Registered Number: 09899024

Honeycomb Investment Trust plc

Annual Report and Audited Financial Statements

For the year ended 31 December 2019

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1 Strategic Report

Investment Objective

The investment objective of Honeycomb Investment Trust plc (the “Company”) and its subsidiaries (together, the “Group”) is to provide shareholders with an attractive level of dividend income and capital growth primarily through investing in asset secured loans (“Credit Assets”) and selected equity investments that are aligned with the Group’s strategy and that present opportunities to enhance the Group’s returns from its investments (”Equity Assets”).

Financial and Operational Highlights

	31 December 2019	31 December 2018
NET ASSET VALUE		
NET ASSET VALUE (CUM INCOME) (£'000) (1)	400,361	400,710
NET ASSET VALUE (EX INCOME) (£'000) (2) (3)	393,784	394,404
MARKET CAPITALISATION (£'000) (3) (4)	383,650	445,784
PER SHARE METRICS		
SHARE PRICE (AT CLOSE) (5)	972.5p	1,130.0p
NAV PER SHARE (CUM INCOME) (1)	1,014.9p	1,015.7p
NAV PER SHARE (EX INCOME) (2) (3)	998.2p	999.8p
SHARES IN ISSUE	39,449,919	39,449,919
PERFORMANCE INDICATORS AND KEY RATIOS		
PREMIUM / (DISCOUNT) (3) (6)	(4.2)%	11.3%
ANNUAL NAV PER SHARE RETURN (3) (7)	7.8%	8.4%
ITD TOTAL NAV PER SHARE RETURN (3) (8) (9)	33.2%	25.1%
DEBT TO EQUITY (3) (10)	51.7%	47.2%
REVENUE RETURN (3) (11)	7.8%	7.8%
DIVIDEND RETURN (3) (12)	8.0%	8.0%
ONGOING CHARGES (3) (13)	1.8%	1.6%

(1) NET ASSET VALUE (CUM INCOME): will include the value of investments, other assets and cash, including current year revenue, less liabilities. NAV per share is calculated by dividing the calculated figure by the total number of shares.

(2) 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. NAV per share is calculated by dividing the calculated figure by the total number of shares.

(3) ALTERNATIVE PERFORMANCE MEASURES: Alternative Performance Measures ("APMs") are used to improve the comparability of information between reporting periods, either by adjusting for uncontrollable or one-off factors which impact upon IFRS measures or, by aggregating measures, to aid the user understand the activity taking place. The Strategic Report includes both statutory and adjusted measures, the latter of which, reflects the underlying performance of the business and provides a more meaningful comparison of how the business is managed. APMs are not considered to be a substitute for IFRS measures but provide additional insight on the performance of the business. Reconciliations to amounts appearing in the financial statements can be found in section 5.

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

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

(6) 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.

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

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

(9) TOTAL NAV PER SHARE RETURN: is calculated as Net Asset Value (Cum Income) at the end of the year, plus dividends declared during the year, divided by NAV (Cum Income) calculated on a per share basis at the start of the year. There was a 1.06 per cent uplift on the inception to date total NAV per share return due to the effect of shares being issued at a premium during May-17 capital raise and 0.73 per cent in relation to the April-18 capital raise.

(10) DEBT TO EQUITY: is calculated as the Group's interest bearing debt divided by the net asset value, expressed as a percentage.

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

(12) DIVIDEND RETURN: is calculated as the total declared dividends for the period divided by IPO issue price.

(13) ONGOING CHARGES RATIO: The Annualised Ongoing Charge is calculated using the Association of Investment Companies recommended methodology. It is calculated as a percentage of annualised ongoing charge over average reported Net Asset Value. Ongoing charges are those expenses of a type which are likely to recur in the foreseeable future, whether charged to capital or revenue, and which relate to the operation of the investment company as a collective fund, excluding the costs of acquisition/disposal of investments, financing charges and gains/losses arising on investments. Ongoing charges are based on costs incurred in the year as being the best estimate of future costs. The AIC excludes performance fees from the Ongoing Charges calculation.

Investment Characteristics

THE GROUP IS AN INVESTMENT TRUST FOCUSING ON LENDING

The Group seeks to acquire credit assets which meet the specified underwriting criteria through two routes; (1) providing structured loans to specialist finance companies whereby the Group takes security on the assets originated by the borrower with the borrower also providing ‘first loss’ in the form of ‘real capital’ whilst the Group provides the senior capital; and (2) acquiring portfolios of whole loans whereby the Group is exposed to the underlying risk and rewards of the loan that have the potential to provide attractive returns for investors on a risk-adjusted basis.

The Group accesses commercial and consumer borrowers who are underserved by traditional banking channels primarily by financing loans generated by its own network of non-bank lenders. The UK specialty lending market opportunity is sizeable, at £330 billion[1] of outstanding principal balance.

MANAGED BY POLLEN STREET CAPITAL, AN EXPERIENCED INVESTOR IN LENDING BUSINESSES

Pollen Street Capital Limited (the “Investment Manager”) serves as the Group’s investment manager. The Pollen Street team has focussed on the financial services sector since 2008.

LONG-TERM OPPORTUNITY TO DELIVER ATTRACTIVE RETURNS FROM SPECIALTY FINANCE STRATEGY

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

The Group’s strategy provides access to sectors and lending with the most attractive return characteristics. The Group partners with non-bank lenders who have an ability to integrate technologies and respond quickly to new customer demands.

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

ASSET-SECURED LENDING PROVIDES A MORE RESILIENT RETURN PROFILE

The Group’s investment approach focuses on delivering attractive risk-adjusted returns, as well as robust downside protection. The average size of the underlying loans is small, which provides higher predictability in cashflows and lower event-driven risk. The majority of loans are amortising and floating rate so there is minimal interest rate and refinancing risk.

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

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

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

How the Business Works

The Investment Manager, on behalf of the Group, actively identifies sub-segments of the large consumer, property and Small and Medium enterprise ("SME") lending market that it believes delivers attractive net returns. It then targets channels, origination partners and loan portfolio vendors through which it can access Credit Assets while diversifying the Group's investment opportunities.

Each lending 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 undertaken 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 an acceptable risk profile for shareholders of the Company.

The Group, directly or via the Origination Partner, has arrangements with a number of referral partners, including the referenced Platforms below, through which the Group acquires Credit Assets, either individually; as portfolios; or via structured facilities. These facilities are secured on a granular pool of performing loans and structured such that the Origination Platform and or borrower bears the first loss risk, and the Group finances the senior risk.

