Registered Number: 09899024

Honeycomb Investment Trust plc

Annual Report and Audited Financial Statements

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

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1 Strategic Report

Investment Objective

The investment objective of Honeycomb Investment Trust plc (the “Company”) is to provide shareholders with an attractive level of dividend income and capital growth through 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 2016 (Audited)	30 June 2016 (Unaudited)
NET ASSET VALUE		
NET ASSET VALUE (CUM INCOME) (£'000)(1)	202,051	150,925
NET ASSET VALUE (EX INCOME) (£'000)(2)	196,969	147,630
MARKET CAPITALISATION (£'000)(3)	203,346	152,250
PER SHARE METRICS		
SHARE PRICE (AT CLOSE)(4)	1,020.5p	1,015.0p
NAV PER SHARE (CUM INCOME)	1,014.0p	1,006.2p
NAV PER SHARE (EX INCOME)	988.5p	984.2p
SHARES IN ISSUE	19,926,110	15,000,001
KEY RATIOS		
PREMIUM / (DISCOUNT)(5)	0.6%	0.9%
ITD TOTAL NAV PER SHARE RETURN(6)(7)	7.8%	2.7%
DEBT TO EQUITY RATIO	0.0%	2.0%
REVENUE RETURN(8)	8.8%	3.2%
DIVIDEND RETURN(9)	8.0%	2.9%
ONGOING CHARGES(10)	1.5%	1.7%

(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 period, plus dividends declared during the period, divided by NAV (Cum Income) calculated on a per share basis at the start of the period.

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

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

(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 consumer lending market is large and growing with £250 billion[1] lent annually, with growth at 5% per annum for the last 4 years and is forecast to continue.

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 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 ordinary share per annum on the issue price for the 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. The Investment Manager forecast to Dec-16 based on Q3 changes in balances being repeated in Q4 (Actual to Sept-16)

How the Business Works

Credit Assets

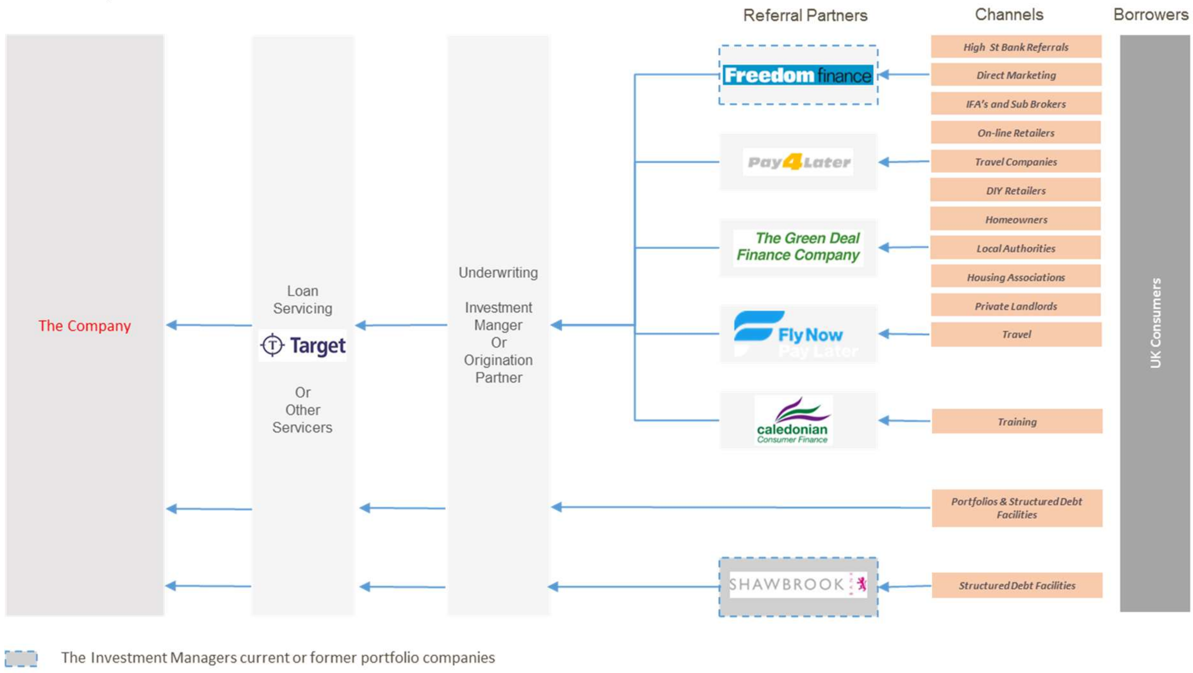
The Investment Manager, on behalf of the Company, actively identifies sub-segments of the large consumer and SME lending market that it believes delivers attractive net returns. It then targets channels, origination partners and loan portfolio vendors through which to develop Credit Assets and diversify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

Through the Origination Partner's arrangements with Freedom Finance, Pay4Later, Shawbrook Bank, Fly Now Pay Later and The Green Deal Finance Company (the "Referral Partners"), together with wholesale lenders and vendors of portfolios, the Directors believe that the Company has access to diverse investment opportunities across several market segments, each with different borrower profiles and different risk return characteristics. Through access to multiple Referral Partners and other counterparties, the Company will reduce its dependence on any one single source of opportunities to acquire Credit Assets and expects to gain a strong visibility of high quality assets.

The Company believes it is important to provide best-in-class servicing to ensure that Credit Assets forming part of the portfolio are managed efficiently throughout their lifecycle. As such, the Company appoints servicers best placed to service the investment asset. The Company and the Origination Partner have jointly appointed Target Servicing Limited ("Target") to administer Credit Assets forming 92 per cent of consumer loans owned by the Company. Additional service providers may be used by originators, sellers of portfolios and wholesale borrowers or their affiliates or other third party incumbents engaged by them.

The arrangements above can be summarised in the following diagram:



Equity Assets

The Company's aim is to invest in Equity Assets that are aligned with the Company's strategy and that present opportunities to enhance the Company's returns from its investments. The Company expects, that most of its investments in Equity Assets will take the form of minority interests in Referral Partners, in pursuit of the Company'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 Company'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 first set of annual results for Honeycomb Investment Trust plc (the "Company"), covering the period from the Company's incorporation on 2 December 2015 to its 31 December 2016 period end.

The Board has been pleased with progress during this, the first year of trading. Following the initial share issue of £100.0 million, there have been two further successful share offerings with total gross proceeds of £100.0 million. The net share proceeds of all the share offerings have been deployed, with the latest gross proceeds of £50.0 million largely deployed on 13 January 2017 following the Company's financing of the Green Deal Finance Company.

PERFORMANCE

The Company has performed well during the year. A detailed assessment of the progress of the Company follows in the Investment Manager's review but performance since the initial public offering has been ahead of the Board's expectations. At 31 December 2016, the Company's net assets were £202.1 million (cum income), with market capitalisation at £203.3m. NAV per share (cum income) was 1014.0p, with the share price (at close) 1020.5p, representing a premium of 0.6%. Total NAV per share return was 7.8%.

DIVIDEND

The Board elected to pay dividends on a quarterly basis, and paid the first dividend of 2.11p for Q1 2016 in May 2016.

The Q2 2016 dividend increased to 19.66p. The Q3 2016 dividend was 23.13p, rising above the target yield on an annualised basis at 9.3%. The Q4 2016 dividend was 23.50p, providing an annualised dividend of 12.5% undiluted and 9.4% fully diluted following the issue of a further 4.9m shares on 16 December 2016. For the full year, this represented 8.0% of average issued shares.

GEARING

The Company has arranged a debt facility of £37.5 million with the Royal Bank of Scotland plc and is in the process of securing further facilities. The facility was utilised on a small scale during the year, but was not drawn at the year-end following net receipts from the portfolio investments. It is expected this facility will be drawn in the first half of 2017 in order to fund further investment opportunities.

OUTLOOK

The Company has deployed capital ahead of schedule on assets that are performing in line with our expectations. Despite the competitive consumer finance market place, we believe that the retrenchment of mainstream lenders from specialist markets presents an enormous opportunity to engage with customers in markets which are underserved by traditional lenders and platforms. We further believe that through targeting verticals that require a specialist understanding, more detailed underwriting, or where the vertical pre-selects higher quality borrowers, attractive risk-adjusted returns can be delivered with low volatility throughout the cycle.

