assets or receivables (excluding any borrowing ring-fenced within any SPV which would be without recourse to the Company) shall exceed 20 per cent of Gross Assets. For the avoidance of doubt, this restriction shall not prevent the Group from directly acquiring portfolios of Credit Assets which comply with the other investment restrictions described in this section. The Group will not invest in Equity Assets to the extent that such investment would, at the time of investment, result in the Group controlling more than 35 per cent of the issued and voting share capital of the issuer of such Equity Assets.

Other restrictions

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

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

BORROWING

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

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

HEDGING

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

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

CASH MANAGEMENT

Whilst it is intended that the Group will be close to fully invested in normal market conditions, the Group may invest surplus capital in cash deposits, cash equivalent instruments and fixed income instruments. There is no restriction on the amount of cash or cash equivalent instruments that the Group may hold and there may be times when it is appropriate for the Group to have a significant cash position instead of being fully or near fully invested. As at 31 December 2017 the Group held £16.9 million of its assets in cash.

BUSINESS MODEL

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

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

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

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

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

FUTURE DEVELOPMENTS

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

PREMIUM/DISCOUNT MANAGEMENT

The Board closely monitors the premium or discount at which the Company's ordinary shares trade in relation to the Company's underlying Net Asset Value and takes action accordingly. During the year under review the Company's ordinary shares traded at a premium to its underlying Net Asset Value throughout the year. The Board is of the view that an increase of the Company's ordinary shares in issue provides benefits to shareholders, including a reduction in the Company's administrative expenses on a per share basis and increased liquidity in the Company's shares. In order to satisfy natural demand in the market during the year the Board authorised the issue of 10 million shares.

On 18 December 2015, the Board was granted authority to issue up to 20 million ordinary shares and / or C shares in aggregate prior to the conclusion of the Company's first annual general meeting ("AGM"). In addition, the Board was authorised to issue and allot up to 25 million C shares on a non-pre-emptive basis from the conclusion of the first AGM of the Company, such authority to expire at the conclusion of the fourth AGM of the Company. Shareholders' pre-emption rights over this unissued share capital have been disapplied so that the Board will not be obliged to offer any newly issued shares to shareholders pro rata to their existing holdings. The reason for this is to retain flexibility to issue new shares to investors. Notwithstanding this authority, no ordinary shares will be issued (whether on a pre-emptive basis to existing shareholders or otherwise) under this authority at a gross price which is less than the Net Asset Value per existing ordinary share at the time of their issue. The Board's authority to allot ordinary shares was renewed and increased at the Company's first AGM on 2 June 2017 where the board was granted authority to allot and issue up to 40 million ordinary shares (on a non-pre-emptive basis). This authority applies until the end of the Company's second AGM (or, if earlier, until the close of business on 31 August 2018).

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

As a means of addressing the discount to Net Asset Value at which the Company's shares may, from time to time, trade, shareholders have authorised the Company to buy back ordinary shares (up to a maximum of 14.99 per cent of the shares in issue as at 21 April 2017). This authority was granted at the Company's first AGM and applies until the end of next year's AGM (or, if earlier, until the close of business on 31 August 2018). As the Company's shares traded at a premium to Net Asset Value throughout the year under review, no repurchases were made. At the forthcoming AGM the Board will seek to renew the Company's powers to buy back ordinary shares.

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

CORPORATE AND OPERATIONAL STRUCTURE

Corporate Structure

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

Operational and portfolio management

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

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

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

Alternative Investment Fund Managers Directive ("AIFMD")

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

Donations

The Company made no political or charitable donations during the year under review to organisations either within or outside the EU (2016: None).

Environment, human rights, employee, social and community issues

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

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

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

Modern Slavery Act

The Company is not within the scope of the Modern Slavery Act 2015 because it has insufficient turnover and is therefore not obliged to make a human trafficking statement.

BOARD DIVERSITY

During the year to 31 December 2017 the Board of Directors consists of three non-executive Directors, none of whom are female. The Board seeks to appoint new Directors on the basis of merit as a primary consideration, with the aim of bringing an appropriate range of skills and experience together.

Principal Risks and Uncertainties

The Company is exposed to a number of potential risks and uncertainties. The risks and uncertainties faced by the Group are deemed to be the same as those faced by the Company. These risks could have a material impact on financial performance and position and could cause actual results to differ materially from expected and historical results.

The Company faces a number of risks in the normal course of business and as a result the management of the risks we face is central to everything we do. The Board has carried out a robust assessment of its risks and controls and in doing so, has established a robust process to identify and monitor the risks faced by the Company. The process involves the maintenance of a risk register, which identifies the risks facing the Company and assesses each risk on a scale, classifying the probability of the risk and the potential impact that an occurrence of the risk could have on the Company. The risk register was last reviewed by the Board on 27 April 2018. The day-to-day risk management functions of the Company have been delegated to the Investment Manager, which reports to the Board.

OPERATIONAL RISKS

Third Party Service Providers

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

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

Mitigation

Day-to-day oversight of third party service providers is exercised by the Investment Manager and reported to the Board on a quarterly basis. As appropriate to the function being undertaken, each of the service providers is subject to regular performance and compliance monitoring. The performance of the Investment Manager in its duties to the Company is subject to ongoing review by the Board on a quarterly basis as well as formal annual review by the Company's Management Engagement Committee.

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

Reliance on key individuals

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

Mitigation

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

Fluctuations in the market price of the Company's shares

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

Mitigation

The Investment Manager and the Board closely monitor the level of discount or premium at which the Company's shares trade on the open market. The Company may purchase the shares in the market with the intention of enhancing the Net Asset Value per ordinary share. However, there can be no assurance that any repurchases will take place or that any repurchases will have the effect of narrowing any discount to Net Asset Value at which the ordinary shares may trade. When the Company's shares trade at a premium the Company may issue shares to reduce the premium at which shares trade. As at 31 December 2017 the Company's shares were trading at a premium to Net Asset Value.

INVESTMENTS

Achievement of the Investment Objective

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

Mitigation

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

Borrowing

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

Mitigation

The Investment Manager and the Board closely monitors the level of gearing of the Company. The Company has a maximum limitation on borrowings of 100 per cent of Net Asset Value (calculated at the time of draw down) which the Investment Manager may affect at its discretion. As at the date of this report, the Company had a target leverage ratio of 50 to 75 per cent of Net Asset Value and had £56.5 million drawn representing 18.5 per cent of NAV.

Exposure to Credit Risk

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

Mitigation

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

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

Interest Rate Risk

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

Mitigation

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

Liquidity of Investments

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

Mitigation

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

REGULATIONS

Tax

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

Mitigation

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

Breach of applicable legislative obligations

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

Mitigation

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

Key Performance Indicators (KPIs)

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

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

APPROVAL

The Strategic Report was approved by the Board of Directors on 27 April 2018 and signed on its behalf by:

Robert Sharpe
Chairman

2 Directors' Report

Board of Directors

ROBERT SHARPE [1]

Chairman of the Board and the Management Engagement Committee and a member of the Audit Committee

Robert Sharpe (Chairman) (independent) (aged 68)

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

JIM COYLE [1]

Chairman of the Audit Committee and member of the Management Engagement Committee

Jim Coyle (independent) (aged 61)

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

RAVI TAKHAR [1]

Member of the Audit and Management Engagement Committees

Ravi Takhar (independent) (aged 52)

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

[1] Appointed 14 December 2015

Statutory Information

The Directors of Honeycomb Investment Trust plc (Registered: 09899024) present their report and audited financial statements of the Company and its subsidiary (together, the "Group") for the year ended 31 December 2017. The shares are listed on the Specialist Fund Segment of the London Stock Exchange.

BOARD MEMBERS, AND DIRECTORS' AND OFFICERS' INSURANCE

The names and biographical details of the Board members who served on the Board as at the year-end can be found on page 23.

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

STATUS OF THE COMPANY

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

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

The Company is an externally managed closed-ended investment company with an unlimited life and has no employees (2016: no employees).

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

INTERNAL CONTROLS AND RISK MANAGEMENT

The Board has established an ongoing process for identifying, evaluating and managing risk on behalf of the Company. Further details of the Company's principal risks and uncertainties can be found in the Strategic Report on pages 3 to 21 and details of the Company's internal controls can be found on pages 33 to 34. Details of the Company's hedging policies are set out in the Strategic Report on page 15.

SHARE CAPITAL – VOTING AND DIVIDEND

As at 31 December 2017, the Company had 29,926,110 ordinary shares in issue. There are no other classes of shares in issue and no shares are held in Treasury.

On 2 June 2017, at the Company's first AGM, the Board was granted authority to allot the Company's ordinary shares or grant rights to subscribe for, or convert any security into ordinary shares in the Company up to a maximum nominal amount of £400,000 representing 40,000,000 ordinary shares. The authority will expire (unless previously renewed, varied or revoked) on the conclusion of the 2018 annual general meeting of the Company (or, if earlier, at the close of business on 31 August 2018).

During the year under review a total of 10,000,000 ordinary shares were issued as detailed below:

	Shares issued	Price paid per share (pence)	Premium to net asset value (%) [1]
31 May 2017	10,000,000	1,050.0	3.0%

[1] Last published NAV at time of issue

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

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

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

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

No final dividend is being recommended. The Company's policy is to pay dividends on a quarterly basis, as set out in the Company's prospectuses dated 18 December 2015 and 25 May 2017 (the "Prospectus"). The dividends paid or payable in respect of the year ended 31 December 2017 are set out Note 9 to the financial statements. A reconciliation of movements in reserves is presented in the Consolidated Statement of Changes in Shareholders' Funds on page 55 of the financial statements. The Company may make distributions from the Revenue Reserve, the Special Distributable Reserve or from realised capital gains. There were no unrealised gains in the year.

SUBSTANTIAL SHARE INTERESTS

As at 31 December 2017, the Company had been notified in accordance with Disclosure Guidance and Transparency Rule 5 of the following interests in the voting rights attaching to the Company's issued share capital.

Holder	Ordinary shares	Percentage of total voting rights
Invesco Ltd	10,857,945	36.28%
Old Mutual Global Investors (UK) Ltd	7,350,064	24.56%
Woodford Investment Management LLP	5,449,373	18.21%
M&G Investments	1,697,857	5.67%

Following the year-end, the Company received a further notification that Woodford Investment Management Limited had increased its shareholding to 5,757,254 ordinary shares on 23 January 2018. This increased the percentage of voting rights to 19.23 per cent.

INDEPENDENT AUDITORS

The Company's independent auditors, PricewaterhouseCoopers LLP ("PwC"), were re-appointed at the Company's first AGM and have expressed willingness to continue to act as the Company's auditors for the forthcoming financial year. The Audit Committee has carefully considered the auditors' appointment, as required in accordance with its Terms of Reference, and, having regard to its effectiveness and the services it has provided the Company during the year under review, has recommended to the Board that the independent auditors be appointed at the forthcoming 2018 AGM. At the 2018 AGM resolutions are therefore to be proposed for the appointment of the independent auditors and to authorise the Directors to agree its remuneration for the forthcoming financial year. In reaching its decision, the Audit Committee considered the points detailed on pages 35 to 37 of the Audit Committee's report.

AUDIT INFORMATION

As required by section 418 of the Companies Act 2006, the Directors who held office at the date of this report each confirm that, so far as they are aware, there is no relevant audit information of which the Company's auditor are unaware and each Director has taken all the steps required of a Director to make themselves aware of any relevant audit information and to establish that the Company's auditor are aware of that information.

ARTICLES OF ASSOCIATION

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

GOING CONCERN

The Directors have reviewed the financial projections of the Company and the Group from the date of this report, which shows that the Company and Group will be able to generate sufficient cash flows in order to meet its liabilities as they fall due. Accordingly, the Directors are satisfied that the going concern basis remains appropriate for the preparation of the financial statements. The Company and the Group also has detailed policies and processes for managing the risk, set out in the Strategic Report on pages 18 to 20.

VIABILITY STATEMENT

In accordance with Principle 21 of the Association of Investment Companies Code of Corporate Governance published in February 2015 and provision C.2.2 of the UK Corporate Governance Code, published by the Financial Reporting Council in April 2016 (the "Code"), the Directors have assessed the prospects of the Company over a three-year period ending December 2020. The Board believes this period to be appropriate taking into account the current trading position and the potential impact of the principal risks that could affect the viability of the Group.

At the year-end, the Group had cash balances of £16.9 million, giving it £12.1 million excess cash to current liabilities. The Company also has £289.2 million excess of non-current assets to non-current liabilities. There are therefore limited risks to the viability of the Group.