The Directors believe that the Group has attractive access to diverse investment opportunities across its market segments of consumer, property and SME lending, each with different borrower profiles and different risk return characteristics. Through relationships with multiple referral partners and other counterparties, the Group will reduce its dependence on any one single source of opportunities to acquire Credit Assets and expects to gain strong access to high quality assets.

The Group believes it is important to provide best-in-class loan servicing to ensure that Credit Assets within the portfolio are managed efficiently throughout their lifecycle. As such, the Group optimises its collection strategy across the different asset classes by appointing servicers best placed to service the respective investment assets, as well as utilising the Investment Manager's industry experts for high value-add activities.

The Group may invest in Equity Assets that are aligned with its strategy and that present opportunities to enhance the Group's returns. The Group expects, that most of its investments in Equity Assets will take the form of non-controlling interests in referral partners, in alignment with the Group's investment policy.

The diagram below outlines the various aspects of the Group's strategy

We combine specialism with scale

Chairman's Statement

I am delighted to present the Annual Report for Honeycomb Investment Trust plc which covers the year ended 31 December 2019.

The Company is a UK listed company dedicated to providing 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.

INVESTMENT STRATEGY

The Group has continued to perform well in the year driven by the sustained application of our business model which has given the Group the ability to carefully select assets with attractive risk-adjusted returns alongside a strong base of investments made in the past. A detailed assessment of the progress of the Group follows in the Investment Manager's review.

INVESTMENT PERFORMANCE

Earnings for the year increased by 10.6 per cent to £31.2 million (2018: £28.2 million). This translated into a NAV return of 7.8 per cent for the year (2018: 7.7 per cent excluding the impact of the issuance of shares at a premium in April 2018). The strong returns reflect the strategy of selecting only the assets that meet the strict risk adjusted returns criteria and maintaining strong credit quality through predominantly lending on secured assets supported by specialist underwriting expertise.

At 31 December 2019, the Group's net assets were £400.4 million (cumulative of income), with market capitalisation at £383.7 million. NAV per share (cumulative of income) was 1,014.9 pence, with the share price (at close) 972.5 pence, representing a discount to NAV of 4.2 per cent. The Group has achieved a NAV per share return of 33.2 per cent since inception.

DIVIDENDS

The Company has continued to declare dividends at 20.00 pence per share for each quarter in the year and has therefore continued to meet the target dividend yield of 8.0 per cent annualised dividend on issue share price at the Company's initial public offering.

RISK MANAGEMENT AND OVERSIGHT

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

During 2019, the Directors considered the application of the new Corporate Governance Code to the Company and introduced a series of measures to strengthen the governance arrangements, including a policy of Director rotation and agreeing a policy on Board diversity. In addition, the Board considered the Company culture and stakeholder engagement. Further detail on how the Board have regard to its various stakeholders is set out on pages 19 to 21.

SHAREHOLDERS

During the start of 2020, the composition of the share register changed materially. A number of high quality new global institutional investors were welcomed onto the share register. This is an important strategic development for the Company and has removed the 'overhang' associated with shareholders with liquidity pressure and places the Company with a significantly more diverse shareholder base for 2020. I look forward to working with new shareholders over the course of 2020 and beyond. During the same period, the Company purchased 2,200,000 of its own shares.

OUTLOOK

The World Health Organisation recognised an outbreak of a new virus that causes coronavirus disease 2019 ("COVID-19") as a pandemic in March 2020. COVID-19 has caused disruption to businesses and economic activity which has been reflected in recent fluctuations in global stock markets. There are a wide range of forecasts and expectations around the impact of this on the economy, unemployment and society. The Board considers the emergence and spread of COVID-19 to be a non-adjusting post balance sheet event. It is not practicable at this time to provide a reliable quantitative estimate of the impact on the Group because of the inherent uncertainty around the length of the lockdown period, the effect of the various government initiatives and the behaviour of borrowers after any payment holiday period expires. The Board is monitoring the situation closely and will ensure investors are kept informed of the latest developments in the monthly newsletter.

The Investment Manager has adopted a prudent approach given the uncertain economic environment with the focus on the existing portfolio and ensuring cash collections remain robust and the appropriate strategies are put in place. We expect the economic environment to create some compelling new opportunities for the Group which the Investment Manager will selectively review and deploy capital into, however the priority will be to reduce net debt during this period of uncertainty. In May 2020 the Company has refinanced its main Topco debt facility to support this strategy.

I look forward to working with Pollen Street over 2020 as they continue to manage Honeycomb to deliver the best outcomes for shareholders in this rapidly evolving situation.

BOARD COMPOSITION

Finally, I would like to thank Ravi Takhar for his valuable service on the Board. Ravi was appointed in December 2015 and stepped down in June 2019.

In July 2019, we were delighted to appoint Richard Rowney to the board. Richard has a wealth of experience in financial services and brings valuable expertise to the Board and Committees of the Board.

Robert Sharpe

Chairman
27 May 2020

Investment Manager's Report

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

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

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

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

2019 HIGHLIGHTS

2019 has been another successful year. The main achievements include:

- Maintaining the Group's track record with NAV return of 7.8 per cent per annum (2018: 7.7 per cent excluding the impact of the issuance of shares at a premium in April 2018)
- Growing earnings by 11 per cent, year on year
- Diversifying the funding base of the Group by raising £81.0 million of debt under a two-year debt facility.
- Repositioning the portfolio away from consumer whole loans into more structured and secured loans. This gives the portfolio more downside protection because the structured loans benefit from the platform bearing the first loss risk, and the Group finances the more senior risk.

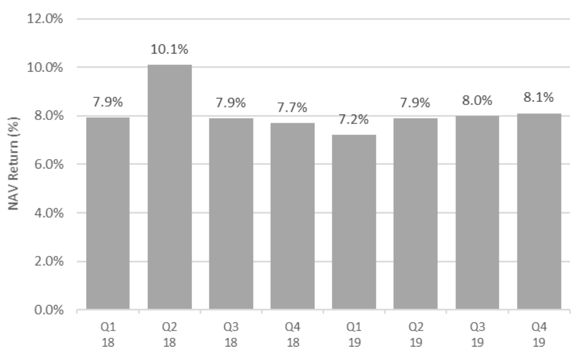
FINANCIAL PERFORMANCE

The financial performance of the Group has remained strong. Earnings for the year were £31.2 million (2018: £28.2 million), an increase of 10.6 per cent. This was driven by an increase of 15.3 per cent in interest income to £62.6 million (2018: £54.4 million) with a modest decrease in the impairment charges to £7.4 million (2018: £7.5 million). The closing credit assets have remained stable at £581.0 million at the year-end (2018: £576.5 million).