We have continued to see some political uncertainty, including Brexit, intensified competition and regulatory changes in consumer finance in 2016 but despite this trading backcloth the Company has made good progress. This has been possible because the business strategy is robust and the excellent team of people involved are executing the strategy successfully.

The Board is confident of the long-term prospects for the Company.

Robert Sharpe

Chairman
26 April 2017

Investment Manager's Report

The Company 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 and platforms through direct origination through specialist channels, investments in loans to specialist lenders and the acquisition by the Company of interests in portfolios of Credit Assets from third parties.

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

The Company completed its initial public offering on 23 December 2015, raising initial gross proceeds of £100.0 million. During the first year of operation, we have focused on building a strong portfolio of assets in line with our investment mandate. Within the first six months of operation, we had visibility on the portfolio being fully invested. As a result, further share offerings were completed in May 2016 and December 2016 with total gross proceeds of £100.0 million. This was in conjunction with the Company completing its first debt facility with The Royal Bank of Scotland plc for £37.5 million in June 2016.

At the end of the year, we have built a total portfolio of £162.6 million, with a pipeline of over £100 million of further opportunities over which we have strong visibility (within this, in January 2017 the Company provided finance of £40m, which included the acquisition of a loan book from, and taking an equity stake of 28.57% in, The Green Deal Finance Company). This portfolio is an attractive mix of assets combining both strong yields with low bad debt rates.

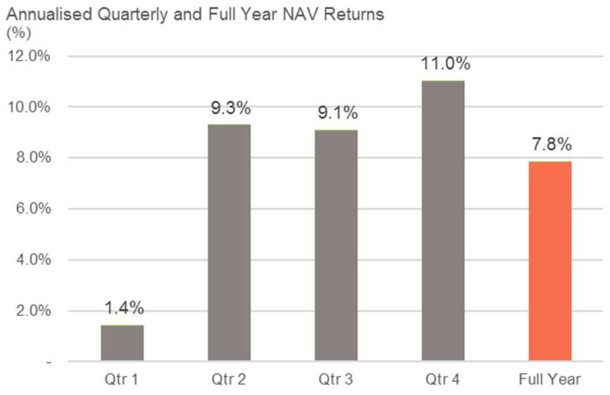
In Q1 2016, we focused on deploying the initial proceeds, whilst maintain high underwriting standards. We achieved this more quickly than initially expected by identifying two high quality portfolios. Together, these portfolios comprised over 18,000 loans with strong risk-adjusted returns. The transactions have performed ahead of expectations and as a result the Company was able to invest in follow-on transactions with both counter-parties throughout the year.

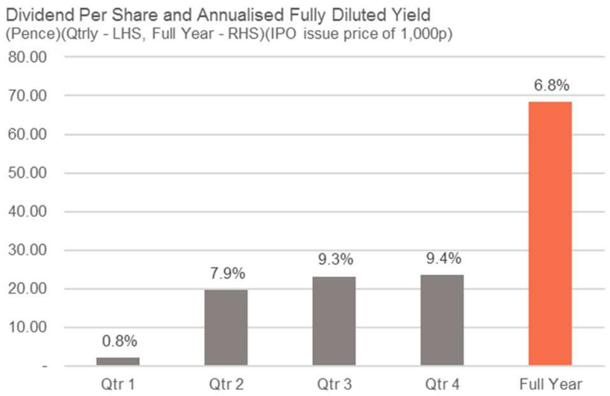
In Q2 2016, the Company purchased a portfolio of secured and unsecured consumer loans from GE Money. This represents the largest individual investment the Company has made. The portfolio is highly granular and diversified, both regionally across the UK, by asset class and borrower type. At acquisition, the portfolio comprised over 23,000 loans with an average balance of £8k and has performed well since acquisition delivering both strong interest yields and low levels of write-offs. Our other portfolio purchases in 2016, representing a total investment of £45.0 million, have also performed ahead of expectations. Together, the portfolios we have purchased provide a strong underpinning of results in 2016, with a total of £114 million investment remaining at the end of the year.

In the second half of the year, we have focused on the organic origination channels. With a backdrop of higher levels of consumer indebtedness and increasing competition in mainstream markets, we have grown our holdings of wholesale facilities. 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 are performing well. The Company's Origination Partner has seen the successful roll-out of its first three referral partner arrangements with Freedom Finance, Pay4Later and Fly Now Pay Later, all of whom have seen a steady growth of origination volumes during the period. Further referral partners are currently being on-boarded and the profile of returns and risk is in line with expectations with The Green Deal Finance Company being appointed in January 2017. In aggregate, the organic channels had a total investment of £49.7 million at the balance sheet date.

To further enhance investor returns, the Company intends to make selected investments in companies which are aligned with the Company's strategy, such as brokers and originators of loans and strategic providers of data and technology related to consumers and small and medium-sized enterprises. Equity Assets as at 31 December 2016 totalled £4.7 million, consisting of an 18.3 per cent holding in Freedom Finance (the initial 19.9 per cent shareholding being diluted due to subsequent issuances which occurred in July 2016 following the acquisition of Sensible Home Finance) and a 4.83 per cent equity investment in retail point of sale finance provider Pay4Later. Both businesses are trading well, seeing new partnerships as well as continued investments in technology and management capabilities.

The financial performance of the Company has been strong. In our initial guidance, we were targeting a dividend yield of at least 8 per cent (based on issue price) and reached this level in Q3 2016. As shown in the charts below, we have outperformed these expectations. Overall for the year, the four quarterly dividends as a percentage of average NAV was 8.0%.





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, which, including dividends declared or paid, is equivalent to a NAV return of 7.8% since inception. Additionally, the share price of the Company at 31 December 2016 was 1,020.5 pence per share, representing a 0.6% 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 this year.

Looking ahead, there are likely to be challenges during 2017 as the UK comes to terms with the impact of the Brexit vote and the long-term effects of the UK leaving the European Union become clearer. In addition, with household borrowing at high levels and increased competition in main stream unsecured lending, we intend to proceed with caution. That said, we believe that the Company's business model, combined with our approach to risk, sets it in good stead to find suitable pockets of risk adjusted return. We believe that our ability to invest in wholesale facilities, combined with our focus on specialist markets where we expect enhanced credit performance, will allow us to continue to deploy the Company's funds and deliver strong returns. We continue to view the future with confidence.

Top Ten Holdings

		Country	Value of holding at year-end (£m)	Percentage of assets[1]
1	1st Stop Group Limited	United Kingdom	10.0	6.14%
2	EZBob Limited	United Kingdom	4.1	2.51%
3	IWOCA Limited	United Kingdom	3.4	2.10%
4	Freedom Finance Limited	United Kingdom	2.7	1.68%
5	Pay4Later Limited	United Kingdom	2.0	1.23%
6	Individual consumer loan	United Kingdom	0.1	0.07%
7	Individual consumer loan	United Kingdom	0.1	0.05%
8	Individual consumer loan	United Kingdom	0.1	0.05%
9	Individual consumer loan	United Kingdom	0.1	0.05%
10	Individual consumer loan	United Kingdom	0.1	0.05%

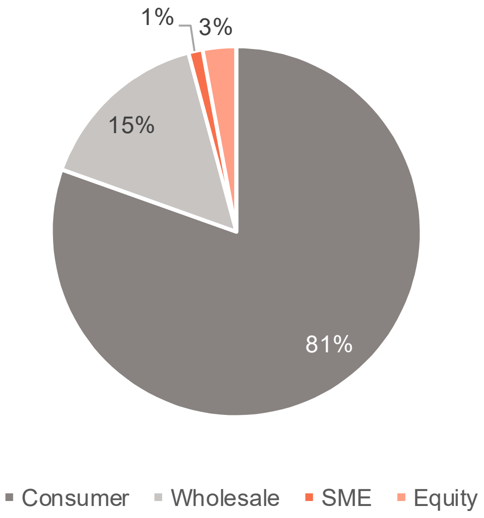
(1) Percentage of total investment assets.