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

The analysis indicates that due to the stability and cash generating nature of the portfolios and structured agreements, as well as the debt facilities in place, the Group would be able to withstand the impact of the risks identified. Based on the robust assessment of the principal risks, prospects and viability of the Group, the Board confirms that they have reasonable expectation that the Group will be able to continue operation and meet its liabilities as they fall due over the three-year period ending December 2020. The Board also continuously monitors the financial performance of the Group against key financial ratios ensuring a strict discipline in the financial management of the business.

MANAGEMENT AND ADMINISTRATION

Company Secretary

The Company's Company Secretary is Apex Fund Services (UK) Ltd (the "Company Secretary"). Under the terms of the administration agreement, the fee for the provisions of the Company Secretary's services will be included in the fee payable to the administrator.

Administrator

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

Under the terms of the administration agreement, the Administrator charges a fee for its fund administration services equal to the greater of: (i) £5,305 per month (increased by 3 per cent on 1 January in each year); and (ii) an amount equal to the sum of 1/12 of 0.06 per cent of the portion of Net Asset Value up to £150 million, and 1/12 of 0.05 per cent of the excess of Net Asset Value above £150 million. The Administrator is also entitled to reimbursement of all reasonable out of pocket expenses incurred by it in connection with the performance of its duties. The administration agreement can be terminated by either party by providing 90 days' written notice.

Investment Manager

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

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

For as long as the Origination Partner is part of the same group as the Investment Manager the fees payable to the Origination Partner, which are calculated as a percentage of the purchase price for each Credit Asset acquired by the Company from the Origination Partner, shall be deducted from the management fee payable to the Investment Manager. There was £nil payable to the Origination Partner at 31 December 2017 and 2016.

Depositary

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

(A) where NAV is less than or equal to £200 million, 0.02 per cent. of NAV per annum, subject to a minimum monthly fee of £2,500; and

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

i. 0.0175 per cent. per annum of that part of NAV which is in excess of £200 million but less than or equal to £400 million; plus

ii. 0.015 per cent. per annum of that part of NAV which is in excess of £400 million.

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

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

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

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

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

The Company entered into an amended Depository Agreement enabling it to delegate certain custody functions to Sparkasse Bank Malta plc (the "Custodian") on 17 November 2017. The Depositary is primarily liable to the Company and investors for losses of financial instruments held by the by the Custodian, however, the Company and Investment Manager have permitted the transfer of that obligation to the Custodian in compliance with articles 21(13) or 21(14) of the AIFMD. The Depositary has transferred such obligation and therefore the Custodian, and not the Depositary, will be liable to the Company for a loss of financial instruments held in custody, but the Depositary must take reasonable steps to pursue and enforce any associated claim on behalf of the Company.

Corporate broker and financial adviser

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

CHANGE OF CONTROL

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

SUBSEQUENT EVENTS

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

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

On 8 March 2018 the Company announced a supplementary prospectus in connection with the publication of the Company's interim report and financial statements.

The Company increased the size of its debt facility on 21 March 2018 to a committed £150 million within the existing syndicate. The facility is secured upon the assets of the Company, has a term of two years and interest is charged at one, three or six-month LIBOR plus a margin.

On 29 March 2018, a dividend of 20.0 pence per ordinary share was paid.

On 12 April 2018, a dividend of 20 pence per ordinary share was declared, payable on 29 June 2018.

On 19 April 2018, the Company announced its intention to proceed with a placing of 9,523,809 ordinary shares at a price per share of 1,050 pence per share. That placing closed the same day, with admission becoming effective on 23 April 2018.

DONATIONS

The Company made no political or charitable donations during the year under review to organisations either within or outside the EU (2016: None).

FUTURE DEVELOPMENTS

Indications of likely future developments in the business of the Company are set out in the Strategic Report on pages 3 to 21.

REGULATORY DISCLOSURES

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

Listing Rule	
9.8.4 (1) – capitalised interest	The Company has not capitalised any interest in the year under review.
9.8.4(2) – unaudited financial information	The Company published a supplementary prospectus approved by the UK Listing Authority on 8 March 2018. The publication of the Supplementary Prospectus is a regulatory requirement under the Prospectus Rules following the publication of the Company's interim report and unaudited financial statements for the period from 1 January 2017 to 30 June 2017. It does not constitute a profit forecast or profit estimate in accordance with listing rule 9.2.18.
9.8.4 (4) – incentive schemes	The Company has no incentive schemes in operation.
9.8.4 (5) and (6) - waiver	No Director of the Company has waived or agreed to waive any current or future emoluments from the Company.
9.8.4 (7), (8) and (9)	During the year under review, the Company issued a total of 10,000,000 ordinary shares with a nominal value of £100,000 and an average price of 1,050.0 pence per share for a total consideration of £105,000,000. Further details can be found on page 24.
9.8.4 (8) and 9.8.4 (9) – relate to companies that are part of a group of companies	These Listing Rules do not apply to the Group.
9.8.4 (10) – contract of significance	During the year under review, there were no contracts of significance subsisting to which the Company is a party and in which a Director of the Company is or was materially interested or between the Company and a controlling shareholder.
9.8.4 (11)	The Company is not party to any contracts for the provision of services to the Company by a controlling shareholder.
9.8.4 (12) and (13) – waiving dividends	During the year under review, there were no arrangements under which a shareholder has waived or agreed to waive any dividends or future dividends.
9.8.4 (14)	As set out in the Prospectus, the Company has not voluntarily adopted Listing Rule 9.8.4(14).

By order of the Board

Apex Fund Services (UK) Ltd

Company Secretary

27 April 2018

Corporate Governance Statement

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

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

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

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

STATEMENT OF COMPLIANCE

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

The UK Code includes provisions relating to:

- The role of the chief executive;
- Executive Directors' remuneration;
- The senior independent Director;
- The need for an internal audit function; and
- The requirement for separate Nomination Committee.

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

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

The Board does not, at present, consider that separate Nomination Committee would be appropriate at this stage in the Company's life and given the Board's size, being three members in total. Currently, decisions concerning the Board's nomination and Board appraisals are undertaken by the Board as a whole. However, the need for a separate Nomination Committee and an internal audit function will be considered on an annual basis.

THE BOARD OF DIRECTORS

The Board consists of three Directors, all of whom are independent non-executive Directors. Biographies of the Directors are shown on page 23 and demonstrate the wide range of skills and experience that they bring to the Board. The Directors possess business and financial expertise relevant to the direction of the Company and consider themselves to be committing sufficient time to the Company's affairs.

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

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

Copies of the letters of appointment are available on request from the Company Secretary and will be available at the Company's 2018 AGM.

The Chairman, Robert Sharpe, is independent and considers himself to have sufficient time to commit to the Company's affairs. The Chairman's other commitments are detailed in his biography on page 23.

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

THE OPERATION OF THE BOARD

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

The table below sets out the Directors' attendance at Board and Audit Committee meetings during the year under review, against the number of meetings each Board or Audit Committee member was eligible to attend during the year under review. All Directors attended the annual Management Engagement Committee meeting held prior to the publication of this Annual Report.

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

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

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

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

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

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

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

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

Independence of Directors

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

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

Directors' interests

No Director holds shares in the Company.

Board evaluation

The performance of the Board, its committees and Directors was reviewed by the Remuneration Committee in February 2018. Any training needs identified as part of the Board evaluation process will be added to the agenda of the next Board meeting.

Board training and induction

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

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

Board appointment, election and tenure

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

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

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

The Board considers that all of the current Directors contribute effectively to the operation of the Board and the strategy of the Company. The Board has considered each Board member's independence from the Company and Investment Manager. As such the Board believes that it is in the best interests of shareholders that each of the Directors be re-elected at the forthcoming AGM. The next AGM will be held at 8 June 2018.

MANAGEMENT AGREEMENT AND CONTINUING APPOINTMENT

Details of the Investment Manager's agreement and fees are set out in Note 6 to the financial statements on page 68.

The Board keeps the performance of the Investment Manager under continual review. The Company's Management Engagement Committee undertook its annual appraisal of the manager during the year under review on 20 February 2018. The Management Engagement Committee recommended to the Board that the appointments of all the Company's third-party service providers continue. It was felt that their appointment was in the best interests of the shareholders as the Investment Manager had performed in line with expectations and the Board is of the opinion that the continuing appointment of the Investment Manager on the terms agreed is in the interests of the Company's shareholders as a whole.

CONFLICTS OF INTEREST

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

Audit Committee

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

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

Further details on the work of the Audit Committee can be found in the report of the Audit Committee on pages 35 to 37.

Management Engagement Committee

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

COMPANY SECRETARY

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

REVIEW OF SHAREHOLDER PROFILE

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

RELATIONS WITH SHAREHOLDERS

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

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

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

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

INTERNAL CONTROL REVIEW

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

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

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

The Company has established a risk matrix, consisting of the key risks and controls in place to mitigate those risks. The Board confirms that there is an ongoing process for identifying, evaluating and managing the principal risks faced by the Company. Details of the Company's risks can be found on pages 18 to 20 of the Directors' Report, together with an explanation of the controls that have been established to manage each risk. The risk matrix provides a basis for the Audit Committee

and the Board to regularly monitor the effective operation of the controls and to update the matrix when new risks are identified.

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

ALTERNATIVE INVESTMENT FUND MANAGEMENT DIRECTIVE DISCLOSURE

Quantitative remuneration disclosure

In accordance with 3.3.5 (5) of the FCA's Investment Funds Sourcebook ("FUND") and in accordance with FCA Finalised guidance – General guidance on the AIFM Remuneration Code (SYSC 19B) ("the Guidelines"), dated January 2014, the total remuneration paid by Group companies which include the AIFM during the year was £13.5 million, split £8.2 million in variable and £5.3 million in fixed remuneration. During the year, the average number of beneficiaries at the Group which includes the AIFM were 38 and the aggregate amount of remuneration paid in relation to the Senior Management of the firm was £5.7 million. Fixed remuneration is amounts paid as salaries. Variable remuneration is amounts paid under bonus arrangements and distributions. The AIFM does not consider that any individual member of staff of the AIFM has the ability to materially impact the risk profile of the Company.

Other disclosures

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

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

Periodic disclosure (FUND 3.2.5 and 3.2.6)

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

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

The current risk profile of the Group is set out in the Strategic Report: Principal Risks and Uncertainties on pages 18 to 20 and in note 25 Financial Risk Management on pages 79 to 81.

The Company and Group is permitted to be leveraged and has borrowing restrictions in place. In accordance with the Company's prospectuses dated 18 December 2015 and 25 May 2017 (the "Prospectus"), the Group has a maximum limit of 100 per cent of NAV, the actual leverage employed by the Group as a percentage of NAV was 28.9 per cent. There have been no breaches of the permitted leverage limits within the year and no changes to maximum level of leverage employed by the Group.

The table below sets out the current maximum permitted and actual leverage under the gross and commitment method in accordance with Annex IV Article 8 of the AIFMD. This differs from the Group's borrowing restriction, which is an absolute measure. The gross and commitment method are ratios between the Group's gross assets and NAV. The gross method represents the sum of the Group's positions (total assets) after deducting cash balances. The commitment method represents the sum of the Group's positions without deducting cash balances. The Group is required to state its maximum and actual leverage levels, calculated as prescribed by the AIFMD as at 31 December 2017, and are as follows:

As a percentage of net asset value	Gross method	Commitment method
Maximum level of leverage	200%	200%
Leverage as at 31 December 2017	121%	126%

Other matters

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

APPROVAL

This Directors' Report was approved by the Board of Directors on 27 April 2018.

On behalf of the Board
Robert Sharpe
Chairman

27 April 2018

Report of the Audit Committee

As Chairman of the Audit Committee I am pleased to present the Audit Committee report for the year ended 31 December 2017.

MEMBERSHIP OF THE AUDIT COMMITTEE

The Audit Committee comprises all Directors and is chaired by Jim Coyle. Please see page 23 for the members biography's. All members of the Committee have recent and relevant financial experience, as a result of their involvement in financial services and other industries.

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

THE ROLE OF THE AUDIT COMMITTEE

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

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

Matters considered during the year

The Audit Committee has met four times during the year under review (please see page 31 for members attendance) and considered the following items:

- The Group's Audited Annual Report and Financial Statements for the year ended 31 December 2017 and advised the Board accordingly;
- The Company's half-year financial statements for the period ended 30 June 2017 and advised the Board accordingly;
- The Group's audit plan with the external auditors;
- The policy on non-audit services;
- Monitored the Investment Manager's preparation for the revised impairment approach required by IFRS 9;
- In order to support the Board's approval of the viability statement on page 26 as to the longer-term viability of the Group, the Committee reviewed papers from the Investment Manager supporting the viability statement;
- The Company's dividend policy; and
- The Investment Manager's whistleblowing policy.