The earnings translated into basic earnings per share of 79.1 pence (2018: 77.3 pence), and NAV return of 7.8 per cent for the year (2018: 8.4 per cent, which benefited by 0.73 per cent from the issuance of shares at a premium in April 2018).

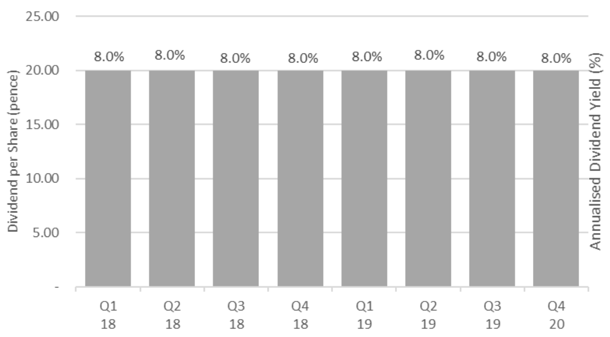
The year's strong returns reflect the strategy of selecting only the assets that meet the strict risk adjusted returns criteria and maintaining strong credit quality through predominantly lending on secured assets supported by specialist underwriting expertise.

Quarterly NAV return



In our initial guidance issued at the time of the Group's initial public offering, we stated that we were targeting a dividend yield of at least 8.0 per cent (based on issue price). As shown in the chart below, the Group has met this guidance.

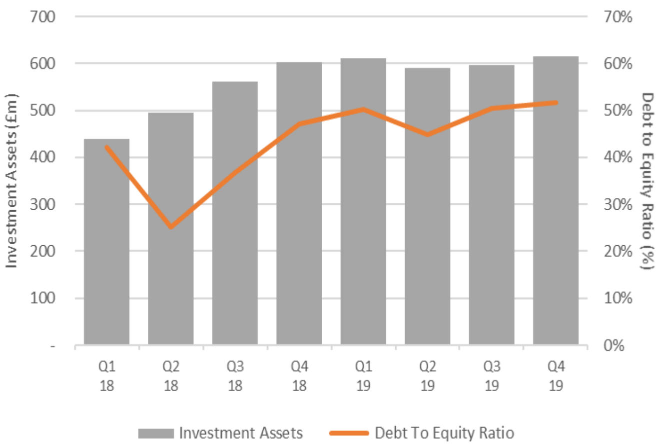
Dividend Per Share and Annualised Dividend Yield



After initial listing costs, the Group had a NAV of 982 pence per share at the time of listing in 2015, with the NAV per share (cumulative of income) growing to 1,014.9 pence per ordinary share (2018: 1,015.7 pence per ordinary share) at 31 December 2019, which, including dividends declared or paid, is equivalent to a NAV return of 33.2 per cent since inception.

Although the Group has performed strongly the share price of the Group at 31 December 2019 was 972.5 pence per share (2018: 1,130.0 pence per share), representing a 4.2 per cent discount to NAV (cumulative of income) (2018: 11.3 per cent premium to NAV (cumulative of income)). We are disappointed that the Group is trading below its net asset position and doesn't reflect the strong underlying performance we have seen to date in the Group. The Company repurchased 2,200,000 of its own shares during January 2020 at a price of 850 pence per share to enhance shareholder returns.

Investment Assets and Debt to Equity Ratio



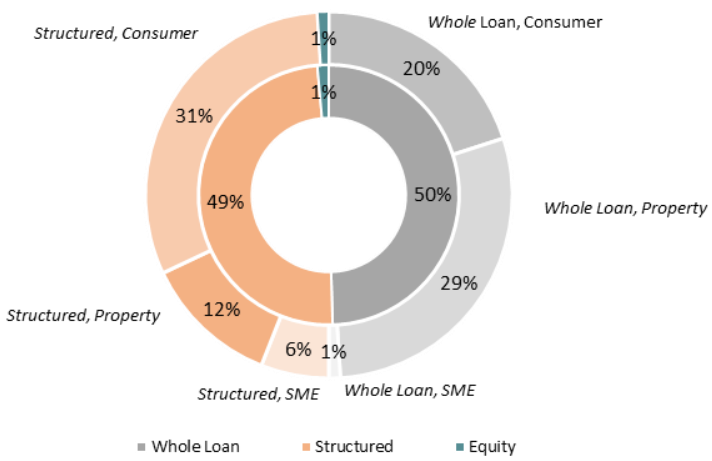
This strong performance is as a result of the successful strategy to focus on specialist markets and loans with either downside protection or seasoning which exhibit stable performance.

In an evolving market and regulatory environment, we committed to maintaining the discipline of our established business model. Our ability to build deep and sustainable relationships has helped our partners to continue to develop. Further referral partners have been on-boarded which have supported this growth with the profile of risk and return that is in line with expectations.

PORTFOLIO

The portfolio is diversified across two types of facilities, structured loans and whole loans, and three sectors, consumer, property and SME.

Investment Assets by Structure and Sector



As at 31 December 2019, the portfolio of structured loans consisted of 23 facilities with an average balance outstanding per facility of £12.5 million. The facilities have an average effective advance rate of 66 per cent and typically benefit from robust covenants. The facilities are collateralised by over 400,000 underlying loans and receivables.

The Group's portfolio of whole loans consists of 24 deals with an average balance outstanding per relationship c.£12.8 million, 58 per cent of whole loans are secured on property, average loan to value ("LTV") c70 per cent. 40 per cent are consumer unsecured and 2 per cent are SME.

EXPECTED CREDIT LOSS PERFORMANCE

Under IFRS 9, impairment losses are recognised in the Group 's financial statements on a forward-looking basis, taking into account both the risk profile of the loan book and the macroeconomic outlook at the balance sheet date. As part of the annual review of the forward-looking economic expectations the Group introduced revised models that reflect greater economic uncertainty and a more pessimistic view of the near-term potential of the UK economy. Although there is an impact on the NAV return there is no change to the expected cashflows of the portfolio.