Portfolio Composition

The composition of the Honeycomb Investment Trust portfolio is set out below:

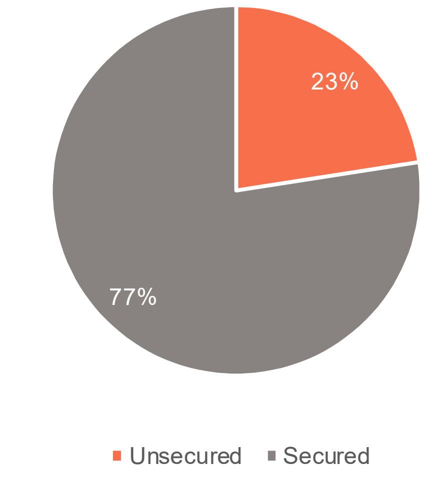
Borrower Type (By balances)

Counterparty Type (By balances)



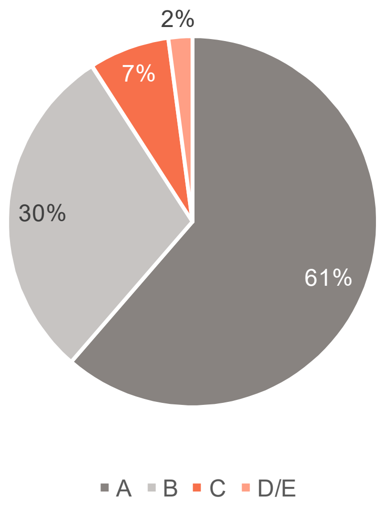
Loan Security

(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 20 has been prepared to help shareholders assess how the Company works and how it has performed. The strategic report has been prepared in accordance with the requirements of Section 414 A-D of the Companies Act 2006 (the "Act") and best practice. The business review section of the strategic report discloses the Company's risks and uncertainties as identified by the Board, the key performance indicators used by the Board to measure the Company's performance, the strategies used to implement the Company's objectives, the Company's environmental, social and ethical policy and the Company's 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, 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, please see: http://www.theaic.co.uk/guide-to-investment-companies.

STRATEGIC AND INVESTMENT POLICY

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

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

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

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

Asset allocation and risk diversification

Credit Assets invested in by the Company will consist of debt obligations, both secured and unsecured, within a range of sub-sectors selected based on their risk/return characteristics. These sub-categories may include, but are not limited to, personal loans, 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 wholesale finance for consumer and SME lending.

The Company's investment in Credit Assets will encompass 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 portfolios of Credit Assets from third parties; and
3. the investment in loans to specialist lenders for the purposes of providing wholesale finance to those specialist lenders, secured against (amongst other things) granular portfolios of 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, in the future, seek to use alternative investment structures which achieve comparable commercial results to the investments described above (such as, without limitation, sub-participations in loans, credit-linked securities or fund structures), but which offer enhanced returns for the Company or other efficiencies (such as, without limitation, efficiencies as to origination, funding, servicing or administration of the relevant Credit Assets).

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

INVESTMENT RESTRICTIONS

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

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

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

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

- no single Credit Asset comprising a consumer credit asset shall exceed 0.15% of Gross Assets;
- no single SME or corporate loan, or trade receivable, shall exceed 5.0% 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% of Gross Assets. For the avoidance of doubt, this restriction shall not prevent the Company from directly acquiring portfolios of Credit Assets which comply with the other investment restrictions described in this section. The Company will not invest in Equity Assets to the extent that such investment would, at the time of investment, result in the Company controlling more than 35% of the issued and voting share capital of the issuer of such Equity Assets.

Other restrictions

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

The Company will not invest in collateralised loan obligations or collateralised debt obligations.

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% 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 will take into account investments made by the Company on a subordinated basis. The Company targets borrowings in the range of 50% to 75% 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 levered 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 Company's control, and can adversely affect the Company's results of 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 Company has between the income generated by its Credit Assets, on the one hand, and the liabilities in respect of its borrowings, on the other hand, may be managed, in part, by matching any floating rate borrowings with investments in Credit Assets that are also subject to a floating rate of interest. The Company may use derivative instruments, including interest rate swaps, to reduce its exposure to fluctuations in interest rates.

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

CASH MANAGEMENT

Whilst it is intended that the Company will be close to fully invested in normal market conditions, the Company may invest surplus capital in cash deposits, cash equivalent instruments and fixed income instruments. There is no restriction on the amount of cash or cash equivalent instruments that the Company may hold and there may be times when it is appropriate for the Company to have a significant cash position instead of being fully or near fully invested. As at 31 December 2016 the Company held £38.9m of its assets in cash. This level of cash was the result of the new share issue which completed on 16 December 2016 and was deployed on 13 January 2017.

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% 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 prospectus dated 18 December 2015 (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 also can call upon the advice of the company secretary. During the period under review the Board appointed Slaughter and May to advise on the Company's Initial Public Offering in December 2015 and to provide ongoing legal services to the Company.

FUTURE DEVELOPMENTS

The Company's future developments and outlook are discussed in more detail in the Chairman's Statement on pages 8 and the Investment Manager's review 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 period under review the Company's ordinary shares traded predominantly at a premium to its underlying Net Asset Value throughout the period. 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 period the Board authorised the issue of 9.9 million shares by way of a tap issue.

On 18 December 2015, the Board was granted authority to issue up to 20,000,000 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 is seeking to renew its authority to allot ordinary shares at the forthcoming AGM.

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, the Board has vested powers to buy back ordinary shares up to a maximum of 14.99% of the shares issued following the Company's Initial Public Offering. This authority will expire at the conclusion of the Company's first AGM or, if earlier, 18 months from the date on which the resolution conferring the authority was passed. As the Company's shares traded predominantly at a premium to Net Asset Value throughout the period under review, no repurchases were authorised. At the forthcoming AGM the Board is seeking to renew its powers to buy back ordinary shares.

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

CORPORATE AND OPERATIONAL STRUCTURE

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 and administrator;
- Indos Financial Limited has been appointed to act as the Company's depositary;
- Computershare Investor Services plc has been appointed as the Company's 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

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. In addition, the Company has appointed Indos Financial Limited as depositary, to provide custody services to the Company as required by the AIFMD.

Donations

The Company made no political or charitable donations during the period under review to organisations either within or outside the EU.

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 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.

BOARD DIVERSITY

The Board 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 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 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, 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 Issue Shares

The market price of the issue shares may fluctuate widely in response to different factors and there can be no assurance that the issue 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 issue shares.

Mitigation

The Investment Manager and the Board closely monitor the level of discount or premium at which the 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 purchases will take place or that any purchases will have the effect of narrowing any discount to Net Asset Value at which the ordinary shares may trade. When the shares trade at a premium the Company may issue shares to reduce the premium at which shares trade. As at 31 December 2016 the 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 issue 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 50-75 per cent of Net Asset Value and had no current borrowing.

Exposure to Credit Risk

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.

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.

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 Chapter 4 of Part 24 of the Corporation Tax Act 2010. Both the Board and the Investment Manager are aware of the requirements which are to be fulfilled in any accounting period for the Company to maintain its investment trust status. The conditions required to satisfy the investment trust criteria 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 legislation and regulations, including, but not limited to, the Consumer Credit Act and the Data Protection Act. Any breach of applicable legislative 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 to terminate each of these counterparties with limited notice should they 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 26 April 2017 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 67)

Robert has over 35 years' experience in retail banking. He is currently chairman at Al Rayan Bank plc and Bank of Ireland UK plc and non-executive Director of Aldermore Group plc and Aldermore Bank plc. He has recently returned from the Middle East where he held several non-executive Directorships at banks in the UAE, Oman and Turkey. Robert was previously executive chairman at Stonehaven UK Limited and 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 60)

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, and a non-executive Director at the Scottish Building Society, Scottish Water and Marks & Spencer Bank plc. He was previously 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 51)

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

BOARD MEMBERS, AND DIRECTORS' AND OFFICERS' INSURANCE

The names and biographical details of the Board members who served on the Board as at the period end can be found on page 22. Lindsey McMurray and James Scott were appointed the Company's initial Directors at the Company's incorporation on 2 December 2015. Both Lindsey McMurray and James Scott resigned from the Board on 14 December 2015 at which point Robert Sharpe, Jim Coyle, Ravi Takhar, and Mark Huggins were appointed. Mark Huggins resigned on 13 April 2016.

During the year under review the Company purchased and 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 Chapter 4 of Part 24 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.

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 20 and details of the Company's internal controls can be found on pages 31 to 32. 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 2016, the Company had 19,926,110 ordinary shares in issue. There are no other classes of shares in issue and no shares are held in Treasury.

On 18 December 2015, the Board was granted authority to issue up to an additional 20,000,000 ordinary shares and / or C shares in aggregate prior to the conclusion of the Company's first 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. The Directors are seeking to renew their authority to allot ordinary shares at the Company's forthcoming AGM to be held on 2 June 2017.