The Audit Committee also reviewed the following items:

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

UK non-audit services

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

During the year, the auditors provided reporting accountant services on the prospectus dated 25 May 2017 in relation to the Company's subsequent further issuance of ordinary shares. These non-audit fees amounted to £54,915 (2016: £95,000).

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

SIGNIFICANT ACCOUNTING MATTERS

The Audit Committee met on 20 April 2018 to review the report and accounts for the year ended 31 December 2017. The Audit Committee considered the following significant issues, including principal risks and uncertainties in light of the Company's activities and issues communicated by the Auditors during their audit, all of which were satisfactorily addressed:

Issue considered	How the issue was addressed
Risk of misappropriation of assets and ownership of investments	The Audit Committee reviews reports from its service providers on key controls over the assets of the Group. Any significant issues are reported to the Board by the Investment Manager or the Company's Depositary. The Investment Manager has put in place procedures to ensure that investments can only be made to the extent that the appropriate contractual and legal arrangements are in place to protect the Group's assets. The Company's Depositary issues a quarterly report on the status of the assets to the Directors for review.
The risk that income is overstated, incomplete or inaccurate through failure to recognise proper income entitlements or to apply the appropriate accounting treatment for recognition of income.	The Board regularly reviews income statements from the Investment Manager. The Investment Manager reviews income performance against budget on a monthly basis and reviews its recognition policies for appropriateness and accuracy on a regular basis to ensure they meet the accounting policy set out in Note 2 of the financial statements.
The risk that impairment losses are understated, incomplete or inaccurate through failure to implement proper impairment policies or to apply the appropriate accounting treatment	The Board regularly reviews impairment losses prepared by the Investment Manager. The Investment Manager reviews impairment performance on a monthly basis and reviews its impairment policy for appropriateness and accuracy on a regular basis to ensure they meet the accounting policy set out in Note 2 of the financial statements.
The risk of material misstatement of expected credit losses under IFRS 9 Financial instruments	The roll out of the IFRS 9 implementation programme was a key focus of the Committee with the bulk of the testing and implementation taking place in 2017. During the year the Committee received regular reports on the progress of this project and challenged the Investment Manager to ensure its implementation runs smoothly. The Committee received regular updates through the year on the Investment Manager's progress in preparation for the introduction of IFRS 9 which will require provisioning methodology to take into account future expected losses. As the group enters the 2018 financial year, the Committee will continue to monitor progress closely. Further disclosure around the progress is outlined in Note 1 of the financial statements.
Retention of Investment Trust Status	The Audit Committee receives a report from the Company's administrators and Investment Manager confirming if the Company has remained compliant with the requirements to maintain its Investment Trust status. HMRC approved the investment status of the Company. The Directors regularly review the investments and their mix to ensure they remain diversified, its retained income levels to ensure sufficient distributions are made and the Company's shareholdings to determine if the Company has become a close company.

External auditors

The Company's external auditors, PricewaterhouseCoopers LLP ("PwC"), were appointed on 16 May 2016 and re-appointed on 2 June 2017 at the Company's first AGM. Under the Financial Reporting Council's transitional arrangements, the Company is required to re-tender, at the latest, by 2025. The Audit Committee intends to re-tender within the timeframe set by the Financial Reporting Council. Due to the short period of time since PwC was appointed, it is not considered appropriate to consider PwC's succession at this point in time.

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

The audit fees for the year under review can be found in Note 7 to the financial statements on page 69.

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

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

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

Internal audit

The Audit Committee believes that the Company does not require an internal audit function, principally because the Company delegates its day-to-day operations to third parties, which are monitored by the Audit Committee, and which provide control reports on their operations at least annually.

APPROVAL

This Report was approved by the Audit Committee on 27 April 2018.

Jim Coyle
Chairman of the Audit Committee

27 April 2018

Directors' Remuneration Report

STATEMENT FROM THE CHAIRMAN

The Remuneration Committee comprises all Directors and is chaired by Robert Sharpe. Please see page 23 for the members biography's, and page 31 for members attendance.

I am pleased to present the Directors' remuneration report for the year ended 31 December 2017, prepared in accordance with The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 and the Companies Act 2006. The Company's auditors are required to verify certain information within this report subject to statutory audit by the Companies Act 2006. Where information set out below has been audited it is indicated as such.

We are required to seek shareholder approval of the Directors' remuneration policy at least every third year and the remuneration report annually. Any changes to the Directors' remuneration policy will require shareholder approval. An ordinary resolution was passed to approve the Directors' remuneration policy at the Company's first AGM held on 2 June 2017. This policy was adopted at that meeting with effect from the date of the AGM and remained in force for the year ended 31 December 2017 and will remain in force for the two subsequent years. An ordinary resolution to approve the Directors' remuneration policy will be put to shareholders at least once every three years. At the 2018 AGM, shareholders will also be asked to consider an advisory resolution on the contents of the Directors' remuneration report.

As at 31 December 2017, the Board comprised three non-executive Directors, all of whom are independent of the Investment Manager.

Given the size of the Board, and as the Company has no employees, it is not considered appropriate for the Company to establish a separate Nomination Committee. It is the responsibility of the Remuneration Committee to consider and approve Directors' remuneration. At the start of the year the Directors remuneration was set at a rate of £30,000 per annum for the Chairman and £25,000 per annum for the other Directors. During the year the Remuneration Committee considered the time commitment required to carry out their duties and approved an increase of the Board's fees from 1 April 2017. The Directors remuneration was set at a rate of £40,000 per annum for the Chairman and £33,000 per annum for the other Directors. A further £5,000 per annum will be paid to the Chairman of the Audit Committee. The Remuneration Committee met on 20 February 2018 and considered the continued time commitment required to carry out their duties and has approved an increase of the Board's fees by £5,000 per member from 1 March 2018. The Directors remuneration was set at a rate of £45,000 per annum for the Chairman and £38,000 per annum for the other Directors. A further £5,000 per annum will be paid to the Chairman of the Audit Committee. Many parts of The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 do not apply to the Company as the Board is comprised entirely of non-executive Directors and the Company has no employees. The Board has considered and approved a formal policy for the approval of Directors' expenses.

DIRECTORS' REMUNERATION POLICY

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

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

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

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

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

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

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

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

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

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

VOTING AT ANNUAL GENERAL MEETING

The Directors' Remuneration Report for the year ended 31 December 2016 and the Directors' Remuneration Policy were approved by shareholders at the Annual General Meetings held on 2 June 2017. The votes cast by proxy were as follows:

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

The Directors' remuneration report, including the implementation of the Directors' remuneration policy, is subject to an annual advisory vote via an ordinary resolution. An advisory vote is a non-binding 'advisory' resolution. In the event that shareholders vote against the 'advisory' resolution, the Board will be required to put its remuneration policy to shareholders for approval at the next AGM, regardless of whether the remuneration policy was approved by shareholders. The votes cast at the 2018 AGM on the advisory resolutions will be disclosed in the remuneration report for the year to 31 December 2018.

DIRECTORS' FEES (AUDITED)

Single total aggregate Directors' remuneration for the year under review was £103,250 (2016: £93,593). The Directors who served during the year under review received the following emoluments:

Director	Fees paid during the year under review [1]	Taxable benefits	Non-taxable benefits	31 December 2017	31 December 2016
Robert Sharpe (Chair)	£37,500	-	-	£37,500	£31,844
Jim Coyle	£34,750	-	-	£34,750	£26,537
Ravi Takhar	£31,000	-	-	£31,000	£26,537
Mark Huggins [2]	-	-	-	-	£8,675
Total	**£103,250**	**-**	**-**	**£103,250**	**£93,593**

[1] Fees paid to the Directors during the year under review does not include any employment taxes or valid business expenses. Prior period comparatives include fees paid from 2 December 2015 (date of incorporation).
[2] Mark Huggins was appointed on 14 December 2015 and resigned 13 April 2016.

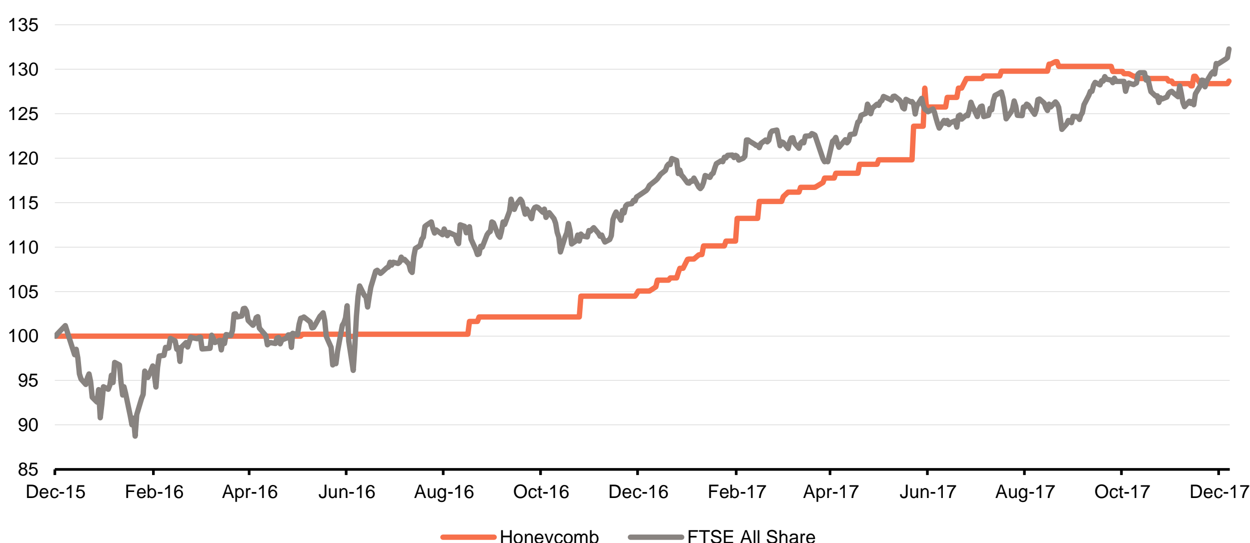
No payments were made to past Directors for loss of office. In the absence of further major increases in the workload and responsibility involved, the Board does not expect fees to increase significantly over the next three years. The overall remuneration of each Director will continue to be monitored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

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

Company Performance

The Board is responsible for the Company's investment strategy and performance, although day-to-day management of the Company's affairs, including the management of the Company's portfolio, has been delegated to third-party service providers. An explanation of the performance of the Company is given in the Chairman's statement on page 8 and Investment Manager's review on pages 9 to 10.

The graph below shows the total return to ordinary shareholders compared to the total shareholder returns of the FTSE All Share Index during the year. This index has been selected as the most relevant, although there is no listed index that is directly comparable to the Company's portfolio.



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

The following table is provided in accordance with The Small and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 which sets out the relative importance of spend on pay in respect of the year ended 31 December 2017. The table shows the remuneration paid to Directors for the year under review, compared to the distribution payments to shareholders.

	31 December 2017 £'000	Period Since incorporation (2 December 2015) to 31 December 2016 £'000
Total remuneration paid to Directors	103	94
Shareholder distributions – dividends or share buybacks	21,535	6,735

DIRECTORS' INTERESTS (AUDITED)

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

As at 31 December 2017, the Directors do not hold shares in the Company.

There have been no changes to any holdings between 31 December 2017 and the date of this report.

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

The Annual Report on remuneration was approved by the Board on 27 April 2018 and signed on behalf of the Board by:

Robert Sharpe
Chairman of the Remuneration Committee

27 April 2018

Statement of Directors' responsibilities in respect of the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group and Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed for the Group and Company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The Directors are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

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

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

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

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

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

Signed on behalf of the Board by

Robert Sharpe
Chairman

27 April 2018

Independent Auditors' Report to the members of Honeycomb Investment Trust plc

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

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

- give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2017 and of the Group's profit and the Group's and the Company's cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union and, as regards the Company's financial statements, as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual Report and Audited Financial Statements (the "Annual Report"), which comprise: the Consolidated and Company Statements of Financial Position as at 31 December 2017; the Consolidated Statement of Comprehensive Income, the Consolidated and Company Statements of Cash Flows, and the Consolidated and Company Statements of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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

Basis for opinion

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

Independence

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

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

Other than those disclosed in the Report of the Audit Committee on pages 35 to 36, we have provided no non-audit services to the Group or the Company in the period from 1 January 2017 to 31 December 2017.