As at 31 December 2019 the Expected Credit Loss ("ECL") balance was £30.2 million (31 December 2018 £22.8 million). The consumer portfolio makes up 65.8 per cent of this total split £19.8 million, property £10.1 million and SME £0.3 million. The key driver for the increase in the ECL on the prior year is a £7.4 million charge in the period, with the consumer lending contributing £7.1 million, property £0.2 million and SME £0.1 million. Assets moving to Stage 3 which display objective evidence of default at the reporting date was the key driver behind this.

OUTLOOK

During February 2020, the Manager introduced a range of high quality global institutional investors onto the share register with the Company participating in the transaction, by repurchasing 2,200,000 of its own shares. This removed the 'overhang' associated with shareholders with liquidity pressure and places the Company in a stronger position for 2020.

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

The Investment Manager continues to have faith in the strength of the performance of the asset class despite the unprecedented conditions. The Group is well diversified with the underlying loan portfolios being highly granular with low concentration risk. It has maintained a close and proactive engagement with all platform partners and forbearance has been applied sensitively and proportionately. It believes that this approach together with the structural protection and asset backing of the portfolio will keep the Group in a robust position. The unsecured component of the portfolio is seasoned and stable such that the Investment Manager believes that the Group is well positioned to perform robustly throughout the crisis. The portfolio has demonstrated in 2019 that it delivers strong yields with high levels of bad debt coverage.

However, given the Group's UK focus, its performance is linked to the health of the UK economy. The Group could experience further impairments and consequently reduced profits if economic expectations deteriorate further. However, the overall effect of this cannot be quantified reliably, because of the uncertainty over the length of the lockdown period, the impact of the government's assistance scheme and the behaviour of borrowers as they reach the end of any payment holidays. The Investment Manager has adopted a prudent approach with the focus on the existing portfolio and ensuring cash collections remain robust as the appropriate strategies are in place.

The Investment Manager is proposing to re-invest the cash generated by the portfolio very selectively during this period of uncertainty with the majority of cash going to reduce net debt. The Company may also continue buybacks to enhance shareholder returns where possible.

In the structured portfolio, where the Group provides finance to nonbank lenders, the Investment Manager is working with the borrowers to help them navigate the difficult environment whilst ensuring most of the cash generated by their portfolio is utilised to repay our loan.

The Investment Manager has refinanced the Company's main debt facility to support the approach described above. The maturity has been extended to May 2021 and there is an option to extend the facility beyond this date with the lender's consent.

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

Top Ten Holdings

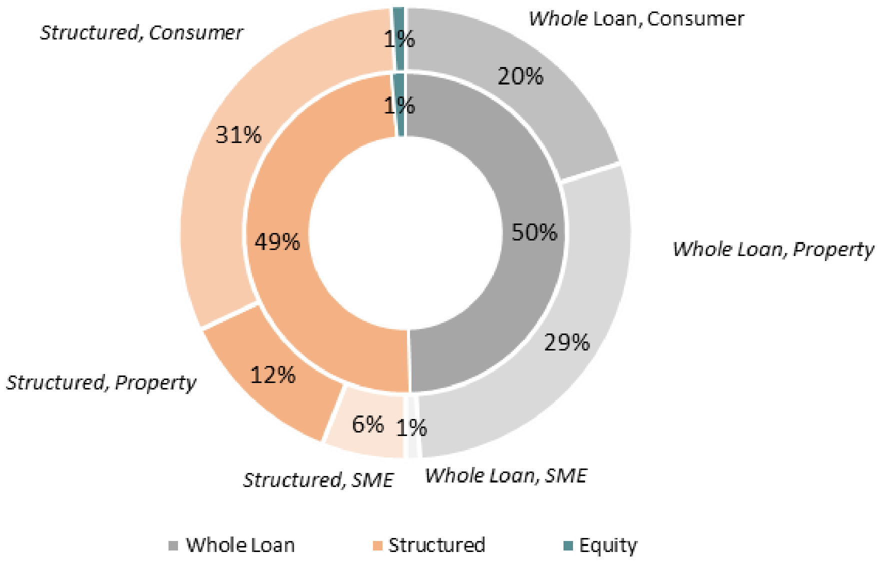
		Country	Asset Type	Sector	Value of holding at year-end (£m)	Percentage of assets (1)
1	Creditfix Limited	United Kingdom	Structured	Consumer	51.0	8.6%
2	Sancus Loans Limited	United Kingdom	Structured	Real Estate	44.3	7.5%
3	1st Stop Group Limited (2)	United Kingdom	Structured	Consumer	28.0	4.8%
4	Madison CF UK Limited	United Kingdom	Structured	Consumer	26.7	4.5%
5	PF Capital Finance Limited	United Kingdom	Structured	Real Estate	19.5	3.3%
6	IWOCA Limited	United Kingdom	Structured	SME	16.4	2.8%
7	Caledonian Consumer Finance Limited & Carnegie Consumer Finance Limited	United Kingdom	Structured	Consumer	13.4	2.3%
8	Allium Lending Group Limited (3)	United Kingdom	Structured & Equity	Consumer	12.1	2.1%
9	Amigo Loans Limited Bond Security	United Kingdom	Bond	Consumer	10.1	1.7%
10	Duke Royalty Limited	United Kingdom	Structured	SME	10.0	1.7%

(1) Percentage of total investment assets of the Group (investment assets calculated as the carrying balance of all credit assets at amortised cost and equity investments held at fair value through profit or loss).
(2) 1st Stop Group Limited is a portfolio company of funds managed or advised by the Investment Manager.
(3) Value of holding is a combination of structured debt and equity investment, Allium Lending Group Limited ("Allium") (formally GDFC Group Limited, Hiber Limited and The Green Deal Finance Company Limited).

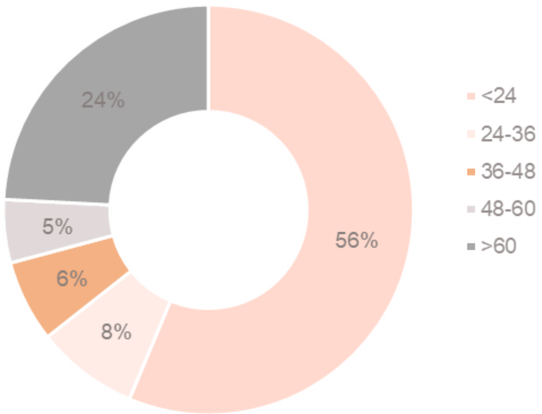
As at 31 December 2019 the value of the top 10 assets totalled £231.5 million (2018: £190.0 million) which equated to 39.3 per cent (2018: 32.3 per cent) of investment assets (investment assets calculated as the carrying balance of all credit assets at amortised cost and equity investments held at fair value through profit or loss).