During the period under review a total of 19,926,109 ordinary shares were issued as detailed below:

	Shares issued	Price paid per share (pence)	Premium to net asset value (%) (1)
23 Dec 2015	10,000,000	1,000.0	1.8%
17 May 2016	5,000,000	1,000.0	0.6%
16 Dec 2016	4,926,109	1,015.0	1.0%

(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 prospectus dated 18 December 2015 (the "Prospectus"). The dividends paid or payable in respect of the period ended 31 December 2016 are set out Note 8 to the financial statements. A reconciliation of movements in reserves is presented in the Changes in Shareholders' Funds on page 48 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 period.

SUBSTANTIAL SHARE INTERESTS

As at 31 December 2016, 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	Date notified	Ordinary shares	Percentage of total voting rights	
			Before notification	After notification
Caledonian Consumer Finance Limited	23 February 2016	700,000	0.00%	7.00%
Invesco Limited	16 December 2016	9,137,469	46.00%	45.85%
Prudential plc; M&G Group Limited; M&G Limited; M&G Investment Management Limited; M&G Securities Limited	19 December 2016	1,634,482	Less than 3%	8.20%

Following the year-end, the Company has not received any further notifications.

INDEPENDENT AUDITOR

The Company's independent auditor, Pricewaterhouse-Coopers LLP ("PwC"), were appointed during the period and has expressed willingness to continue to act as the Company's auditor for the forthcoming financial year. The Audit Committee has carefully considered the auditor's 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 period under review, has recommended to the Board that the independent auditor be appointed at the forthcoming AGM. At the first AGM resolutions are therefore to be proposed for the appointment of the independent auditor 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 33 to 35 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 is 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 is aware of that information.

ARTICLES OF ASSOCIATION

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

GOING CONCERN

The Directors have reviewed the financial projections of the Company from the date of this report, which shows that the Company will be able to generate sufficient cash flows in order to meet its liabilities as they fall due. Accordingly, the Directors are satisfied that the going concern basis remains appropriate for the preparation of the financial statements. The Company also has detailed policies and processes for managing the risks, set out in the Strategic Report on pages 17 to 19.

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 September 2014, the Directors have assessed the prospects of the Company over a three-year period ending December 2019. The Board believes this period to be appropriate taking into account the current trading position and the potential impact of the principal risks that could affect the viability of the Company.

At the year-end, the Company had cash balances of £35.4 million in excess of all liabilities. There are therefore limited risks to the viability of the Company. 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 demonstrates that due to the stability and cash generating nature of the portfolios and wholesale agreements, as well as the debt facilities in place, the Company would be able to withstand the impact of the risks identified. Based on the robust assessment of the principal risks, prospects and viability of the Company, the Board confirms that they have reasonable expectation that the Company will be able to continue operation and meet its liabilities as they fall due over the three-year period ending December 2019. The Board also continuously monitor the financial performance of the Company against key financial ratios ensuring a strict discipline in the financial management of the business.

MANAGEMENT AND ADMINISTRATION

Company Secretary

Apex Fund Services (UK) Ltd (the "Company Secretary") has been appointed as the company secretary of the Company. 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

Apex Fund Services (UK) Ltd (the 'Administrator'), a company authorised and regulated by the Financial Conduct Authority ("FCA"), has been appointed as the administrator of the Company. 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) £5,150 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 was 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 5 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 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.

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, and under the terms of the placing agreement was entitled to placing commission equal to 1 per cent of gross proceeds (exclusive of VAT and out of pocket expenses). 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 which the Company is party to that might be affected by a change of control of the Company except for the agreement in relation to the Company's debt facility with the Royal Bank of Scotland plc. 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 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 important events to disclose since the period end under review.

On 13th January 2017, the Company provided finance of £40m, which included the acquisition of a loan book from, and taking an equity stake of 28.57 per cent in, The Green Deal Finance Company.

On 31 March 2017, a dividend of 23.50 pence per Ordinary Share was paid. Other than this, there has been no significant change in the financial condition and operating results of the Company during or since the end of the period covered by this report.

FUTURE DEVELOPMENTS

Indications of likely future developments in the business of the Company are set out in the Strategic Report on pages 3 to 20.

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 period under review.
9.8.4(2) – unaudited financial information	The Company has not published any unaudited financial information in either a class 1 circular or a prospectus or in respect of any profit forecast or profit estimate in accordance with listing rule 9.2.18.
9.8.4 (3) – deleted	This provision has been deleted.
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 period under review, the Company issued a total of 9,926,109 ordinary shares with a nominal value of £99,261 and an average price of 1,007.44 pence per share for a total consideration of £98,772,000 including commission and issue costs. Further details can be found on page 23.
9.8.4 (8) and 9.8.4 (9) – relate to companies that are part of a group of companies	The Company is not part of a group of companies. These Listing Rules therefore, do not apply.
9.8.4 (10) – contract of significance	During the period 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 period 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

26 April 2017

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 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 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 FRC has confirmed that AIC member companies who report against the AIC Code and who follow the AIC Guide will be meeting their 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 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 Company.

The Board considers that voluntarily reporting against the principles and recommendations of the AIC Code, and by reference to the AIC Guide (which incorporates the 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 and Remuneration Committees.

For the reasons set out in the AIC Guide, and as explained in the UK Code, the Board considers these provisions are not relevant to the Company, being a small board with only 3 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 does not, at present, consider that separate Nomination and Remuneration Committees would be appropriate at this stage in the Company's life (the Company only having commenced trading and gained its listing fewer than thirteen months prior to the Company's period end) and given the Board's size, being three members in total. Currently, decisions concerning the Board's remuneration, nomination and Board appraisals are undertaken by the Board as a whole. However, the need for separate Nomination and Remuneration Committees 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 22 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 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 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 22.

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 held since the Company was first listed on the London Stock Exchange on 23 December 2015 to 31 December 2016, against the number of meetings each Board or Audit Committee member was eligible to attend during the period under review. All Directors attended the annual Management Engagement Committee meeting held prior to the publication of this Annual Report.

Director	Board	Audit Committee
Robert Sharpe	6/6	2/2
Jim Coyle	6/6	2/2
Ravi Takhar	6/6	2/2

During the period under review Lindsey McMurray and James William Scott served as Directors. However, they both resigned on 14 December 2015 before the Company commenced trading and they were not eligible to attend the above meetings. Mark Huggins was appointed as Director on 14 December 2015 and resigned as a Director on 13 April 2016.

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;
- Approving Board changes;
- Considering and authorising Board conflicts of interest;
- Approving the Company's annual accounts and half yearly accounts including accounting policies;
- Approving the Company's level of gearing;
- The approval of terms of reference and membership of Board Committees; and
- Approving liability insurance.

There is a procedure in place for the Directors to take independent professional advice at the expense of the Company. No such professional advice has been taken by the Directors during the period under review other than in relation to the Company's initial public offering.

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 Pollen Street Capital Limited and free from any business or other relationship that could materially interfere with the exercise of his independent judgement and remained so throughout the period. 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

In consideration of the Company's launch during 2015 and the focus on investment, policies and procedures, the Board has scheduled the first evaluation to take place during 2017 when it was felt the Board and its Committees would be fully established and the most benefit would be derived from the process. 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

As the forthcoming AGM is the Company's first AGM, all members of the Board will put themselves forward for re-election. 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 of 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.

MANAGEMENT AGREEMENT AND CONTINUING APPOINTMENT

Details of the Investment Manager's agreement and fees are set out in note 5 to the financial statements on pages 55 to 56.

The Board keeps the performance of the Investment Manager under continual review. The Company's Management Engagement Committee undertook its first annual appraisal of the manager and portfolio manager after the period under review. 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 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. 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 period 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 auditor 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 33 to 35.

Management Evaluation Committee

The Management Evaluation 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.

STEWARDSHIP RESPONSIBILITIES AND THE USE OF VOTING RIGHTS

The Financial Reporting Council ("FRC") introduced a Stewardship Code which sets out the responsibilities of institutional shareholders in respect of investee companies. Under the Stewardship Code, managers should:

- Publicly disclose their policy on how they will discharge their stewardship responsibilities to their clients;
- Disclose their policy on managing conflicts of interest;
- Monitor their investee companies;
- Establish clear guidelines on how they escalate Evaluation;
- Be willing to act collectively with other investors where appropriate;
- Have a clear policy on proxy voting and disclose their voting record; and
- Report to clients.