Our audit approach

Overview

Materiality	Overall Group materiality: £3.0 million (2016: £2.0 million), based on 1% of net assets. Overall Company materiality: £3.0 million (2016: £2.0 million), based on 1% of net assets.
Audit scope	The Group and Company engages Pollen Street Capital Limited (the "Investment Manager") to manage its assets. The Group and Parent Company invests in consumer and small business loans as well as other counterparties, together with related investments ("Credit Assets"), acquires interests in seasoned portfolios of Credit Assets from third parties and invests in loans to specialist lenders for the purposes of providing structured finance to those specialist lenders. The Group and Company also makes equity investments in lending platforms which are typically not listed. We tailored the scope of our audit taking into account the types of investments within the Group, the involvement of the Investment Manager, the accounting processes and controls, and the industry in which the Group operates.
Key audit matters	• Valuation of investments reported at amortised cost less provisions for impairment (Group and Company); • Valuation of unlisted investments reported at fair value (Group and Company); • Investment interest income (Group and Company); • Disclosure of the impact of the new IFRS 9 standard (Group and Company); and • Assessment of accounting control for the purposes of consolidation (Group).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

We gained an understanding of the legal and regulatory framework applicable to the Group and the industry in which it operates and considered the risk of acts by the Group which were contrary to applicable laws and regulations, including fraud. We designed audit procedures at Group and Company level to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

We focused on laws and regulations that could give rise to a material misstatement in the Group financial statements, including but not limited to, the Companies Act 2006, and section 1158 of the Corporation Tax Act 2010. Our tests included, but were not limited to, review of the financial statement disclosures to underlying supporting documentation, review of correspondence with regulators, and enquiries of the Investment Manager and testing the Company's compliance with section 1158 in the current year. We also tested the tax disclosures in Note 8. There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

We did not identify any key audit matters relating to irregularities, including fraud. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Valuation of investments reported at amortised cost less provisions for impairment Refer to page 59 to 61 (Principal Accounting Policies), pages 65 and 67 (Significant Accounting Judgements, Estimates and Assumptions), pages 71 to 73 (Note 11) and page 36 (Report of the Audit Committee). Investments are recorded at amortised cost in the Consolidated Statement of Financial Position and amounted to £369.3 million as at 31 December 2017, the amount is net of impairment provision of £9.7 million (shown in note 11 of the financial statements). The amount reported by the Company was £345.6m, net of impairment provision of £9.7m. The impairment assessment requires estimates and significant judgements to be applied by the Directors such that changes to key inputs to the estimates and/or judgements made can result in a material change to the valuation.	We understood and assessed the methodology and assumptions applied by the Group in determining the amortised cost of investments, by reference to accounting standards and industry practice. We understood and evaluated the internal controls relating to the reconciliation, accounting and reporting of loans and receivables recorded at amortised cost less provisions for impairment. We tested the techniques used, in determining the amortised cost amount and the recognition of any impairment loss. Our testing included: • obtaining supporting information and analysis for the loan impairment assumptions used in the impairment assessment which were derived from historical data and the performance of the Group's loan portfolios; • performing testing on a sample basis to confirm the accuracy of the status of loans reported by the servicers by agreeing payments of principal and interest to underlying transactions with borrowers; and • testing the calculation of impairment provision by agreeing loan inputs to servicers' reports and re-performing the calculation using the assumptions determined by the Investment Manager. We found that the recording of investments at amortised cost was consistent with the accounting policies and that the assumptions used to calculate the impairment provision were supported by appropriate evidence.
Valuation of unlisted investments reported at fair value Refer to pages 60 and 61 (Principal Accounting Policies), page 67 (Significant Accounting Judgements, Estimates and Assumptions) and pages 73 to 74 (Note 12). The fair value of the unlisted investments ("investee companies"), which are the investments reported by the Group at fair value through profit or loss, is £7.7 million as at 31 December 2017 and reported by the Parent Company is £11.2 million as at 31 December 2017. Unlisted investments do not have readily determinable prices. The valuation methodology primarily used by the Group and Company is based on the 'price of recent investment'. The price of recent investment approach refers to any investment into that investee by the Group and Company that would give an indication of fair value. As such, the valuation of unlisted investments is judgemental, increasing the risk of material misstatement based on the size of the investments held in relation to the overall financial statements.	We understood and evaluated the valuation methodology applied, by reference to industry practice and applicable accounting standards, and tested the techniques used by the Investment Manager in determining the fair value of the unlisted investments. We understood and evaluated the internal controls surrounding valuation of unlisted investments reported at fair value. We performed the following: • Agreed the price of recent investment to supporting documentation such as purchase agreements or bank statements. • Held meetings with the Investment Manager to understand the performance of each investee company and the rationale for the valuation methodology applied. We obtained supporting financial information from the investee companies that corroborated the discussions we held with the Investment Manager. We found that the valuations of unlisted investments were supported by the audit evidence we obtained.

Investment Interest Income Refer to page 59 (Principal Accounting Policies), page 67 (Significant Accounting Judgements, Estimates and Assumptions), page 68 (Note 5) and page 36 (Report of the Audit Committee). The accuracy and occurrence of investment interest income is an area of focus for our audit given the objective of the Group to provide shareholders with an attractive level of dividend income.	We understood and evaluated the design and implementation of controls surrounding income reconciliation, accounting and reporting of interest income. Our testing procedures included the following: • We assessed the accounting policy for income recognition and determined that it was in compliance with IFRSs as adopted by the European Union; • We tested that income had been recognised in accordance with the accounting policy; • We performed sample testing on loan interest income, agreeing interest rates and maturities to supporting documentation, including loan agreements, and to cash received; and • We recalculated loan interest income recognised using the effective interest method on a sample basis. No misstatements were identified by our testing which required reporting to those charged with governance.
Disclosure of the impact of the new IFRS 9 standard Refer to page 62 to 65 (Principal Accounting Policies), and page 36 (Report of the Audit Committee). Under IAS 8, the Group is required to disclose the impact of new accounting standards where this is expected to be material. IFRS 9 requires loans to be assessed for impairment over the course of their expected lives. The standard is effective for periods beginning 1 January 2018 and the expected impact of £2.3 million is disclosed in note 1 on page 65 of the financial statements. The models and assumptions used to develop the impairment expectations are inherently judgemental and complex, heightening the risks of a material error.	We have assessed the Investment Manager's IFRS 9 impairment assessment by performing the following procedures: • Conducted a detailed review of the Investment Manager's methodology, including key assumptions and parameters to ensure it is in line with IFRS 9, and appropriate given our understanding of the portfolio; • Validated the key parameters within the models such as the probabilities of default, loss given default, and exposure at default; • Tested the integrity, completeness and accuracy of the credit loss models; and • Tested the integrity of the data used in the models and its completeness and accuracy. We found that disclosures in relation of adoption of IFRS 9 were supported by appropriate evidence.
Assessment of accounting control for the purposes of consolidation Refer to page 58 (Principal Accounting Policies), page 65 (Significant Accounting Judgements, Estimates and Assumptions), and page 67 (Note 4). The Company has prepared consolidated financial statements as of 31 December 2017 as it has accounting control over Business Mortgage Finance 3 plc ("BMF 3"), its subsidiary (together "the Group"). The determination of control as defined in IFRS 10, Consolidated Financial Statements, in relation to this entity is judgmental as it may not be related to voting rights, and needs to be considered in relation to the entitlement to variable economic returns and the power to influence those returns. Any omissions of an entity for consolidation may result in a significant impact to the presentation and disclosure of the Group's financial statements.	• We evaluated the conclusions of the Investment Manager's assessment regarding identification and control of investee entities under IFRS 10, challenging the underlying judgements where appropriate. • We obtained and inspected the legal and operating documents to corroborate the conclusions reached, and agreed that the assessment of control undertaken by the Investment Manager is in line with our understanding of how the Group currently operates.

How we tailored the audit scope

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

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)").

The Group engages Pollen Street Capital Limited (the "Investment Manager") to manage its assets. In establishing the overall approach to the audit of the Group, we considered our assessment of the risk of material misstatement. We determined that the Company generated significant activities or balances to the results of the Group through the consideration of factors such as its contribution to the Group's net assets and performed over each line item in the Company's financial statements. We supplemented this with additional testing over certain balances (such as loans at amortised cost, cash, borrowings, income and finance costs) recognised within BMF 3.

Materiality

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

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

Group and Company financial statements	
Overall materiality	£3.0 million (2016: £2.0 million)
How we determined it	1 per cent of net assets.
Rationale for benchmark applied	The basis for our materiality is consistent with the benchmark we apply for our investment trust clients, reflecting the nature of operations, the performance indicators from the financial statements which are of focus for users of the financial statements and our knowledge of the industry in which the Group and Company operate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £0.2 million (2016: £0.1 million) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Going concern

In accordance with ISAs (UK) we report as follows:

Reporting Obligation
We are required to report if we have anything material to add or draw attention to in respect of the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the Directors' identification of any material uncertainties to the Group's and the Company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.
Outcome
We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and the Company's ability to continue as a going concern.

REPORTING ON OTHER INFORMATION

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

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

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

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006, (CA06) and ISAs (UK) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report. (CA06)

The Directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group

As a result of the Directors' voluntary reporting on how they have applied the UK Corporate Governance Code (the "Code"), we are required to report to you if we have anything material to add or draw attention to regarding:

- The Directors' confirmation on page 18 of the Annual Report that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The Directors' explanation on page 26 of the Annual Report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report in respect of this responsibility.

Other Code Provisions

As a result of the Directors' voluntary reporting on how they have applied the Code, we are required to report to you if, in our opinion:

- The statement given by the Directors, on page 42, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group and Company obtained in the course of performing our audit.
- The section of the Annual Report on pages 35 to 37 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We have nothing to report in respect of this responsibility.

Directors' Remuneration

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006. (CA06)

RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

Responsibilities of the Directors for the financial statements

As explained more fully in the Statement of Directors' responsibilities set out on page 42 the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

OTHER REQUIRED REPORTING

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

APPOINTMENT

Following the recommendation of the Audit Committee, we were appointed by the Directors on 16 May 2016 to audit the financial statements for the period ended 31 December 2016 and subsequent financial periods. The period of total uninterrupted engagement is 2 years, covering the period ended 31 December 2016 and to 31 December 2017.

OTHER VOLUNTARY REPORTING

Going concern

The Directors have requested that we review the statement on page 25 in relation to going concern as if the Company were a premium listed Company. We have nothing to report having performed our review.

The Directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group

The Directors have requested that we perform a review of the Directors' statements on pages 18 and 26 that they have carried out a robust assessment of the principal risks facing the Group and in relation to the longer-term viability of the Group, as if the Company were a premium listed Company. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit. We have nothing to report having performed this review.

Other Code provisions

The Directors have prepared a corporate governance statement and requested that we review it as though the Company were a premium listed Company. We have nothing to report in respect of the requirement for the auditors of premium listed companies to report when the Directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

Richard McGuire (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
27 April 2018

3 Financial Statements

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2017

	Notes	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
				For the year ended 31 December 2017			**For the period from 2 December 2015 to 31 December 2016**
Income							
Investment interest	5	31,771	-	31,771	17,847	-	17,847
Other income	5	2		2	13		13
		31,773	**-**	**31,773**	**17,860**	**-**	**17,860**
Expenses							
Management fee	6	(2,841)	(81)	(2,922)	(1,164)	(44)	(1,208)
Performance fee	6	(2,329)	-	(2,329)	(1,314)	-	(1,314)
Impairment of loans	11	(2,783)	-	(2,783)	(2,322)	-	(2,322)
Other expenses	7	(1,046)	-	(1,046)	(674)	-	(674)
		(8,999)	**(81)**	**(9,080)**	**(5,474)**	**(44)**	**(5,518)**
Profit / (loss) before finance costs and taxation		**22,774**	**(81)**	**22,693**	**12,386**	**(44)**	**12,342**
Finance costs	16	(1,732)	-	(1,732)	(525)	-	(525)
Profit / (loss) before taxation		**21,042**	**(81)**	**20,961**	**11,861**	**(44)**	**11,817**
Taxation on ordinary activities	8	-	-	-	-	-	-
Profit / (loss) after taxation		**21,042**	**(81)**	**20,961**	**11,861**	**(44)**	**11,817**
Earnings per share (basic and diluted)	10	**81.5p**	**(0.3)p**	**81.2p**	**94.4p**	**(0.4)p**	**94.0p**

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

No operations were discontinued during the year.

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

The notes on pages 58 to 84 form an integral part of the financial statements.