Portfolio Composition

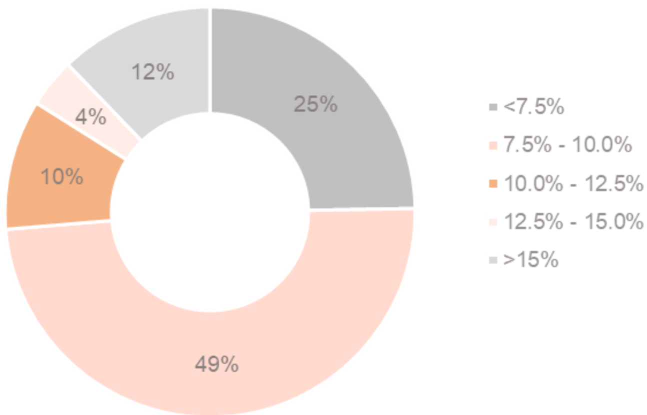
The composition of the Group's portfolio split by NAV excluding working capital and debt as at 31 December 2019:



Gross outstanding loan balance, excluding Equity Assets, stratified by the remaining term of each loan as at 31 December 2019:



Gross outstanding loan balance, excluding Equity Assets, stratified by the headline interest rate of each loan or bond as at 31 December 2019:



Business Review

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

KEY INFORMATION

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

PRINCIPAL ACTIVITY

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

IMPAIRMENT REVIEW

As at 31 December 2019 the Expected Credit Loss (“ECL”) balance was £30.2 million (31 December 2018 £22.8 million). The consumer portfolio makes up 65.8 per cent of this total split £19.8 million, property £10.1 million and SME £0.3 million. The key driver for the increase in the ECL on the prior year is a £7.4 million charge in the period, with the consumer portfolio contributing £7.1 million, property £0.2 million and SME £0.1 million. Assets moving to Stage 3 were the key driver behind this. The consumer portfolio has seen the biggest ECL as it unsecured and therefore does not benefit from any structural protection or security that could reduce the impact once someone has rolled into arrears.

The outbreak of COVID-19 has caused major disruption across the globe. The principal effects of the outbreak in the UK occurred in March and therefore it has not had a material effect on the financial year under review. However, by end of April 2020 we have started to see requests for forbearance. Requests for payment holidays differs by platform and sector. For the consumer sector the average is between 5 to 10 per cent of customers requesting a temporary reduction in payments. The SME segment has seen the biggest initial impact from the COVID-19 restrictions with forbearance and missed payments at 20 per cent of the portfolio at the time of writing. In most agreed forbearance plans borrowers are still paying at least the full interest payment. The property exposure can be divided into term mortgages and shorter-term bridging and development exposures. The term mortgage exposure consists predominately of second charge residential (13 per cent of portfolio) and first charge commercial mortgages (15 per cent of portfolio). The second charge residential mortgages have had forbearance requests averaging between c5-10 per cent. The first charge commercial mortgage portfolio mainly consists of mortgages secured on mixed use property (office with a residential flat above, retail with a residential flat above, residential, industrial and land etc) has seen a higher proportion of requests for payment holidays since the onset of COVID-19 (averaging c20 per cent). Whilst the impact in this portfolio has been more significant, we would note that in most cases the properties generate a diversified income stream and the average loan to value of c60 per cent provides the Company with significant protection in the event of increased defaults. The majority of bridging and development exposures in the portfolio have continued construction through the lockdown as smaller developments have largely been able to progress work uninterrupted. While the Investment Manager does expect some duration extension in the loans as property sales or refinancing activity are likely to be delayed, it does believe that the overall risk position is prudent and sound.

The Investment Manager continues to have faith in the strength of the performance of the asset class despite the unprecedented conditions. The Group is well diversified with the underlying loan portfolios being highly granular with low concentration risk. It has maintained a close and proactive engagement with all platform partners and forbearance has been applied sensitively and proportionately. It believes that this approach together with the structural protection and asset backing of the portfolio will robustly position the Group. The unsecured component of the portfolio is seasoned and stable such that the Investment Manager believes that the Group is well positioned to perform robustly throughout the crisis.

However, given the Group's UK focus, its performance is linked to the health of the UK economy. We expect the Group could experience further impairments and consequently reduced profits, particularly if economic expectations deteriorate further. However, the overall effect of this cannot be quantified reliably because the impact of the government's various support initiatives is not yet known, but they are expected to reduce the potential expected credit loss impact. The government has launched a number of initiatives aimed at providing finance to SMEs. Two of our largest borrowers are in the process of lending under the CBIL government guarantee scheme which will also refinance part of their exposure with the benefit of the government guarantee. The Investment Manager has adopted a prudent approach with the focus on the existing portfolio and ensuring cash collections remain robust as the appropriate strategies are in place.

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

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

The NAV for 31 March 2020 was released on 1 May 2020 and included a £1.8 million expected credit loss provision arising from the change to the economic scenarios due to the COVID-19 situation. This provision was based on the data available at the time and the assumptions will continue to be updated as more information on the lockdown and development of the pandemic continues.

STRATEGIC AND INVESTMENT POLICY

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

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

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

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

Asset allocation and risk diversification

Credit Assets invested in by the Group consist of financing loans, within a range of sub-sectors selected based on their risk/return characteristics. These sub-categories may include, but are not limited to, personal loans, point of sale financing, home improvement loans and loans to small businesses.

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

1. Senior Secured Loans. The Group identifies top performing non-bank lenders that provide finance to a tightly defined target audience. We provide senior financing with security over real assets;
2. Secondary Portfolios. These opportunities are sourced from established relationships and networks; and
3. Direct loan acquisitions. The Group sets criteria for loan origination with speciality platforms. A significant component of economic returns to the speciality platform partners are subordinated to the credit asset returns, creating strong alignment of interests between the Group and the partner, as well as providing additional downside protection.