The Investment Manager recognises that, in respect of Equity Assets, one of the important obligations that it has as a shareholder is the right to vote on issues submitted to shareholders. These issues may include the election of Directors and other important matters that affect the structure of the investee company. The Investment Manager acts on behalf of the Company in these matters and will consider exercising its voting rights, supported by independent providers, if considered appropriate, ahead of making an election.

RELATIONS WITH SHAREHOLDERS

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

The notice of the AGM, which 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 has reviewed the effectiveness of the Administrator and the Investment Manager's systems of internal control and risk management. During the period 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 17 to 19 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 £2.6 million, split £2.3 million into fixed and £0.3 million in variable remuneration. During the year, the average number of beneficiaries at the Group which includes the AIFM were 19 and the aggregate amount of remuneration paid in relation to the Senior Management of the firm was £1.3 million. Fixed remuneration is amounts paid as salaries. Variable remuneration is amounts paid under bonus arrangements and distributions. The AIFM does not consider that any individual member of staff of the AIFM has the ability to materially impact the risk profile of the Company.

Other disclosures

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

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

Periodic disclosure (FUND 3.2.5 and 3.2.6)

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

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

The current risk profile of the Company is set out in the Strategic Report: Principal Risks and Uncertainties on pages 17 to 19 and in note 21 Financial Risk Management on page 63.

The Company is permitted to be leveraged and the table below sets out the current maximum permitted and actual leverage.

As a percentage of net asset value	Gross method	Commitment method
Maximum level of leverage	100.0%	100.0%
Leverage as at 31 December 2016	0.0%	0.0%

There have been no breaches of the permitted leverage limits within the reporting period and no changes to maximum level of leverage employed by the Company.

Other matters

Pollen Street Capital Limited can confirm that required reporting to the FCA has been undertaken in accordance with FUND 3.4.

Approval

This Report was approved by the Board of Directors on 26 April 2017.

On behalf of the Board
Robert Sharpe
Chairman

Report of the Audit Committee

As Chairman of the Audit Committee I am pleased to present the Audit Committee report for the period ended 31 December 2016.

MEMBERSHIP OF THE AUDIT COMMITTEE

All the Directors are members of the Audit Committee. 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. As the Board is small with only three members, because of the Chairman's relevant financial experience gained through his involvement with other businesses during his career and given our opinion that the Chairman is independent, the Audit Committee greatly benefits from the Chairman's ongoing input.

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 auditor and to approve its remuneration and terms of engagement;
- To review and monitor the external auditor's independence and objectivity; and
- To review and consider on an annual basis the need for an internal audit function.

Matters considered during the period

The Audit Committee has met twice during the period under review and considered the following items:

- The Company's initial accounts for the period ended 31 March 2016 and advised the Board accordingly;
- The Company's half-year financial statements for the period ended 30 June 2016 and advised the Board accordingly;
- The Company's audit plan with the external auditor;
- The policy on non-audit services;
- The 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;
- Company's risk matrix and the internal controls implemented to manage those risks; and
- The appropriateness of the Company's accounting policies and whether appropriate estimates and judgements have been made.

UK non-audit services

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

During the period, the auditor provided reporting accountant services on the Prospectus subsequent to the Company's listing and in relation to the Company's subsequent further issuance of ordinary shares. These non-audit fees amounted to £95,000. The auditor 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 the Company's annual financial statements. The fees in relation to these services were £19,500.

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

SIGNIFICANT ACCOUNTING MATTERS

The Audit Committee met on 26 April 2017 to review the report and accounts for the period to 31 December 2016. 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 review, all of which were satisfactorily addressed:

Issue considered	How the issue was addressed
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.
Risk of misappropriation of assets and ownership of investments	The Audit Committee reviews reports from its service providers on key controls over the assets of the Company. Any significant issues are reported to the Board by the Investment Manager or the Company's Depositary. The Investment Manager has put in place procedures to ensure that investments can only be made to the extent that the appropriate contractual and legal arrangements are in place to protect the Company's assets. The Company's Depositary issues a quarterly report on the status of the assets to the Directors for review.
The risk that income is overstated, incomplete or inaccurate through failure to recognise proper income entitlements or to apply the appropriate accounting treatment for recognition of income.	The Board regularly reviews income forecasts from the Investment Manager. The audit includes checks on the completeness and accuracy of income and also checks that this has been recognised in accordance with stated accounting policies.
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 audit also includes checks on the completeness and accuracy of impairments and also checks that this has been recognised in accordance with stated accounting policies.

External auditor

The Company's external auditor, Pricewaterhouse-Coopers LLP ("PwC"), were appointed 16 May 2016. 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. Mr McGuire's appointment is reviewed annually. In accordance with UK legislation, the audit partner must rotate at least every five years. As this is Mr McGuire's first year as audit partner, he will be due to rotate out of this role during 2021 at the latest.

The audit fees for the period under review can be found in note 6 to the financial statements on page 56.

The Audit Committee monitors the auditor's 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 period. 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 auditor. 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 auditor's remuneration, the quality of its work including the quality of the audit report, the quality of the audit partner and audit team, the expertise of the audit firm and the resources available to it, the identification of audit risk, the planning and execution of the audit and the terms of engagement. Accordingly, the Audit Committee has recommended to the Board that it proposes to shareholders via an ordinary resolution that PwC be re-appointed as auditor at the AGM. PwC has confirmed its willingness to continue in office.

The Audit Committee has direct access to the Company's auditor and provides a forum through which the auditor reports 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.

Approved

Jim Coyle
Chairman of the Audit Committee

26 April 2017

Directors' Remuneration Report

STATEMENT FROM THE CHAIRMAN

I am pleased to present the Directors' remuneration report for the period ended 31 December 2016, 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 auditor is 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. It is proposed that an ordinary resolution to approve the Directors' remuneration policy will be proposed as set out below at the Company's forthcoming AGM to be held on 2 June 2017. It is proposed that this policy will be adopted at that meeting with effect from the date of the AGM and will remain in force for the year ending 31 December 2017 and 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 AGM, shareholders will also be asked to consider an advisory resolution on the contents of the Directors' remuneration report.

As at 31 December 2016, 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 separate Remuneration and Nomination Committees. It is, therefore, the Company's practice for the Board to consider and approve Directors' remuneration. At the period end Directors' fees were set at the rate of £30,000 per annum for the Chairman and £25,000 for the other Directors. The Nomination and Remuneration Committee has considered the time commitment required to carry out their duties and has approved an increase of the Board's fees. The new fees will be 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. 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 the 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. Directors do not vote on their own fees. 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

An ordinary resolution for the approval of the Directors' remuneration policy will be put to a binding shareholder vote at the forthcoming AGM. A binding vote means that if it is not successful, the Board will be obliged to revise the policy and seek further shareholder approval at a General Meeting specially convened for that purpose.

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 AGM on the two new resolutions will be disclosed in the remuneration report for the year to 31 December 2017.

Directors' fees (audited)

Single total aggregate Directors' remuneration for the period under review was £93,593. The Directors who served during the period under review received the following emoluments:

Director	Fees paid during the period under review (2 December 2015 to 31 December 2016) (3)	Taxable benefits	Non-taxable benefits	Total period to 31 December 2016
Robert Sharpe (Chair) (1)	£31,844	-	-	£31,844
Jim Coyle (1)	£26,537	-	-	£26,537
Ravi Takhar (1)	£26,537	-	-	£26,537
Mark Huggins (1)	£8,675	-	-	£8,675
Lindsey McMurray (2)	-	-	-	-
James Scott (2)	-	-	-	-
Total	**£93,593**	**-**	**-**	**£93,593**

(1) Robert Sharpe, Jim Coyle, Ravi Takhar and Mark Huggins were appointed to the Board on 14 December 2015. Mark Huggins resigned on 13 April 2016.
(2) Lindsey McMurray and James Scott were appointed as Directors upon the Company's incorporation but resigned from the Board on 14 December 2015, prior to the Company's listing.
(3) Fees paid to the Directors during the period under review does not include any employment taxes or valid business expenses.