Consolidated Statement of Financial Position

As at 31 December 2017

	Notes	31 December 2017 £'000	31 December 2016 £'000
Non-current assets			
Investments at amortised cost	11	369,329	157,845
Investments held at fair value through profit or loss	12	7,730	4,730
Fixed assets	13	342	369
		377,401	162,944
Current assets			
Receivables	14	3,488	3,723
Cash and cash equivalents		16,893	38,877
		20,381	42,600
Total assets		**397,782**	**205,544**
Current liabilities			
Management fee payable		(592)	(136)
Performance fee payable		(2,329)	(1,314)
Other payables	15	(1,900)	(2,030)
		(4,821)	(3,480)
Total assets less current liabilities		**392,961**	**202,064**
Interest bearing borrowings	16	(88,202)	(13)
Total net assets		**304,759**	**202,051**
Shareholders' funds			
Ordinary share capital	17	299	199
Share premium		201,852	98,670
Revenue reserves		5,133	5,126
Capital reserves		(125)	(44)
Special distributable reserves	18	97,600	98,100
Total shareholders' funds		**304,759**	**202,051**
Net asset value per share	22	**1,018.4p**	**1,014.0p**

The notes on pages 58 to 84 form an integral part of the financial statements.

The financial statements on pages 52 to 84 were approved by the Board of Directors of Honeycomb Investment Trust plc (a public limited company incorporated in England and Wales with company number 09899024) and authorised for issue on 27 April 2018. They were signed on its behalf by:

Robert Sharpe, Chairman

Company Statement of Financial Position

As at 31 December 2017

	Notes	31 December 2017 £'000	31 December 2016£'000
Non-current assets			
Investments at amortised cost	11	345,566	157,845
Investments held at fair value through profit or loss	12	11,227	4,730
Fixed assets	13	342	369
		357,135	162,944
Current assets			
Receivables	14	3,477	3,723
Cash and cash equivalents		5,730	38,877
		9,207	42,600
Total assets		**366,342**	**205,544**
Current liabilities			
Management fee payable		(592)	(136)
Performance fee payable		(2,329)	(1,314)
Other payables	15	(1,875)	(2,030)
		(4,796)	(3,480)
Total assets less current liabilities		**361,546**	**202,064**
Interest bearing borrowings	16	(56,787)	(13)
Total net assets		**304,759**	**202,051**
Shareholders' funds			
Ordinary share capital	17	299	199
Share premium		201,852	98,670
Revenue reserves		5,133	5,126
Capital reserves		(125)	(44)
Special distributable reserves	18	97,600	98,100
Total shareholders' funds		**304,759**	**202,051**
Net asset value per share	22	**1,018.4p**	**1,014.0p**

Advantage has been taken of the exemption under section 408 of the Companies Act 2006 and accordingly the Company has not presented a Statement of Comprehensive Income for the Company alone. The net profit on ordinary activities after taxation of the Company for the year ended 31 December 2017 was £20,961,188 (2016: £11,816,424).

The notes on pages 58 to 84 form an integral part of the financial statements.

The financial statements on pages 52 to 84 were approved by the Board of Directors of Honeycomb Investment Trust plc (a public limited company incorporated in England and Wales with company number 09899024) and authorised for issue on 27 April 2018. They were signed on its behalf by:

Robert Sharpe, Chairman

Consolidated and Company Statement of Changes in Shareholders' Funds

For the year ended 31 December 2017

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

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

For the period from 2 December 2015 (date of incorporation) to 31 December 2016

	Ordinary Share Capital £'000	Share Premium £'000	Revenue Reserves £'000	Capital Reserves £'000	Special Distributable Reserves £'000	Total Equity £'000
Shareholders' funds at 2 December 2015	**-**	**-**	**-**	**-**	**-**	**-**
Management shares issued	50	-	-	-	-	**50**
Management shares bought back	(50)	-	-	-	-	**(50)**
Ordinary shares issued	199	199,801	-	-	-	**200,000**
Ordinary shares issue costs	-	(3,031)	-	-	-	**(3,031)**
Special distributable reserves transfer	-	(98,100)	-	-	98,100	**-**
Profit / (loss) after taxation	-	-	11,861	(44)	-	**11,817**
Dividends paid in the period	-	-	(6,735)	-	-	**(6,735)**
Shareholders' funds at 31 December 2016	**199**	**98,670**	**5,126**	**(44)**	**98,100**	**202,051**

As at 31 December 2016 the Company had distributable reserves of £103.18 million for the payment of future dividends. The distributable reserves are the net of the revenue reserves (£5.13 million), realised capital reserves (-£0.04 million) and the special distributable reserves (£98.10 million).

The notes on pages 58 to 84 form an integral part of the financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2017

	Notes	31 December 2017 £'000	31 December 2016 £'000
Cash flows from operating activities:			
Profit after taxation		20,961	11,817
Adjustments for:			
Impairment of loans	11	2,783	2,322
Finance costs		1,732	-
Amortisation	13	240	99
Decrease/(Increase) in receivables	14	246	(3,723)
Increase in payables		1,316	3,480
Net cash inflow from operating activities		**27,278**	**13,995**
Cash flows from investing activities:			
Purchase Investments at amortised cost		(190,504)	(160,167)
Purchase of investments	12	(6,497)	(4,730)
Net cash acquired on investment in subsidiary	4	11,163	-
Purchase of fixed assets	13	(213)	(468)
Net cash (outflow) from investing activities		**(186,051)**	**(165,365)**
Cash flows from financing activities:			
Proceeds from issue of ordinary shares	17	105,000	200,000
Share issue costs		(1,718)	(3,031)
Proceeds from issue of management shares	17	-	50
Redemption of management shares	17	-	(50)
Interest bearing borrowings	16	122,500	19,013
Repayments of interest bearing borrowings	16	(66,000)	(19,000)
Interest paid on financing activities		(1,458)	-
Dividends declared and paid	9	(21,535)	(6,735)
Net cash inflow from financing activities		**136,789**	**190,247**
Net change in cash and cash equivalents		**(21,984)**	**38,877**
Cash and cash equivalents at the beginning of the year		38,877	-
Net cash and cash equivalents		**16,893**	**38,877**

The notes on pages 58 to 84 form an integral part of the financial statements.

Company Statement of Cash Flows

For the year ended 31 December 2017

	Notes	31 December 2017 £'000	31 December 2016 £'000
Cash flows from operating activities:			
Profit after taxation		20,961	11,817
Adjustments for:			
Impairment of loans	11	2,783	2,322
Finance costs		1,732	
Amortisation	13	240	99
Decrease/(Increase) in receivables	14	246	(3,723)
Increase in payables		1,316	3,480
Net cash inflow from operating activities		**27,278**	**13,995**
Cash flows from investing activities:			
Purchase of Investments at amortised cost		(190,504)	(160,167)
Purchase of investments	12	(6,497)	(4,730)
Purchase of fixed assets	13	(213)	(468)
Net cash (outflow) from investing activities		**(197,214)**	**(165,365)**
Cash flows from financing activities:			
Proceeds from issue of ordinary shares	17	105,000	200,000
Share issue costs		(1,718)	(3,031)
Proceeds from issue of management shares	17	-	50
Redemption of management shares	17	-	(50)
Interest bearing borrowings	16	122,500	19,013
Repayments of interest bearing borrowings	16	(66,000)	(19,000)
Interest paid on financing activities		(1,458)	-
Dividends declared and paid	9	(21,535)	(6,735)
Net cash inflow from financing activities		**136,789**	**190,247**
Net change in cash and cash equivalents		**(33,147)**	**38,877**
Cash and cash equivalents at the beginning of the year		38,877	-
Net cash and cash equivalents		**5,730**	**38,877**

The notes on pages 58 to 84 form an integral part of the financial statements.

Notes to the Financial Statements

1. PRINCIPAL ACCOUNTING POLICIES

Basis of accounting

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

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

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

The principal accounting policies adopted by the Company are set out below. Where presentational guidance set out in the Statement of Recommended Practice ("SORP") for investment trusts issued by the Association of Investment Companies ("AIC") in November 2014 is consistent with the requirements of IFRS, the Directors have sought to prepare the financial statements on a basis compliant with the recommendations of the SORP.

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

The accounting policies have been applied consistently year on year.

Consolidation

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

As at 31 December 2017 the Company controls one subsidiary (together "the Group").

The Company is deemed to control Business Mortgage Finance 3 plc ("BMF 3"), a public limited company incorporated under the Laws of England and Wales. The company is registered at Asticus Building 2nd Floor 21 Palmer Street, London, SW1H 0AD. BMF 3 is a securitisation vehicle for UK commercial mortgages and operates in a pre-determined manner. The Company is considered to control BMF 3 from 20 December 2017 by virtue of having exposure to the variable returns of the vehicle through the holding of a subordinated note issued by it. The rights of the subordinated loan include all monies payable and rights of action and security as well as the rights to the residual revenue.

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

Foreign Currency

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

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

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

Presentation of the Consolidated Statement of Comprehensive Income

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

Advantage has been taken of the exemption under section 408 of the Companies Act 2006 and accordingly the Company has not presented a Statement of Comprehensive Income for the Company alone.

Income

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

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

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

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

Expenses

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

- Transaction costs which are incurred on the purchases or sales of investments designated as fair value through profit or loss are expensed to capital in the Consolidated Statement of Comprehensive Income.
- Expenses are split and presented partly as capital items where a connection with the maintenance or enhancement of the value of the investments held can be demonstrated and, accordingly, the management fee for the financial year has been allocated 97.9 per cent to revenue and 2.1 per cent to capital (being the ratio of Credit Assets to Equity Assets at the financial year-end), in order to reflect the Directors' long-term view of the nature of the expected investment returns of the Company.

Finance costs

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

Taxation

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

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

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

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

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

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

Financial instruments

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

Classification

Under IAS 39 the Group can classify its financial assets into the following measurement categories: (i) financial assets held at fair value through profit or loss (”FVPL”); (ii) loans and receivables; (iii) held-to-maturity; and (iv) available for sale. Financial liabilities can be classified as either held at fair value through profit or loss, or at amortised cost using the EIRM.

Financial assets and liabilities are classified at initial recognition.

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

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

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

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

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

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

Loans and receivables

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

Held-to-maturity

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

Available for sale

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

Derecognition

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

Loans

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

Equity Investments

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

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

Fixed assets

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

Receivables

Receivables do not carry any interest and are short term in nature. They are initially stated at their nominal value and reduced by appropriate allowances for estimated irrecoverable amounts (if any).

Cash and cash equivalents

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

Financial liabilities

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

Payables

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

Interest bearing borrowings

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

Dividends

Interim dividends to shareholders are recognised in the year in which they are paid.

Associates

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

No associates are presented on the Statement of Financial Position as the Group elects to hold such investments at fair value through profit and loss. This treatment is permitted by IAS 28 Investment in Associates and Joint Ventures, which permits investments held by entities that are venture capital organisations, mutual funds or similar entities to be excluded from its measurement methodology requirements where those investments are designated, upon initial recognition, as at fair value through profit or loss and accounted for in accordance with IAS 39 Financial Instruments: Recognition and Measurement. Changes in fair value of associates are recognised in the Statement of Comprehensive Income in the period in which the change occurs.

The disclosures required by Section 409 of the Companies Act 2006 for associated undertakings are included in Note 21 to the financial statements.

Accounting standards effective

Amendments to IAS 7, "Statement of cash flows", effective 1 January 2017. These amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. Please refer to Note 16 for further details.

Adoption of New and Revised Standards

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

IFRS 9 Financial Instruments

IFRS 9 "Financial Instruments", brings together the classification and measurement, impairment and hedge accounting phases of the IASB project to replace IAS 39, and is effective for annual periods beginning on or after 1 January 2018. The key elements of the standard are as follows:

Classification and measurement

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. IFRS 9 introduces a principal based approach and applies one classification approach for all types of financial assets. Two criteria are used to determine how financial assets should be classified and measured: (a) the entity's business model (i.e. how an entity manages its financial assets in order to generate cash flows by collecting contractual cash flows, selling financial assets or both); and (b) the contractual cash flow characteristics of the financial asset (i.e. whether the contractual cash flows are solely payments of principal and interest).

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

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

A financial asset is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL: (a) it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and (b) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. In addition, on initial recognition the company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

For financial liabilities, most of the pre-existing requirements for classification and measurement previously included in IAS 39 were carried forward unchanged into IFRS 9.

Business model assessment

The Company will make an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to the Investment Manager.

The information that will be considered includes:

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

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

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

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

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

Impairment

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

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

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

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

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

- Stage 1 – from initial recognition of a financial asset to the date on which the asset has experienced a significant increase in credit risk relative to its initial recognition, a loss allowance is recognised equal to the 12-month ECL.
- Stage 2 – Following a significant increase in credit risk relative to the initial recognition of the financial asset, a loss allowance is recognised equal to the lifetime ECL.
- Stage 3 – When a financial asset is considered to be credit-impaired, a loss allowance equal to the lifetime ECL will be recognised. Interest revenue is calculated based on the carrying amount of the asset, net of the loss allowance, rather than on its gross carrying amount.