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

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

INVESTMENT RESTRICTIONS

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

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

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

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

- No single Credit Asset comprising a consumer credit asset shall exceed 0.15 per cent of Gross Assets;
- No single SME or corporate loan, or trade receivable, shall exceed 5.0 per cent of Gross Assets; and
- No single facility, security or other interest backed by a portfolio of loans, assets or receivables (excluding any borrowing ring-fenced within any SPV which would be without recourse to the Group) shall exceed 20 per cent of Gross Assets. For the avoidance of doubt, this restriction shall not prevent the Group from directly acquiring portfolios of Credit Assets which comply with the other investment restrictions described in this section.

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

No restrictions were breached at any point during the year ended 31 December 2019, or the year ended 31 December 2018.

Other restrictions

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

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

These restrictions were not breached in year ended 31 December 2019 or the year ended 31 December 2018.

BORROWING

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

The Group may seek to securitise all or parts of its Credit Assets and may establish one or more SPVs in connection with any such securitisation. To the extent that the Group establishes any SPV in connection with incurring borrowings against any of its assets or in connection with the securitisation of its Credit Assets, it is likely that any such vehicles will be wholly owned subsidiaries of the Company. The Company may use SPVs for these purposes to seek to protect the securitised portfolio from Company 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).

These restrictions were not breached in year ended 31 December 2019 or the year ended 31 December 2018.

In May 2020, the Company's main debt facility was refinanced. The new facility has a maturity date of May 2021 and there is an option to extend beyond this date with the lender's consent. The new facility is a 1-year term and revolving, asset backed facility.

HEDGING

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

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

The Manager monitors the interest rate risk position continuously and did not deemed it appropriate to enter into any interest rate hedges for the period ending 31 December 2019 or the period ending 31 December 2018.

CASH MANAGEMENT

Whilst it is intended that the Group will be close to fully invested in normal market conditions, the Group may invest surplus capital in cash deposits, cash equivalent instruments and fixed income instruments. There is no restriction on the amount of cash or cash equivalent instruments that the Group may hold and there may be times when it is appropriate for the Group to have a significant cash position instead of being fully or near fully invested. The Group increased its cash reserves over the period with £15.2 million of assets held in cash at 31 December 2019 (31 December 2018: £5.6 million).

BUSINESS MODEL

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

- The Group's level of gearing. The Group has a maximum limit of 100 per cent of Net Asset Value in aggregate (calculated at the time of draw down under any facility that the Company has entered into) as detailed in the Company's prospectuses dated 18 December 2015, 25 May 2017 and 21 December 2018 (the "Prospectus");
- The Group's investment policy which determines the diversity of the Group's portfolio. The Board sets limits and restrictions with the aim of reducing risk and maximising returns;
- The appointment, amendment or removal of the Group's third-party service providers;
- An effective system of oversight over the Group's risk management and corporate governance; and
- Premium/discount control mechanism. The Board compares the Group's share price against its then prevailing Net Asset Value.

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

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

- The likely consequences of any decision in the long-term;
- The impact of the Group's operations on the community and the environment;
- The desirability of the Group maintaining a reputation for high standards of business conduct; and

- The need to act fairly to avoid conflicts between the interests of the Directors and those of the Group.

Based on the Group's current position and the performance of the assets acquired the principal risks that it faces and their potential impact on its future development and prospects, the Directors have concluded that there is a reasonable expectation that the Group will be able to continue its business model and meet its liabilities as they fall due over the three-year period to the AGM in 2023. Please see the viability statement on pages 34 and 35 for more detail.

FUTURE DEVELOPMENTS

The Group's anticipated future developments and outlook are discussed in more detail in the Chairman's Statement on pages 8 to 9 and the Investment Manager's Report on pages 10 to 12.

PREMIUM/DISCOUNT MANAGEMENT

The Board closely monitors the premium or discount at which the Company's ordinary shares trade in relation to the Company's underlying Net Asset Value and acts accordingly. During the year under review the Company's ordinary shares traded at a premium to its underlying Net Asset Value until October 2019 from when it traded at a discount to NAV. 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.

The Board has been authorised to allot 23,149,973 ordinary shares, such authority lasting until the conclusion of the 2020 Annual General Meeting ("AGM") of the Company (or, if earlier, until close of business on 31 August 2020). Of this, up to 23,149,973 ordinary shares may be allotted on a non-pre-emptive basis, provided that the issue price is no lower than the latest published NAV per ordinary share. To date, no ordinary shares have been issued by the Company pursuant to this authority.

In addition, the Directors have been authorised to issue and allot up to 25,000,000 C shares on a non-pre-emptive basis, such authority to expire at the conclusion of the 2020 AGM of the Company.

Shareholders' pre-emption rights over this unissued share capital have been partially 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 believes that it is in the shareholders' best interests to prevent the Company's shares trading at a discount to Net Asset Value because shareholders will be unable to realise the full value of their investments.

As a means of addressing the discount to Net Asset Value at which the Company's shares may, from time to time, trade, shareholders have authorised the Company to buy back ordinary shares. The Directors have the authority to purchase in the market up to 5,913,543 ordinary shares, such authority expiring at the conclusion of the 2020 annual general meeting of the Company (or, if earlier, until close of business on 31 August 2020). During the year the Company's shares traded at a premium to NAV until October 2019 from when it traded at a discount to NAV with the highest discount being 4.2 per cent as at 31 December 2019. The last published NAV statement at the date of signing these accounts was the NAV for 31 March 2020. At this point the share price was at a discount of 26.5 per cent to the NAV.

Due to this discount on 27 January 2020 the Company repurchased into treasury 2,200,000 Ordinary Shares at a price of 850 pence per Ordinary Share. Following completion of the Buyback, the Company has 39,449,919 Ordinary Shares in issue, of which 2,200,000 Ordinary Shares are held in treasury. At the forthcoming AGM the Board will seek to renew the Company's powers to buy back ordinary shares.

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

DIRECTORS' DUTIES

Section 172 of the Companies Act 2006

The Directors' overarching duty is to act in good faith and in a way that is the most likely to promote the success of the Group as set out in Section 172 of the Companies Act 2006. In doing so, the Directors must take into consideration the interests of the various stakeholders of the Group, the impact the Group has on the community and the environment, take a long-term view on consequences of the decisions they make as well as aim to maintaining a reputation for high standards of business conduct and fair treatment between the members of the Group.

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

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

Decision-making

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

Stakeholders

The Board seeks to understand the needs and priorities of the Group's stakeholders and these are taken into account during all its discussions and as part of its decision-making. As an externally managed investment firm the Group does not have any employees or customers, nor does it have a direct impact on the community or environment in the conventional sense. Further explanation on environmental, human rights, employee, social and community issues is set out on pages 22 and 23.