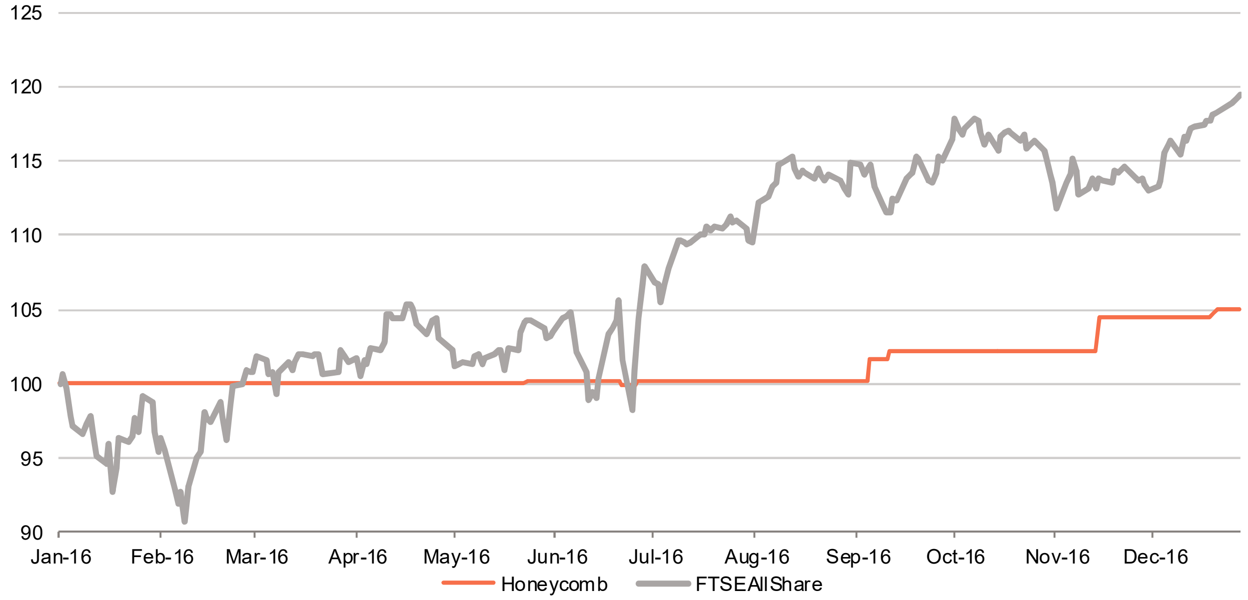
No payments were made to past Directors for loss of office. In the absence of further major increases in the workload and responsibility involved, the Board does not expect fees to increase significantly over the next three years. The overall remuneration of each Director will continue to be monitored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

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

Company Performance

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

The graph below shows the total return to ordinary shareholders compared to the total shareholder returns of the FTSE All Share Index during the period since the Company was listed (23 December 2015) to 31 December 2016. 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 period since incorporation (2 December 2015) to 31 December 2016. The table shows the remuneration paid to Directors for the period under review, compared to the distribution payments to shareholders.

	Period since incorporation (02 December 2015) to 31 December 2016
Total remuneration paid to Directors	£0.1m
Shareholder distribution – dividends or share buybacks	£6.7m

DIRECTORS' INTERESTS (AUDITED)

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

As at 31 December 2016, the Directors do not hold shares in the Company.

There have been no changes to any holdings between 31 December 2016 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 26 April 2017 and signed on behalf of the Board by:

Robert Sharpe
Chairman

Statement of Directors' responsibilities

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

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

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the 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 financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess a company's performance, business model and strategy.

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

- the financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Company;
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces;
- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Signed on behalf of the board by

Robert Sharpe
Chairman

26 April 2017

Independent Auditors Report

REPORT ON THE FINANCIAL STATEMENTS

Our opinion

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

- give a true and fair view of the state of the Company's affairs as at 31 December 2016 and of its profit and cash flows for the 13-month period (the "period") then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Report and Audited Financial Statements (the "Annual Report"), comprise:

- the statement of financial position as at 31 December 2016;
- the statement of comprehensive income for the period then ended;
- the statement of cash flows for the period then ended;
- the statement of changes in shareholders' funds for the period then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

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

Our audit approach

Overview

Materiality	• Overall materiality: £2.0 million which represents 1 per cent of net assets.
Audit scope	The Company is an Investment Trust Company and engages Pollen Street Capital Limited ("the Investment Manager") to manage its assets. We tailored the scope of our audit taking into account the types of investments within the Company, the involvement of the Investment Manager, the accounting processes and controls, and the industry in which the Company operates.
Areas of focus	Our areas of focus comprised: • Existence of loans; • Valuation of loans reported at amortised cost less provisions for impairment; • Valuation of unlisted investments reported at fair value; and • Income recognition.

The scope of our audit and our areas of focus

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

We designed our audit by determining materiality and assessing 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. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as "areas of focus" in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

Area of focus	How our audit addressed the area of focus
Existence of loans Refer to page 51 (Principal Accounting Policies), page 58 (note 10) and page 34 (Report of the Audit Committee). There is a risk that net assets could be misstated should the loans not exist. The Company hold a large volume of individual loans which are originated and serviced by third parties, there is a risk that these loans do not exist and have been fraudulently reported to the Company.	We obtained an understanding of the design and implementation of controls over recognition and recording of loans and receivables. We obtained independent confirmation of loan balances from the Company's loan administrators and counterparties as applicable. We obtained a sample of loan agreements and agreed the principal amount, interest rates and other information to the Company's accounting records. No misstatements were identified by our testing which required reporting to those charged with governance.
Valuation of loan investments reported at amortised cost less provisions for impairment Refer to page 51 (Principal Accounting Policies), pages 53 and 54 (Significant Accounting Judgements, Estimates and Assumptions), page 58 (note 10) and page 34 (Report of the Audit Committee). Loans and receivables are recorded at amortised cost in the Statement of Financial Position and amounted to £157.8m as at 31 December 2016, this amount is net of an impairment provision of £6.2m (shown in note 10 of the financial statements). 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 the judgements made can result in a material change to the valuation.	We understood and assessed the methodology and assumptions applied by the Company in determining the amortised cost of loans and receivables, by reference to accounting standards and industry practice. 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 Company'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 loans and receivables at amortised cost was consistent with the Company's 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 page 51 (Principal Accounting Policies), page 54 (Significant Accounting Judgements, Estimates and Assumptions) and page 59 (note 11). The fair value of the unlisted investments ("investee companies"), which are the investments reported by the Company at fair value through profit or loss, is £4.7m as at 31 December 2016. This is an area of focus due to the fact that unlisted investments do not have readily determinable prices. The valuation methodology primarily used by the Company is based on the 'price of recent investment'. The price of recent investment approach refers to any investment into that investee company that would give an indication of fair value. As such, the valuation of unlisted investments is judgmental, 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 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 Company's valuations of unlisted investments were supported by the audit evidence we obtained.

Income recognition Refer to page 50 (Principal Accounting Policies), page 54 (Significant Accounting Judgements, Estimates and Assumptions), page 55 (note 4) and page 34 (Report of the Audit Committee). The accuracy and occurrence of income is an area of focus for our audit given the objective of the Company to provide shareholders with an attractive level of dividend income.	We obtained an understanding of the design and implementation of controls surrounding income recognition. 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 and the AIC SORP. • 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. • 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.

How we tailored the audit scope

The Company is an Investment Trust Company and engages Pollen Street Capital Limited to manage its assets and an administrator, Apex Fund Services (UK), Ltd, who maintains its books and records.

We tailored the scope of our audit taking into account the types of investments within the Company, the involvement of the third parties referred to above, the accounting processes and controls, and the industry in which the Company operates.

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 on the financial statements as a whole.

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

Overall materiality	£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 Company operates.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £100,000 as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

The Directors have voluntarily complied with Listing Rule 9.8.6(R)(3)(a) of the Financial Conduct Authority and provided a statement in relation to going concern, set out on page 25, required for companies with a premium listing on the London Stock Exchange.

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

The Directors have chosen to voluntarily report how they have applied the UK Corporate Governance Code (the “Code”) as if the Company were a premium listed company. Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the Directors’ statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements. We have nothing material to add or to draw attention to.

As noted in the Directors' statement, the Directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. The going concern basis presumes that the Company has adequate resources to remain in operation, and that the Directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the Directors' use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Company's ability to continue as a going concern.

OTHER REQUIRED REPORTING

Consistency of other information

Companies Act 2006 reporting

In our opinion, the information given in the Strategic Report and the Directors' Report for the financial period for which the financial statements are prepared is consistent with the financial statements.