Stage 1 and Stage 2 effectively replace the collectively-assessed allowance for loans not yet identified as impaired recorded under IAS 39, while Stage 3 effectively replaces the individually and collectively assessed allowances for impaired loans. Under IFRS 9, the population of financial assets and corresponding allowances disclosed as Stage 3 will not necessarily correspond to the amounts of financial assets currently disclosed as impaired in accordance with IAS 39. Consistent with IAS 39, loans are written off when there is no realistic probability of recovery.

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

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

The measurement of ECLs will primarily be based on the product of the instrument's probability of default ("PD"), loss given default ("LGD"), and exposure at default ("EAD"), discounted to the reporting date. The main difference between Stage 1 and Stage 2 is the respective PD horizon. Stage 1 estimates will use a maximum of a 12-month PD while Stage 2 estimates will use a lifetime PD. Stage 3 estimates will continue to leverage existing processes for estimating losses on impaired loans, however, these processes will be updated to reflect the requirements of IFRS 9, including the requirement to consider multiple forward-looking scenarios.

Movements between Stage 1 and Stage 2 are based on whether an instrument's credit risk as at the reporting date has increased significantly relative to the date it was initially recognised. Movements between Stage 2 and Stage 3 are based on whether financial assets are credit-impaired as at the reporting date. The determination of credit-impairment under IFRS 9 will be similar to the individual assessment of financial assets for objective evidence of impairment under IAS 39. Assets can move in both directions through the stages of the impairment model.

In assessing whether a borrower is credit impaired the following indicators will be considered:

- Qualitative; e.g. breaches of covenant;
- Quantitative; e.g. overdue status; and
- Based on data developed internally and obtained from external sources.

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

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

The criteria for determining whether credit risk has increased significantly will vary by portfolio and will include a backstop based on delinquency.

The measurement of expected credit losses for each stage and the assessment of significant increases in credit risk must consider information about past events and current conditions as well as reasonable and supportable forward-looking information. A 'base case' view of the future direction of relevant economic variables and a representative range of other possible forecasts scenarios. The process will involve developing two or more additional economic scenarios and considering the relative probabilities of each outcome.

The base case will represent a most likely outcome and be aligned with information used for other purposes, such as strategic planning and budgeting. The other scenarios will represent more optimistic and more pessimistic outcomes.

The estimation and application of forward-looking information requires significant judgment. PD, LGD and EAD inputs used to estimate Stage 1 and Stage 2 credit loss allowances are modelled based on the macroeconomic variables (or changes in macroeconomic variables) that are most closely correlated with credit losses in the relevant portfolio. The Bank of England macroeconomic scenarios as well as baseline upside and downside economic scenarios have been used in the expected credit loss calculation by the Group.

Hedge accounting

The new requirements align hedge accounting more closely with risk management. The revised standard also establishes a more principles-based approach to hedge accounting.

The Group does not currently undertake any hedge accounting.

Transition

To manage the transition to IFRS 9, the Company implemented a comprehensive program that focused on the key areas of impact, including financial reporting, data, systems and processes. Throughout the project the Audit Committee has been provided with updates, to ensure escalation of key issues and risks. As part of the implementation of IFRS 9 the Company has:

- reviewed the classification and measurement of financial instruments under the requirements of IFRS 9;
- developed and validated a set of IFRS 9 models for calculating expected credit losses on the Company's loan portfolios; and
- implement internal governance processes which are appropriate for IFRS 9.

The new classification and measurement and impairment requirements will be applied by adjusting the Consolidated Statement of Financial Position on 1 January 2018, the date of initial application. The Group will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to financial information. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will be recognised in retained earnings and reserves as at 1 January 2018.

Loans and advances that are classified as loans and receivables and measured at amortised cost under IAS 39 will in general also be measured at amortised cost

under IFRS 9. While held to maturity investment securities measured at amortised cost under IAS 39 will in general also be measured at amortised cost under IFRS 9.

The implementation will result in a reduction to retained earnings of approximately £2.3 million (0.75 per cent of year end NAV) as at 1 January 2018. The impact is primarily attributable to increases in the allowance for credit losses under the new impairment requirements. This is made up of £1.6 million on unsecured exposures and £0.7 million on secured exposures.

IFRS 15 Revenue from Contracts with Customers

The Directors do not anticipate that the adoption of this standard and interpretations will have a material impact on the financial statements, given the nature of the Group's business.

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

2. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of financial statements in conformity with IFRS adopted in the EU requires the Company to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Although these estimates are based on the Directors' best knowledge of the amount, actual results may differ ultimately from those estimates.

The areas requiring a higher degree of judgement or complexity and areas where assumptions and estimates are significant to the financial statements, are in relation to effective interest rate impairment of loans and investments at fair value through profit or loss described below. Please refer to Note 11 and Note 12 respectively for more detail in relation to these.

Estimates and assumptions used in preparing the consolidated financial statements are reviewed on an ongoing basis and are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Consolidation

Determining whether the Group has control of an entity is generally straightforward based on ownership of the majority of the voting capital. However, in certain instances, this determination will involve significant judgement, particularly in the case of structured entities where voting rights are often not the determining factor in decisions over the relevant activities. This judgement may involve assessing the purpose and design of the entity. It will also often be necessary to consider whether the Group, or another involved party with power over the relevant activities, is acting as a principal in its own right or as an agent on behalf of others. Please refer to Note 4 for more information.

Impairment of Loans

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

Collective Impairment

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

In addition, the collective provision also includes provision for inherent losses, that is losses that have been incurred but have not been separately identified at the reporting date. The loans that are not currently recognised as impaired are grouped into homogenous portfolios by product type. An assessment is made of the likelihood of assets being impaired at the balance sheet date and being identified subsequently; the length of time

taken to identify that an impairment event has occurred is known as the loss emergence period. The loss emergence period is determined by the Investment Manager for each portfolio which are dependent upon the characteristics of the portfolio. Loss emergence periods are reviewed regularly and updated when appropriate. In general, the period used is three months based on historical experience. This provision is sensitive to changes in the loss emergence period. Management use a significant level of judgement when determining the collective unidentified impairment provision, including the assessment of the level of overall risk existing within particular sectors and the impact of the low interest rate environment on loss emergence periods. In the portfolio, an increase of one month in the loss emergence period in respect of the loan portfolio assessed for collective unidentified impairment provisions would result in an increase in the collective unidentified impairment provision of £0.02 million (2016: £0.04 million).

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

Individual Impairment

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

Consumer - The Company calculates specific impairment provisions based on PD multiplied by the EAD multiplied by the LGD:

- The PD is based on the probability, dependent on stage of arrears, that the loan will not recover to perform in line with contractual payment terms; the assessment of the PD uses historical experience of cohorts of similar products. Future cash flows are estimated on the basis of the contractual cash flows of the assets in the cohort and historical loss experience for similar assets. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Investment Manager to reduce any differences between loss estimates and actual loss experience. If the PD was increased by 25 per cent then the provision at 31 December 2017 would have increased by £0.5 million (2016: £0.2 million).
- The EAD is an estimate of the remaining exposure once a loan defaults taking into account expected further repayments and is dependent on stage of arrears. If the EAD was increased by 25 per cent then the provision at 31 December 2017 would have increased by £2.3 million (2016: £1.4 million).
- The LGD is based upon the Investment Manager's view of losses, taking into consideration any collateral and the likely recovery of any unsecured portion of the loan. The estimated cash flows are calculated based on historical experience and are dependent on estimates of the expected value of collateral which takes into account house prices, and the net proceeds which might be achieved in the event the property is repossessed and any prior mortgages are repaid. The value of collateral supporting the Company's secured loan portfolio is estimated by applying changes in the house price indices to the original assessed value of the property and periodic updates of the first mortgage balances. If average house prices were ten per cent lower than those estimated at 31 December 2017, the impairment charge would increase by approximately £0.7 million (2016: £0.6 million) in respect of secured loans within the investment assets.

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

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

There were no provisions as at 31 December 2017 as this asset class is performing satisfactorily.

Effective Interest Rate Model ("EIRM")

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

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

Equity Investments

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

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

3. SEGMENTAL REPORTING

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

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

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

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

4. BUSINESS COMBINATION

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

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

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

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

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

5. INCOME

	31 December 2017 £'000	Period since incorporation (2 December 2015) to 31 December 2016 £'000
Investment income		
Interest income	31,138	17,594
Commitment fee income	296	157
Arrangement fee income	337	96
Total investment income	**31,771**	**17,847**
Other income		
Deposit interest	**2**	**13**
Total income	**31,773**	**17,860**

6. MANAGEMENT AND PERFORMANCE FEE

Management Fee

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

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

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

Performance Fee

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

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

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

a) the amount by which the Adjusted Net Asset Value exceeds the Hurdle, in each case as at the Calculation Date; and

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

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

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

Fee payable to Origination Partner

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

The Company reimburses the Origination Partner for the fees of referral partners, and Servicers (to the extent paid by the Origination Partner) in connection with Credit Assets in which the Company acquires an interest. The amount of such fees are agreed between the Origination Partner and the relevant counterparties on arm's length commercial terms, taking account of the strength of the relationship between the Origination Partner, the Investment Manager and each relevant counterparty. There was £nil payable to the Origination Partner at 31 December 2017 (2016: nil).

7. OTHER EXPENSES

	31 December 2017 £'000	Period since incorporation (2 December 2015) to 31 December 2016 £'000
Directors' fees	118	103
Administrator's fees	146	92
Amortisation	240	99
Other expenses	542	380
Total other expenses	**1,046**	**674**

All expenses are inclusive of VAT where applicable. Directors' fees above include £103,250 (2016: £93,593) paid to Directors' and £14,796 (2016: £9,521) of employment taxes and valid business expenses. Further details on Directors' fees can be found in the Directors' remuneration report on pages 38 to 41.

The auditors' remuneration for the audit of the Company and Group was £110,000 (2016: £65,000). During the year, the auditors provided reporting accountant services on the Company's prospectus in relation to its further issuance of ordinary shares in May 2017. These non-audit fees amounted to £54,915 (2016: £95,000). These costs have been deducted from the proceeds from the issuance of ordinary shares in line with IAS 32. In 2016, the auditors also provided assurance services with respect to providing an opinion on the Company's initial accounts, which were prepared under a statutory requirement in order to enable the Company to pay its first dividend prior to the issuance of its annual financial statements. The fees in relation to these services were £19,500.

8. TAXATION

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

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

The following table presents the tax chargeable on the Group and Company for the period ended 31 December 2017.

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

The following table presents the tax chargeable on the Group and Company for the year ended 31 December 2016.

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

Factors affecting taxation charge for the year

The taxation charge for the year is lower than the standard rate of UK corporation tax of 19.25 per cent (2016: 20.00 per cent). A reconciliation of the 2017 taxation charge based on the standard rate of UK corporation tax to the actual taxation charge is shown below.

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

A reconciliation of the 2016 taxation charge based on the standard rate of UK corporation tax to the actual taxation charge is shown below.

	Revenue £'000	Capital £'000	Total £'000
Return on ordinary activities before taxation	11,861	(44)	11,817
Return on ordinary activities before taxation multiplied by the standard rate of UK corporation tax of 20%	2,372	(9)	2,363
Effects of:			
Excess management expenses not utilised	28	9	37
Interest distributions paid in respect of the period	(2,400)	-	(2,400)
Total tax charge in income statement	**-**	**-**	**-**

Overseas taxation

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

9. ORDINARY DIVIDENDS

	31 December 2017 £'000	31 December 2016 £'000
2.11p Interim dividend for the period ended 31 March 2016 (paid on 30 June 2016)	-	316
19.66p Interim dividend for the period ended 30 June 2016 (paid on 22 September 2016)	-	2,949
23.13p Interim dividend for the period ended 30 September 2016 (paid on 16 December 2016)	-	3,470
23.50p Interim dividend for the period ended 31 December 2016 (paid on 28 March 2017)	4,683	-
24.50p Interim dividend for the period to 31 March 2017 (paid on 16 June 2017)	4,882	-
20.00p Interim dividend for the period to 30 June 2017 (paid 29 September 2017)	5,985	-
20.00p Interim dividend for the period to 30 September 2017 (paid 29 December 2017)	5,985	-
Total dividend paid in period	**21,535**	**6,735**
23.50p Interim dividend for the period ended 31 December 2016 (paid on 28 March 2017)	-	4,683
20.00p Interim dividend for the period to 31 December 2017 (paid 29 March 2018)	5,985	-
Total dividend paid in relation to period	**22,837**	**11,418**

The 31 December 2017 interim dividend of 20.00 pence was approved and paid before the approval of the financial statements.

On 12 April 2018, a dividend of 20 pence per ordinary share was declared, payable on 29 June 2018.