The description of the way the Group operates on page 7 explains the various stakeholders in the lending market involved in the investment strategy of the Group. The Board has considered its key stakeholders include:

Shareholders

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

A resolution to continue the life of the Group is put to the shareholders every five years. Having last been approved by shareholders at a General Meeting on 16 December 2019, the next vote would take place at the Group's 2024 AGM.

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

- **Annual General Meeting** – The Group welcomes engagement from shareholders at the AGM as it sees it as an important opportunity for all shareholders to engage directly with the Board. Due to the restrictions on public gatherings during the COVID-19 pandemic, the Board has decided to run the 2020 AGM as a closed meeting and unfortunately shareholders will not be able to attend in person. However, shareholders are strongly urged to provide voting instructions and it is also intended that shareholders will be given the opportunity to submit questions in advance of, or at the meeting which will be held on 26 June 2020. Further details are included in the Notice of AGM which will shortly be posted to shareholders. The Board values any feedback and questions it may receive from shareholders ahead of and during the AGM and will take action or make changes, when and as appropriate. All directors attended the 2019 AGM. All voting at general meetings of the Company is conducted by way of a poll. All shareholders have the opportunity to cast their votes in respect of proposed resolutions by proxy, either electronically or by post. Following the AGM, the voting results for each resolution are published and made available on the Company's website;
- **Publications** - The Annual Report and Half-Year results are made available on the Group 's website and the Annual Report is circulated to shareholders. These reports provide shareholders with a clear understanding of the underlying portfolio and the financial position of the Group. This information is supplemented by analyst presentations which were made available on the Group's website in April and September 2019 in line with the publishing of the Group Annual Report. A supplementary prospectus was also published in August 2019. The Group also publishes monthly the NAV per share and a monthly factsheet which are available on the website and the publication of which is announced via the London Stock Exchange. The monthly factsheet updates the market with underlying performance and commentary around this for that month. Feedback and/or questions the Group and the Investment Manager receive from the shareholders and analysts help the Board evolve its reporting;

  Shareholder concerns - In the event shareholders wish to raise issues or concerns with the Directors, they are welcome to do so at any time by writing to the Chairman at the registered office. Other members of the Board are also available to shareholders if they have concerns that have not been addressed through the normal channels. Feedback can also be gained via the Group's corporate brokers, which is communicated to the Board and Investment Manager; and

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

The Investment Manager

The Investment Manager's performance is critical for the Group to successfully deliver its investment strategy and meet its objective to provide shareholders with an attractive level of dividend income and capital growth through investing in primarily asset secured loans ("Credit Assets") and selected equity investments that are aligned with the Group's strategy and that present opportunities to enhance the Group's returns from its investments ("Equity Assets").

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

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

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

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

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

Lenders

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

Therefore, the Group aims to demonstrate to lenders that it is a well-managed business, capable of consistently delivery long-term returns.

Regulators

The Group can only operate with the approval of its regulators who have a legitimate interest in how the Group operates in the market and treats its shareholders. We have an open and transparent relationship with our regulators and other government authorities including HMRC.

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

CORPORATE AND OPERATIONAL STRUCTURE

Corporate Structure

On 20 June 2019 the Group incorporated Sting Funding Limited ("Sting"), a limited Company incorporated under the law of England and Wales. The Group is considered to control Sting through holding 100 per cent of the issued shares. As a result, the financial statements for the year ended 31 December 2019 are prepared on a consolidated basis.

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

Operational and portfolio management

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

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

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

Alternative Investment Fund Managers Directive ("AIFMD")

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

Anti-bribery and corruption policy

The Group has no employees or operations but uses the anti-bribery and corruption policy of the Investment Manager, ensuring compliance with all applicable anti-bribery and corruption laws and regulations, including the UK Bribery Act 2010.

Environment, human rights, employee, social and community issues

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

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

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

The Investment Manager is committed to maintaining and enhancing its focus on the societal impact of its actions in a way that generates enduring long-term returns for investors and society.

To do this, the Investment Manager has embedded Environmental, Social and Governance "ESG" as a core part of its investment process – from identifying ESG risks pre-acquisition, through to working with portfolio companies post-acquisition to embed this ESG framework, drive value creation and monitor performance against key criteria - and operates on a continuous-improvement basis. ESG is multi-faceted and there are many ways to engage with it, so the Investment Manager tries to focus on those ESG considerations that are most pertinent and where they feel they can have the most impact and these are outlined in their published ESG policy.

At its core, the Investment Manager's ESG Framework centres on the following impact categories:

- Marketplace: How do the products and services provided benefit end-customers, suppliers and investors, and how could they be detrimental to them?
- Governance & Leadership: How is the Investment Manager appropriately accountable for their decisions?

- Workplace: How as the Investment Manager created a positive working environment for their people at the Group and portfolio level, and what more could they be doing to engage and promote diversity and inclusion?

- Community: How can the Investment Manager be strategic with their Social Investment efforts, to best leverage the skills and resources they and the portfolio companies they invest in have available? Are the Investment Manager's efforts providing real benefits and are they focusing on the right issues?

- Environment: What does the Investment Manager do that harms the environment, and what can they do to protect it?

The Investment Manager is a signatory to the UN Principles of Responsible Investment and seeks to drive continued improvement through the ESG initiatives that it has in place across the portfolio.

Modern Slavery Act

The Board gives due regard to human rights considerations, as defined under the European Convention on Human Rights and the UK Human Rights Act 1998.

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

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

BOARD DIVERSITY

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

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

During the year to 31 December 2019 the Board of Directors consists of three non-executive Directors, none of whom are female. During 2019, the Board adopted a Board Diversity and Inclusion policy and has established measurable objectives for achieving diversity on the Board and has undertaken to only engage executive search firms who have signed up to the voluntary Code of Conduct on gender diversity and best practice.

Principal Risks and Uncertainties

The Group is exposed to a number of potential risks and uncertainties. These risks could have a material impact on financial performance and position and could cause actual results to differ materially from expected and historical results.

The Group faces a number of risks both principal and emerging and as a result, the management of the risks we face is central to everything we do. These risks could have a material impact on financial performance and position and could cause actual results to differ materially from expected and historical results.