ISAs (UK & Ireland) reporting

As a result of the Directors' voluntary reporting on how they have applied the Code, under ISAs (UK & Ireland) we are required to report to you if, in our opinion:	
• information in the Annual Report is: • materially inconsistent with the information in the audited financial statements; or • apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Company acquired in the course of performing our audit; or • otherwise misleading.	We have no exceptions to report.
• the statement given by the Directors on page 39, in accordance with provision C.1.1 of the Code, that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Company acquired in the course of performing our audit.	We have no exceptions to report.
• the section of the Annual Report on page 34, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.	We have no exceptions to report.

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

As a result of the Directors' voluntary reporting on how they have applied the Code, under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:	
• the Directors' confirmation on pages 17 to 19 of the Annual Report, in accordance with provision C.2.1 of the Code, that they have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity.	We have nothing material to add or to draw attention to.
• the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.	We have nothing material to add or to draw attention to.
• the Directors' explanation on page 25 of the Annual Report, in accordance with provision C.2.2 of the Code, as to how they have assessed the prospects of the Company, 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 Company 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 material to add or to draw attention to.

The Directors have requested that we review and report on the statement that they have carried out a robust assessment of the principal risks facing the Company and the statement in relation to the longer-term viability of the Company, as required under the Listing Rules for companies with a premium listing on the London Stock Exchange. Our review was substantially less in scope than an audit and consisted only 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 acquired by us in the course of performing our audit.

Adequacy of accounting records and information and explanations received

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, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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.

DIRECTORS' REMUNERATION

Directors' remuneration report – Companies Act 2006 opinion

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

OTHER COMPANIES ACT 2006 REPORTING

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

Our responsibilities and those of the Directors

As explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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.

WHAT AN AUDIT OF FINANCIAL STATEMENTS INVOLVES

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies, we consider the implications for our report.

Richard McGuire (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
26 April 2017

3 Financial Statements

Statement of Comprehensive Income

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

	Notes	Revenue £'000	Capital £'000	Total £'000
Income				
Investment interest	4	17,847	-	17,847
Other income	4	13		13
		17,860	**-**	**17,860**
Expenses				
Management fee	5	(1,164)	(44)	(1,208)
Performance fee	5	(1,314)	-	(1,314)
Impairment of loans	10	(2,322)	-	(2,322)
Other expenses	6	(674)	-	(674)
		(5,474)	**(44)**	**(5,518)**
Profit / (loss) before finance costs and taxation		**12,386**	**(44)**	**12,342**
Finance costs	15	(525)	-	(525)
Profit / (loss) before taxation		**11,861**	**(44)**	**11,817**
Taxation on ordinary activities	7	-	-	-
Profit / (loss) after taxation		**11,861**	**(44)**	**11,817**
Earnings per share (basic and diluted)	9	**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 Association of Investment Companies. All items in the above statement derive from continuing operations.

No operations were acquired or discontinued during the year.

The Company does not have any income or expense that is not included in net profit for the period. Accordingly, the net profit for the period is also the Total Comprehensive Income for the period, as defined in IAS1 (revised).

The notes on pages 50 to 65 form an integral part of the financial statements.

Statement of Financial Position

As at 31 December 2016

	Notes	31 December 2016 £'000
Non-current assets		
Loans at amortised cost	10	157,845
Investments held at fair value through profit or loss	11	4,730
Fixed assets	12	369
		162,944
Current assets		
Receivables	13	3,723
Cash and cash equivalents		38,877
		42,600
Total assets		**205,544**
Current liabilities		
Management fee payable		(136)
Performance fee payable		(1,314)
Other payables	14	(2,030)
		(3,480)
Total assets less current liabilities		**202,064**
Interest bearing borrowings	15	(13)
Total net assets		**202,051**
Shareholders' funds		
Ordinary share capital	16	199
Share premium		98,670
Revenue reserves		5,126
Capital reserves		(44)
Special distributable reserves	17	98,100
Total shareholders' funds		**202,051**
Net asset value per share	18	**1,014.0p**

The notes on pages 50 to 65 form an integral part of the financial statements.

The financial statements on pages 46 to 49 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 26 April 2017. They were signed on its behalf by:

Robert Sharpe, Chairman

Statement of Changes in Shareholders' Funds

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 £103.182 million for the payment of future dividends. The distributable reserves are the revenue reserves (£5.126 million), realised capital reserves (£0.044 million) and the special distributable reserves (£98.100 million).

The notes on pages 50 to 65 form an integral part of the financial statements.

Statement of Cash Flows

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

	Notes	31 December 2016 £'000
Cash flows from operating activities:		
Profit after taxation		11,817
Adjustments for:		
Impairment of loans	10	2,322
Amortisation	12	99
(Increase) in receivables	13	(3,723)
Increase in payables		3,480
Net cash inflow from operating activities		**13,995**
Cash flows from investing activities:		
Purchase of loans		(160,167)
Purchase of investments	11	(4,730)
Purchase of fixed assets	12	(468)
Net cash (outflow) from investing activities		**(165,365)**
Cash flows from financing activities:		
Proceeds from issue of ordinary shares	16	200,000
Share issue costs		(3,031)
Proceeds from issue of management shares	16	50
Redemption of management shares	16	(50)
Interest bearing borrowings	15	19,013
Repayments of interest bearing borrowing	15	(19,000)
Dividends declared and paid	8	(6,735)
Net cash inflow from financing activities		**190,247**
Net change in cash and cash equivalents		**38,877**
Cash and cash equivalents at the beginning of the period		-
Net cash and cash equivalents		**38,877**

The notes on pages 50 to 65 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”), 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 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.

Foreign Currency

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

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

During the period 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 Statement of comprehensive income

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

Income

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

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

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

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

Expenses

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

- Transaction costs which are incurred on the purchases or sales of investments designated as fair value through profit or loss are expensed to capital in the Statement of Comprehensive Income.

- 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 period has been allocated 96.3 per cent to revenue and 3.7 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 period. The taxable profit differs from profit before tax as reported in the Statement of Comprehensive Income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using a blended rate as applicable throughout the year.

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

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

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

Investment trusts which have approval under Part 24, Chapter 4 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.

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 10).

Investments

All investments held by the Company have been designated at fair value through profit or loss ("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 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 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 are recognised in the year in which they are paid.

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 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).
- Impairment – the incurred loss model under IAS 39 is replaced with a new 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. Expected credit loss models will require more data and assumptions with impairment provisions potentially becoming more volatile.
- 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 Company is currently working on its ability to:

- review the classification and measurement of financial instruments under the requirements of IFRS 9;
- develop and validate 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.

A detailed timetable is being prepared to ensure that credit loss models are developed and tested in advance of 1 January 2018, and that systems have been updated to report internally and externally under IFRS 9. The impact on the Company's balance sheet and income statement on adoption of IFRS 9 is being assessed.

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 in the period of initial application.

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.

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

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 Wholesale loans.

Collective Impairment

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

In addition, the collective provision also includes provision for inherent losses, that is losses that have been incurred but have not been separately identified at the reporting date. The loans that are not currently recognised as impaired are grouped into homogenous portfolios by product type. An assessment is made of the likelihood of assets being impaired at the balance sheet date and being identified subsequently; the length of time taken to identify that an impairment event has occurred is known as the loss emergence period. The loss emergence period is determined by the Investment Manager for each portfolio which are dependent upon the characteristics of the portfolio. Loss emergence periods are reviewed regularly and updated when appropriate. In general the period used is 3 months based on historical experience. This provision is sensitive to changes in the loss emergence period. Management use a significant level of judgement when determining the collective unidentified impairment provision, including the assessment of the level of overall risk existing within particular sectors and the impact of the low interest rate environment on loss emergence periods. 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 £0.04 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 the Probability of Default ("PD") multiplied by the Exposure at Default ("EAD") multiplied by the Loss Given Default ("LGD"):

- The PD is based on the probability, dependent on stage of arrears, that the loan will not recover to perform in line with contractual payment terms; the assessment of the PD uses historical experience of cohorts of similar products. Future cash flows are estimated on the basis of the contractual cash flows of the assets in the cohort and historical loss experience for similar assets. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Investment Manager to reduce any differences between loss estimates and actual loss experience. If the PD was increased by 25% then the provision at 31 December 2016 would have increased by £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 PD was increased by 25% then the provision at 31 December 2016 would have increased by £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 2016, the impairment charge would increase by approximately £0.6 million in respect of secured loans within the investment assets.