10. EARNINGS PER SHARE

	31 December 2017	31 December 2016
Revenue	81.5p	94.4p
Capital	(0.3)p	(0.4)p
Earnings per ordinary share	81.2p	94.0p

The calculation at 31 December 2017 is based on revenue returns of 21.042 million, capital returns of £(0.081) million and total returns of £20.961 million and a weighted average number of ordinary shares of 25,816,521.

The calculation at 31 December 2016 is based on revenue returns of £11.861 million, capital returns of £(0.044) million and total returns of £11.817 million and a weighted average number of ordinary shares of 12,560,147.

11. INVESTMENTS AT AMORTISED COST

(a) Assets not carried at fair value but for which fair value is disclosed

The table below provides details of the investments at amortised cost held by the Group as at 31 December 2017. Fair value is disclosed on page 82.

Investments at amortised cost	31 December 2017 £'000	31 December 2016 £'000
Held-to-maturity bond investments	10,314	-
Amortised cost before impairment	368,758	164,032
Cumulative Impairment Provision	(9,743)	(6,187)
Carrying Value	**369,329**	**157,845**

All impairments are in relation to loans at amortised cost with no impairment against held to maturity investments.

The table below provides details of the investments at amortised cost held by the Company as at 31 December 2017. Fair value is disclosed on page 83.

Investments at amortised cost	31 December 2017 £'000	31 December 2016 £'000
Held-to-maturity bond investments	10,314	-
Amortised cost before impairment	344,995	164,032
Cumulative Impairment Provision	(9,743)	(6,187)
Carrying Value	**345,566**	**157,845**

All impairments are in relation to loans at amortised cost with no impairment against held to maturity investments

Cumulative impairment includes incurred losses already present on the loan portfolios acquired at a discount to face value in secondary transactions which are brought onto the Statement of Financial Position at an amount that includes impairment losses up to the date of their acquisition. Impairment included in the Statement of Financial Position for the year is reported in impairment of loans in the Statement of Comprehensive Income. As at 31 December 2017 the cumulative impairment provision consisted of £3.416 million of incurred losses and £6.327 million of impairment provision recognised in the year.

As at 31 December 2016 the cumulative impairment provision consisted of £3.864 million of incurred losses and £2.823 million of impairment provision recognised in the period.

(b) Impairment provision

The Company segments its assets into two categories when considering impairment provisions; Secured and Structured facilities. Impairment provisions are subject to periodic review conducted by the Investment Manager's Valuation Committee, with the underlying assumptions monitored on an on-going basis and are revised accordingly based on actual loss experience of the business. The methodology for these judgements, estimates and assumptions is set out on pages 65 to 67.

The following impairment amounts have been recorded in the Statement of Financial Position relating to loans at amortised cost for both the Group and Company:

	31 December 2017 £'000	31 December 2016 £'000
Loans with no payments past due (collective provision for losses not reported)	1,374	1,234
Loans with up to 1 payment past due	96	68
Loans with 1–2 payments past due	279	297
Loans with 2–3 payments past due	351	292
Loans with 3–4 payments past due	603	347
Loans with more than 4 payments past due	7,040	3,949
Cumulative impairment	**9,743**	**6,187**

The following table shows the provision split between secured and unsecured for the year ended 31 December 2017 which have been recorded in the Statement of Financial Position relating to loans at amortised cost for both the Group and Company.

31 December 2017	Secured	Unsecured
Loans with no payments past due (collective provision for losses not reported)	1,121	252
Loans with up to 1 payment past due	51	45
Loans with 1–2 payments past due	96	184
Loans with 2–3 payments past due	144	207
Loans with 3–4 payments past due	276	327
Loans with more than 4 payments past due	3,380	3,660
Cumulative impairment	**5,068**	**4,675**

The following table shows the provision split between secured and unsecured for the period ended 31 December 2016 which have been recorded in the Statement of Financial Position relating to loans at amortised cost for both the Group and Company.

31 December 2016	Secured	Unsecured
Loans with no payments past due (collective provision for losses not reported)	1,020	214
Loans with up to 1 payment past due	43	25
Loans with 1–2 payments past due	188	109
Loans with 2–3 payments past due	166	126
Loans with 3–4 payments past due	182	165
Loans with more than 4 payments past due	2,941	1,008
Cumulative impairment	**4,540**	**1,647**

There is no impairment of Structured facilities at the year-end (2016: none). Structured facilities are a portfolio of higher value, low volume lending with credit quality assessed on an individual loan by loan basis. Loans are continually monitored to determine whether they are performing satisfactorily. In Structured facilities performing loans with elevated levels of credit risk may be placed on watch lists depending on the perceived severity of the credit risk. The table below sets out the movement of the impairment provision during year ended 31 December 2017.

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

The table below sets out the movement of the impairment provision for the period ended 31 December 2016.

	Total £'000
At 2 December 2015	-
Incurred Losses (Portfolio Acquisition)	3,865
Charge for the year	2,322
Amounts written off during the period	-
Amounts recovered during the period	-
Cumulative impairment	**6,187**

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

12. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

(a) Movements in the year

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

	2017 £'000
Opening cost	4,730
Opening fair value	**4,730**
Purchases at cost	3,000
Closing fair value at 31 December 2017	**7,730**
Comprising:	
Closing cost as at 31 December 2017	7,730
Closing fair value as at 31 December 2017	**7,730**

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

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

The fair value of the investment in the subsidiary was £3.497 million.

The table below sets out the movement in Investments at fair value through profit or loss for the Group and Company for the period ended 31 December 2016.

	2016 £'000
Opening cost	-
Opening fair value	**-**
Purchases at cost	4,730
Closing fair value at 31 December 2016	**4,730**
Comprising:	
Closing cost as at 31 December	4,730
Closing fair value as at 31 December 2016	**4,730**

(b) Fair value of financial instruments

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

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

The following sets out the classifications used as at 31 December 2017 in valuing the Group and Company's investments:

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Unquoted equity assets	-	-	11,227	11,227
Closing fair value as at 31 December 2017	**-**	**-**	**11,227**	**11,227**

The following sets out the classifications used as at 31 December 2016 in valuing the Group and Company's investments:

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Unquoted equity assets	-	-	4,730	4,730
Closing fair value as at 31 December 2016	**-**	**-**	**4,730**	**4,730**

Given the unquoted equity assets are recent transactions, they are valued at the transaction price. Sensitivity analysis is not considered appropriate at this stage as there are not multiple inputs used for valuation.

13. FIXED ASSETS

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

Year ended 31 December 2017	**IT Development and Software £'000**	**Total £'000**
Opening net book amount	369	369
Additions	213	213
Depreciation charge	(240)	(240)
Closing net book amount	**342**	**342**
As at 31 December 2017		
Cost	680	680
Accumulated depreciation	(338)	(338)
Net book amount	**342**	**342**

Period ended 31 December 2016	IT Development and Software £'000	Total £'000
Opening net book amount	-	-
Additions	468	468
Depreciation charge	(99)	(99)
Closing net book amount	**369**	**369**
As at 31 December 2016		
Cost	468	468
Accumulated depreciation	(99)	(99)
Net book amount	**369**	**369**

14. RECEIVABLES

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

	31 December 2017 £'000	31 December 2016 £'000
Prepayments	2,326	1,249
Other receivables	1,162	2,474
Total receivables	**3,488**	**3,723**

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

	31 December 2017 £'000	31 December 2016 £'000
Prepayments	2,326	1,249
Other receivables	1,151	2,474
Total receivables	**3,477**	**3,723**

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

15. OTHER PAYABLES

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

	31 December 2017 £'000	31 December 2016 £'000
Accruals and deferred income	1,900	1,578
Withholding taxation	-	452
Total other payables	**1,900**	**2,030**

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

	31 December 2017 £'000	31 December 2016 £'000
Accruals and deferred income	1,875	1,578
Withholding taxation	-	452
Total other payables	**1,875**	**2,030**

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

Withholding Taxation

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

16. INTEREST BEARING BORROWINGS

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

	31 December 2017 £'000	31 December 2016 £'000
Credit facility	56,500	-
Mortgage backed Notes	28,308	-
Liquidity facility	850	-
Interest and commitment fees payable	2,544	13
Total interest-bearing borrowings	**88,202**	**13**

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

	31 December 2017 £'000	31 December 2016 £'000
Credit facility	56,500	-
Interest and commitment fees payable	287	13
Total interest-bearing borrowings	**56,787**	**13**

As part of the original BMF 3 securitisation it issued notes as part of the securitisation of loans. The loan notes are secured over the portfolio of commercial mortgage loans, which are in turn secured by first charges on commercial property in the United Kingdom. The loan notes are subject to mandatory redemption at each interest repayment date. The amount redeemed is equal to the principal collected on the mortgage loans in the preceding collection year. The loan notes will become due and payable on the interest payment date falling in August 2038 if they have not been redeemed or cancelled beforehand. BMF 3 also has a liquidity facility provided by Barclays Bank plc in the event that it is unable to meet certain financial commitments. This facility was £0.8 million drawn at year end (2016: £1.0 million).

The Company's two-year revolving credit facility that was initially signed on 17 June 2016 with Royal Bank of Scotland plc had its 2-year term reset on 21 June 2017. Along with this the Company increased the size of its debt facility to £80 million and brought in another European bank to the syndicate. The facility is secured upon the assets of the Company, has a term of two years and interest is charged at one, three or six-month LIBOR plus a margin. This facility was £56.5 million drawn at year end (2016: nil).

As at the 31 December 2017 the below related debt costs had been incurred by the Company and Group.

	31 December 2017 £'000	Period since incorporation (2 December 2015) to 31 December 2016 £'000
Interest and commitment fees payable	886	228
Other finance charges	846	297
Total finance costs	**1,732**	**525**

As part of the amendments made to IAS 7, "Statement of cash flows", effective 1 January 2017, an entity is required to disclose changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

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

	Total £'000
At 1 January 2017	13
Interest bearing borrowings	122,500
Repayments of interest bearing borrowing	(66,000)
Finance costs	1,732
Interest paid on financing activities	(1,458)
Non-cash - BMF 3	31,415
At 31 December 2017	**88,202**

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

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

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

2017 Financial instrument	< 1 year £'000	1 – 5 years £'000	> 5 years	Total £'000
Credit facility	-	56,500	-	56,500
Mortgage backed Notes	-	-	28,308	28,308
Liquidity facility	850	-	-	850
Interest and commitment fees payable	2,544	-	-	2,544
Total exposure	**3,394**	**56,500**	**28,308**	**88,202**

2016 Financial instrument	< 1 year £'000	1 – 5 years £'000	> 5 years	Total £'000
Credit facility	-	-	-	-
Mortgage backed Notes	-	-	-	-
Liquidity facility	-	-	-	-
Interest and commitment fees payable	13	-	-	13
Total exposure	**13**	**-**	**-**	**13**

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

2017 Financial instrument	< 1 year £'000	1 – 5 years £'000	Total £'000
Credit facility	-	56,500	56,500
Interest and commitment fees payable	287	-	287
Total exposure	**287**	**56,500**	**56,787**

2016 Financial instrument	< 1 year £'000	1 – 5 years £'000	Total £'000
Credit facility	-	-	-
Interest and commitment fees payable	13	-	13
Total exposure	**13**	**-**	**13**

17. ORDINARY SHARE CAPITAL

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

	31 December 2017	31 December 2016
No. Issued, allotted and fully paid ordinary shares of £0.01 each	29,926,110	19,926,110
£'000	299	199

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

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

On 23 December 2015, 10,000,000 ordinary shares of 1p each were issued to shareholders as part of the

placing and offer for subscription in accordance with the Company's prospectus dated 18 December 2015.

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

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

18. SPECIAL DISTRIBUTABLE RESERVE

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

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

During the year £0.5 million of the special distributable reserve was used to pay the Q4 2016 Dividend which was paid on 28 March 2017.

19. STRUCTURED ENTITIES

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

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

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

Further details on the activities of this consolidated structured entity is set out in Note 2 and 4.

20. INVESTMENTS IN SUBSIDIARIES

The Company has invested in a structured entity, and by virtue of having accounting control, has to consolidate this entity. Details of this can be found in note 2,4 and 19.

The Company is deemed to control Business Mortgage Finance 3 plc ("BMF 3"), a public limited company incorporated under the Laws of England and Wales. The company is registered at Asticus Building 2nd Floor 21 Palmer Street, London, SW1H 0AD. BMF 3 is a securitisation vehicle for UK commercial mortgages and operates in a pre-determined manner. The Company is considered to control BMF 3 from 20 December 2017 by virtue of having exposure to the variable returns of the vehicle through the holding of a junior note issued by it.