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

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

There were no provisions as at 31 December 2016 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
- 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. Given the recent nature of the equity investments currently held the valuations have been completed using the transaction prices. In future years the specific techniques used will typically include earnings multiples, discounted cash flow analysis, the value of recent transactions, and, where appropriate, industry rules of thumb. The valuations will 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 Company, being the sole purpose for its existence. No other activities are performed.

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

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

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

4. INCOME

	31 December 2016 £'000
Investment income	
Effective Interest from loans	17,594
Commitment fee income	157
Arrangement fee income	96
Total investment income	**17,847**
Other income	
Deposit interest	**13**
Total income	**17,860**

5. MANAGEMENT AND PERFORMANCE FEE

Management Fee

The management fee is calculated and payable monthly in arrears at a rate equal to 1/12 of 1.0 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.

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 2016.

6. OTHER EXPENSES

	31 December 2016 £'000
Directors' fees	103
Administrator's fees	92
Auditor's remuneration – Audit of the company	65
Auditor's remuneration – Audit related assurance services	20
Auditor's remuneration – Other assurance services	4
Amortisation	99
Other expenses	291
Total other expenses	**674**

All expenses are inclusive of VAT where applicable. Directors' fees above include £93,593 paid to Directors' and £9,521 of employment taxes and valid business expenses. Further details on Directors' fees can be found in the Directors' remuneration report on pages 36 to 38.

During the period, the auditor provided reporting accountant services on the Company's prospectus prior to the Company's listing and in relation to its subsequent further issuance of ordinary shares. These non-audit fees amounted to £95,000. The auditor 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.

7. 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 Company for the period 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 20.00% (2015: 20.67%). A reconciliation of the 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.

8. ORDINARY DIVIDENDS

	31 December 2016 Pence	31 December 2016 £'000
Interim dividend for the period ended 31 March 2016 (paid on 30 June 2016)	2.11p	316
Interim dividend for the period ended 30 June 2016 (paid on 22 September 2016)	19.66p	2,949
Interim dividend for the period ended 30 September 2016 (paid on 16 December 2016)	23.13p	3,470
Total dividend paid in period	**44.90p**	**6,735**
Interim dividend for the period ended 31 December 2016 (paid on 28 March 2017)	23.50p	4,683
Total dividend paid in relation to period	**68.40p**	**11,418**

9. EARNINGS PER SHARE

For the financial period ended 31 December 2016	Revenue pence	Capital pence	Total pence
Earnings per ordinary share	94.4p	(0.4)p	94.0p

The calculation of the above 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.

10. LOANS AT AMORTISED COST

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

The table below provides details of the loans at amortised cost held by the Company as at 31 December 2016.

	Loans at amortised cost £'000
Amortised cost before impairment	164,032
Cumulative Impairment Provision	(6,187)
Amortised cost	157,845
Carrying Value	157,845

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 period is reported in impairment of loans in the Statement of Comprehensive Income. As at 31 December 2016 the cumulative impairment provision consisted of £3.865 million of incurred losses and £2.322 million of impairment provision recognised in the period.

(b) Impairment provision

The Company segments its assets into 2 categories when considering impairment provisions; Consumer and Wholesale. 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 53 to 54.

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

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

There is no impairment of Wholesale assets at the period end.

The table below sets out the movement of the impairment provision during the period.

	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.

11. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

(a) Movements in the year

	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 offsets out the classifications used as at 31 December 2016 in valuing the 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.

12. FIXED ASSETS

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**

13. RECEIVABLES

	31 December 2016 £'000
Prepayments	1,249
Other receivables	2,474
Total receivables	**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.

14. OTHER PAYABLES

	31 December 2016 £'000
Accruals and deferred income	1,578
Withholding taxation	452
Total other payables	**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, certain shareholders have not elected to or are not eligible to have interest paid gross of tax, therefore withholding tax is retained by the Company and paid directly to HMRC.

15. INTEREST BEARING BORROWINGS

	31 December 2016 £'000
Revolving credit facility	(13)
Total interest bearing borrowings	**(13)**

The Company entered a two-year revolving credit facility for £37.5 million on 17 June 2016 with Royal Bank of Scotland plc. The revolving credit facility is secured upon the assets of the Company, has a term of two years and interest is charged at one, three or six month LIBOR plus a margin. As at 31 December 2016, the Company had £nil drawn-down under the revolving credit facility, however had £13,000 commitment fee payable at 31 December 2016.

	31 December 2016 £'000
Interest and commitment fees payable	228
Other finance charges	297
Total finance costs	**525**

16. ORDINARY SHARE CAPITAL

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

Issued, allotted and fully paid	No. of shares 31 December 2016	£'000
Ordinary shares of 1 pence each	19,926,110	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.

On 18 December 2015, the Board was granted authority to issue up to an additional 20,000,000 ordinary shares and / or C shares in aggregate prior to the conclusion of the Company's first 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. The Directors are seeking to renew their authority to allot ordinary shares at the Company's forthcoming AGM to be held on 2 June 2017.

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

The table below shows the share movement since incorporation (2 December 2015) to 31 December 2016.

	Shares in issue at the beginning of the period	Shares issued	Shares redeemed	Shares in issue as at 31 December 2016
Management shares	-	50,000	(50,000)	-
Ordinary shares of 1p each	1	19,926,109	-	19,926,110

17. 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 has now become 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.

18. NET ASSET VALUE PER ORDINARY SHARE

Year ended 31 December 2016	Net asset value per ordinary share Pence	Net assets attributable £'000
Ordinary shares of 1 pence each	1,014.0p	202,051

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

19. CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

As at 31 December 2016 there were no contingent liabilities or capital commitments for the Company.

20. RELATED PARTY TRANSACTIONS AND TRANSACTIONS WITH THE INVESTMENT MANAGER

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

Directors – The remuneration of the Directors is set out in the Directors' Remuneration Report on pages 36 to 38. 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 2016, there was £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 pages 55 to 56.

During the period the Company paid £2.52 million of fees and at 31 December 2016, there was £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 Limited. Details of the services provided by the Origination Partners are given on page 56.

During the period given 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 £40,000, and at 31 December 2016, there was £nil payable to the Origination Partner.

21. FINANCIAL RISK MANAGEMENT

The 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

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, financing has been obtained through a £37.5 million revolving credit facility. As at 31 December 2016 the Company had £nil drawn-down under this facility, although it has been drawn throughout the period with a maximum balance of £7 million.

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

Financial instrument	Floating Rate £'000	Fixed or Administered Rate £'000	Total £'000
Loans 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% change in interest rates impacts income on the assets with a Floating rate by £36 thousand.

(c) Currency risk

None of the Company's assets, liabilities or income is denominated in currencies other than Pounds Sterling (the Company's functional currency, in which it reports its results). Thus, the Company is not exposed to currency risk.

22. 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 Company'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, D & E	14,577	37	**14,614**
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	Elevated credit risk, elevated adverse indicators
E	High credit risk, with 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 revolving credit facility totalling £37.5 million (details of which is disclosed in note 15).

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

	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 11 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 10.

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 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 period.

23. ULTIMATE CONTROLLING PARTY

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

24. SUBSEQUENT EVENTS

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

On 13th January 2017, the Company provided finance of £40 million, which included the acquisition of a loan book from, and taking an equity stake of 28.57% in, The Green Deal Finance Company.

On 31 March 2017, a dividend of 23.50 pence per Ordinary Share was paid.

Other than this, there has been no significant change in the financial condition and operating results of the Company during or since the end of the period covered by this report.

4 Shareholders' Information

Directors, portfolio manager and advisers

Directors
Robert Sharpe
Jim Coyle
Ravi Takhar

all of the registered office below

Registered Office
Veritas House
125 Finsbury Pavement
London EC2A 1NQ
England

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

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

Website
http://www.honeycombplc.com/

Administrator and Company Secretary
Apex Fund Services (UK) Ltd
Veritas House
125 Finsbury Pavement
London EC2A 1NQ
England

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

Depositary
Indos Financial Limited
25 North Row
London W1K 6DJ
England

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

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 trustnet.com and 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	Total expenses (excluding finance costs and taxation) incurred by the Company as a percentage of average net asset values.
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.
Registrar	An entity that manages the Company's shareholder register. The Company's registrar is Computershare Investor Services PLC.
AIFM	An Alternative Investment Fund Manager, as defined in the AIFM Directive. Pollen Street Capital Limited undertakes this role on behalf of the Company.
Hedging	An investment to reduce the risk of adverse price movements in an asset.