21. INVESTMENTS IN ASSOCIATES

As at 31 December 2017, the Company has a single associate, being a 28.57 per cent investment in Hiber Limited (formerly The Green Deal Finance Company Limited). This is a UK platform responsible for setting-up, financing and administering Green Deal Plans in The Green Deal programme. As permitted by IAS 28 'Investment in Associates' and in accordance with the Company's accounting policy the investment is accounted for at fair value through profit or loss. No dividends were declared during the year in respect of the investment. The Company holds Hiber Limited at a fair value of £3 million.

The unaudited net assets as at 31 December 2017 were £3.6 million, and the profit after tax was £24.5 million.

Hiber Limited is incorporated in England and Wales.

The Company has also provided £5.0 million of debt funding to the platform.

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

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

22. NET ASSET VALUE PER ORDINARY SHARE

	31 December 2017	31 December 2016
Net asset value per ordinary share pence	1,018.4p	1,014.0p
Net assets attributable £'000	304,749	202,051

The net asset value per ordinary share as at 31 December 2017 is based on net assets at the year-end of £304.759 million and on 29,926,110 ordinary shares in issue at the year-end.

The net asset value per ordinary share as at 31 December 2016 is based on net assets at the period-end of £202.051 million and on 19,926,110 ordinary shares in issue at the year-end.

23. CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

As at 31 December 2017 and 31 December 2016 there were no contingent liabilities or capital commitments for the Company. The Company did have £39.4 million (2016: £14.6 million) of undrawn committed structured credit facilities at 31 December 2017.

24. RELATED PARTY TRANSACTIONS AND TRANSACTIONS WITH THE INVESTMENT MANAGER

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

Associates - at 31 December 2017 outstanding loan balance of £5.0 million and accrued interest of £459,384.

Directors – The remuneration of the Directors is set out in the Directors' Remuneration Report on pages 38 to 41. There were no contracts subsisting during or at the end of the year in which a Director of the Company is or was interested and which are or were significant in relation to the Company's business. There were no other transactions during the year with the Directors of the Company. The Directors do not hold any ordinary shares of the Company.

At 31 December 2017, there was £nil (2016: £456) payable to the Directors for fees and expenses.

Investment Manager – Pollen Street Capital Limited (the 'Investment Manager'), a UK-based company authorised and regulated by the FCA, has been appointed the Company's investment manager and AIFM for the purposes of the AIFMD. Details of the services provided by the Investment Manager and the fees paid are given on page 68.

During the year the Company paid £5.25 million (2016: £2.52 million) of fees and at 31 December 2017, there was £2.92 million (2016: £1.45 million) payable to the Investment Manager.

Origination Partner – Honeycomb Finance Limited (the "Origination Partner"), a UK-based company authorised and regulated by the FCA, has been appointed as one of the Company's origination partners. Honeycomb Finance Limited is a wholly owned subsidiary of Pollen Street Capital Holdings Limited, the parent company of the Investment Manager. Details of the services provided by the Origination Partners are given on page 69.

During the year that the Origination Partner was part of the same group as the Investment Manager, the fees payable to the Origination Partner by the Company were deducted from the management fee payable to the Investment Manager and totalled £64,000 (2016: £40,000), and at 31 December 2017, there was £nil (2016: £nil) payable to the Origination Partner.

25. FINANCIAL RISK MANAGEMENT

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

Market risk

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

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

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

(a) Price risk

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

The Company is exposed to price risk arising from its equity investments. Given the Company's unquoted equity assets were acquired as a result of recent transactions, they are valued at the transaction price. Sensitivity analysis is not considered appropriate at this stage as there are not multiple inputs used for valuation.

(b) Interest rate risk

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

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

The Company intends to manage the mismatch it has in respect of the income generated by its Credit Assets, on the one hand, with the liabilities in respect of its borrowings, on the other hand, by matching any floating rate borrowings with investments in Credit Assets that are also subject to a floating rate of interest. To the extent that the Company is unable to match its funding in this way, it may use derivative instruments, including interest rate swaps, to reduce its exposure to fluctuations in interest rates, however some unmatched risk may remain.

The Company finances its operations mainly through its share capital and reserves, including realised gains on investments. In addition, the Company has a debt facility of £80 million. As at 31 December 2017 the Company had £56.5 million drawn-down under this facility (2016: nil).

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

Financial instrument	Floating Rate £'000	Fixed or Administered Rate £'000	Total £'000
Investments at amortised cost	39,706	329,623	369,329
Cash and cash equivalents	16,893	-	16,893
Mortgage backed notes	(28,308)		(28,308)
Interest bearing borrowings	(57,349)	-	(57,349)
Total exposure	**(29,058)**	**329,623**	**300,565**

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

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

Exposure of the Company's and Group's financial assets and liabilities to floating interest rates (giving cash flow interest rate risk when rates are reset) and fixed interest rates (giving fair value risk) as at 31 December 2016 is shown below:

Financial instrument	Floating Rate £'000	Fixed or Administered Rate £'000	Total £'000
Investments at amortised cost	17,532	140,313	157,845
Cash and cash equivalents	38,877	-	38,877
Interest bearing borrowings	-	-	-
Total exposure	**56,409**	**140,313**	**196,722**

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

A 1 per cent change in interest rates impacts income on the assets with a floating rate by £0.3 million (2016: £36,000). A 1 per cent change in interest rates impacts debt expense on the liabilities with a floating rate by £0.2 million (2016: nil).

(c) Currency risk

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

26. Credit risk

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

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

The Investment Manager and the Origination Partner established and adheres to stringent underwriting criteria. For consumer loans, underwriting includes credit referencing, income verification and affordability testing, identity verification and various forward-looking indicators of a borrower's likely financial strength. The Company invests in a granular portfolio of assets, diversified at the underlying borrower level, with each loan being subject to a maximum single loan exposure limit.

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

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

Credit Risk Band	Unsecured £'000	Secured £'000	Total £'000
A & B	129,845	216,502	**346,347**
C	17,200	301	**17,501**
D & E	10,398	-	**10,398**
Total	**157,443**	**216,803**	**374,246**

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

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

Set out below is the analysis of the closing balances of the Company's and Group's credit assets split by the type of loan and the credit risk band as at 31 December 2016:

Credit Risk Band	Unsecured £'000	Secured £'000	Total £'000
A & B	18,809	126,594	**145,403**
C	11,247	37	**11,284**
D & E	3,330	-	**3,330**
Total	**33,386**	**126,631**	**160,017**

Each credit risk band is defined below:

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

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

Liquidity risk

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

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

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

The Company has a committed debt facility totalling £80.0 million (details of which is disclosed in note 16).

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

For the Group for the year ended 31 December 2017:

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets				
Held-to-maturity loans	10,314	-	-	10,314
Loans at amortised cost	-	-	359,015	359,015
Receivables	-	3,488	-	3,488
Cash and cash equivalents	16,893	-	-	16,893
Total assets	**27,207**	**3,488**	**359,015**	**389,710**
Liabilities				
Management fee payable	-	592	-	592
Performance fee payable	-	2,329	-	2,329
Other payables	-	1,900	-	1,900
Interest bearing borrowings	-	88,202	-	88,202
Total liabilities	**-**	**93,023**	**-**	**93,023**

For the Company for the year ended 31 December 2017:

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets				
Held-to-maturity loans	10,314	-	-	10,314
Loans at amortised cost	-	-	335,252	335,252
Receivables	-	3,477	-	3,477
Cash and cash equivalents	5,730	-	-	5,730
Total assets	**16,044**	**3,477**	**335,252**	**354,773**
Liabilities				
Management fee payable	-	592	-	592
Performance fee payable	-	2,329	-	2,329
Other payables	-	1,875	-	1,875
Interest bearing borrowings	-	56,787	-	56,787
Total liabilities	**-**	**61,583**	**-**	**61,583**

For the Company and Group for the period ended 31 December 2016:

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets				
Loans at amortised cost	-	-	157,845	157,845
Receivables	-	3,723	-	3,723
Cash and cash equivalents	38,877	-	-	38,877
Total assets	**38,877**	**3,723**	**157,845**	**200,445**
Liabilities				
Management fee payable	-	136	-	136
Performance fee payable	-	1,314	-	1,314
Other payables	-	2,030	-	2,030
Interest bearing borrowings	-	13	-	13
Total liabilities	**-**	**3,493**	**-**	**3,493**

Categorisation within the hierarchy has been determined based on the lowest level input that is significant to the fair value measurement of the relevant asset or liability (see note 12 Investments at Fair Value Through Profit or Loss for details). Further details of the loans at amortised cost held by the Company can be found in note 1.

Capital Management

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

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

The Company has met these objectives through a successful share offering where the company raised £105 million excluding issue costs and through increasing the size of the Company debt facility to £80.0 million. The Group's debt to equity ratio was 29.6 per cent at 31 December 2017 and the Company's was18.9 per cent.

The Company is subject to externally imposed capital requirements:

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

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

27. ULTIMATE CONTROLLING PARTY

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

28. SUBSEQUENT EVENTS

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

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

On 8 March 2018 the Company announced a supplementary prospectus in connection with the publication of the Company's interim report and financial statements.

The Company increased the size of its debt facility on 21 March 2018 to a committed £150 million within the existing syndicate. The facility is secured upon the assets of the Company, has a term of two years and interest is charged at one, three or six-month LIBOR plus a margin.

On 29 March 2018, a dividend of 20.0 pence per ordinary share was paid.

On 12 April 2018, a dividend of 20 pence per ordinary share was declared, payable on 29 June 2018.

On 19 April 2018, the Company announced its intention to proceed with a placing of 9,523,809 ordinary shares at a price per share of 1,050 pence per share. That placing closed the same day, with admission becoming effective on 23 April 2018.

4 Shareholders' Information

Directors, Portfolio Manager and Advisers

Directors
Robert Sharpe
Jim Coyle
Ravi Takhar

all at the registered office below

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

Registered Office
6th Floor
140 London Wall
London EC2Y 5DN
England

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

Investment Manager and AIFM
Pollen Street Capital Limited
8 Hanover Street
London W1S 1YF
England

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

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

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

Custodian
Sparkasse Bank Malta PLC
101 Townsquare
Sliema SLM3112
Malta

Website
http://www.honeycombplc.com/

Share Identifiers
ISIN: GB00BYQDNR86
Sedol: BYZV3G2
Ticker: HONY

Website

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

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

Annual and half-yearly reports

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

Share prices and Net Asset Value information

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

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

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

Electronic communications with the Company

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

Whistleblowing

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

Warning to shareholders – share fraud scams

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

How to avoid share fraud

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

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

Report a scam

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

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

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

5 Definitions

Credit Assets	Credit Assets are loans made to consumers and small businesses as well as other counterparties, together with related investments.
Equity Assets	Equity Assets are selected equity investments that are aligned with the Company's strategy and that present opportunities to enhance the Company's returns from its investments.
Net asset value (NAV)	Net asset value represents the total value of the Company's assets less the total value of its liabilities. For valuation purposes, it is common to express the net asset value on a per share basis.
Ongoing charges	Ongoing charges is calculated as a percentage of annualised ongoing charge over average reported Net Asset Value. Ongoing charges are those expenses of a type which are likely to recur in the foreseeable future.
Premium	If the share price of the Company is higher than the net asset value per share, the Company's shares are said to be trading at a premium. The premium is shown as a percentage of the net asset value.
Discount	If the share price of the Company is lower than the net asset value per share, the Company's shares are said to be trading at a discount. The discount is shown as a percentage of the net asset value.
Fair Value	The amount for which an asset could be exchanged, or a liability settled, between willing parties in an arm's length transaction.
Registrar	An entity that manages the Company's shareholder register. The Company's registrar is Computershare Investor Services PLC.
AIF	An Alternative Investment Fund, as defined in the AIFM Directive 2011/61/EU on Alternative Investment Fund Managers
LIBOR (London Inter-Bank Offered Rate)	The interest rate participating banks offer to other banks for loans on the London market.
AIFM	An Alternative Investment Fund Manager, as defined in the AIFM Directive. Pollen Street Capital Limited undertakes this role on behalf of the Company.
Neither past due nor impaired	Loans that are not in arrears and which do not meet the impaired asset definition. This segment can include assets subject to forbearance solutions.
Consumer Loan	An amount of money lent to an individual for personal, family, or household purposes.
Term Funding Scheme (TFS)	The Bank of England launched the TFS in 2016 to allow banks and building societies to borrow from the Bank of England at rates close to Bank base rate. This is designed to increase lending to businesses by lowering interest rates and increasing access to credit.
Servicers	Comprehensive loan servicing to support the full loan lifecycle, from origination, through account servicing to arrears management.
Hedging	An investment to reduce the risk of adverse price movements in an asset.