The Board has carried out a robust assessment of its principal and emerging risks and the controls to help mitigate the risks. It has established a robust process which involves the maintenance of a risk register, which identifies the risks facing the Group and assesses each risk on a scale, classifying the probability of the risk and the potential impact that an occurrence of the risk could have on the Group. The risk register was last reviewed by the Board on 22 April 2020 and is reviewed as part of the Audit and Risk Committee meetings during the year. The day-to-day risk management functions of the Group have been delegated to the Investment Manager, which reports to the Audit and Risk Committee.

OPERATIONAL RISKS

Third Party Service Providers

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

As part of this, the operations of the third-party service providers are highly dependent on IT systems. Any critical system failure, prolonged loss of service availability or material breach of data security could cause serious damage to the third-party's ability to provide services to the Group, which could result in significant compensation costs or regulatory sanctions or a breach of applicable regulations. In particular, failures or breaches resulting in the loss or publication of confidential customer data could cause long-term damage to reputation and could affect regulatory approvals and competitive position which could undermine their ability to attract and retain customers.

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

Mitigation

The Group has appointed third party service providers who are experienced in their field and have a reputation for high standards of business conduct. Further, day-to-day oversight of third-party service providers is exercised by the Investment Manager and 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 Group is subject to ongoing review by the Board on a quarterly basis as well as formal annual review by the Group's Management Engagement Committee.

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

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

Reliance on key individuals

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

Mitigation

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

Fluctuations in the market price of the Company's shares

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

Mitigation

The Investment Manager and the Board closely monitor the level of discount or premium at which the Company's shares trade on the open market. The Company may purchase the shares in the market with the intention of enhancing the Net Asset Value per ordinary share. However, there can be no assurance that any repurchases will take place or that any repurchases will have the effect of narrowing any discount to Net Asset Value at which the ordinary shares may trade. When the Company's shares trade at a premium the Company may issue shares to reduce the premium at which shares trade. As at 31 December 2019 the Company's shares were trading at a discount to Net Asset Value (31 December 2018 the Company's shares were trading at a discount to Net Asset Value). The last published NAV statement at the date of signing these accounts was the NAV for 31 March 2020. At this point the share price was at a discount of 26.5 per cent to the NAV.

On 27 January 2020 Honeycomb Investment Trust plc repurchased into treasury 2,200,000 Ordinary Shares at a price of 850 pence per Ordinary Share. Following completion of the Buyback, the Company has 39,449,919 Ordinary Shares in issue, of which 2,200,000 Ordinary Shares are held in treasury. The total number of voting rights in the Company is therefore 37,249,919 Ordinary Shares.

INVESTMENTS

Achievement of the Investment Objective

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

Mitigation

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

The Investment Manager has adopted a prudent approach given the uncertain economic environment with the focus on the existing portfolio and ensuring cash collections remain robust and the appropriate strategies are put in place. We expect the economic environment to create some compelling new opportunities for the Group which the Investment Manager will selectively review and deploy capital into, however the priority will be to reduce net debt during this period of uncertainty.

Borrowing

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

Mitigation

The Investment Manager and the Board closely monitors the level of gearing of the Group. The Group has a maximum limitation on borrowings of 100 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 Group anticipates that the majority of the cash produced by the portfolio will be used to reduce debt.

In May 2020 the Company's main topco debt facility was refinanced with a 1-year term and revolving facility with extension options at the lender's consent. The Group retains the flexibility to refinance the facility.

Exposure to Credit Risk

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

The outbreak of COVID-19 has caused major disruption across the globe. At the time of writing the portfolio has not seen a material impact in payment performance yet albeit some end borrowers have requested and been granted payment holidays. However, given the Group's UK focus, its performance is linked to the health of the UK economy. The Group could experience further impairments and consequently reduced profits, particularly if economic expectations deteriorate further from the base case. However, the overall effect of this cannot be quantified reliably because of uncertainty in the duration of the government's lockdown, the impact of the various government initiatives and the behaviour of customers as the reach the end of their payment holidays. The government has also launched a number of initiatives aimed at providing finance to SMEs. Two of our largest borrowers are in the process of lending under the CBIL government guarantee scheme which will also refinance part of their exposure with the benefit of the government guarantee. The Investment Manager has adopted a prudent approach with the focus on the existing portfolio and ensuring cash collections remain robust as the appropriate strategies are in place.

Mitigation

The Group 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 Group has made assumptions around loss and arrears rates within the portfolio in its financial projections. Further, the Investment Manager has established stringent underwriting criteria which includes credit referencing, income verification and affordability testing, identity verification and various forward-looking indicators of a borrower's likely financial strength. The Group also provides structured lending facilities to Corporate entities which can be larger value loans. Please see Note 14 to the financial statements for more details on Credit Risk.

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

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

Interest Rate Risk

The Group 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 Group has between the income generated by its Credit Assets, on the one hand, and the liabilities in respect of its borrowings, on the other hand, may subject the Group to interest rate risk.

Mitigation

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

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

Following the recommendations of the Financial Stability Board, a fundamental review and reform of the major interest rates benchmarks, including Interbank offered rate ("Ibors"), are underway across the world's largest financial markets. In some cases, the reform will include replacing interest rate benchmarks with alternative risk-free rates ('RFRs'). This replacement process is at different stages, and is progressing at different speeds, across several major currencies. There is therefore uncertainty as to the basis, method and timing of transition and their implications on the participants in the financial markets. Until there is market acceptance on the form of alternative RFRs for different products, the legal mechanisms to effect transition cannot be confirmed, and the impact cannot be determined, nor any associated costs accounted for. Going forward the Group needs to assess the potential effects of these 'Libor replacement' and has the intention of minimising disruption through appropriate mitigating actions.

Liquidity of Investments

The Group may invest in Credit and Equity Assets that are aligned with the Group's strategy and that present opportunities to enhance the Group's return on its investments. Such assets may have fixed maturity dates or amortisation schedules or may not have any maturity dates. Investments in unquoted equity securities, by their nature, involve a higher degree of valuation and performance uncertainties and liquidity risks than investments in listed securities and therefore may be more difficult to realise.

Mitigation

The Group monitors the maturity profile of its Credit Assets and borrowing as well as trends in cash payment rates.

The Group 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

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

Tax

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

Mitigation

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

Breach of applicable legislative obligations

The Group and its third-party service providers are subject to various legislative and regulatory regimes, including, but not limited to, the Consumer Credit Act General Data Protection Regulation and the Data Protection Act 2018. Any breach of applicable legislative and/or regulatory obligations could have a negative impact on the Group and impact returns to shareholders.

Mitigation

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

EMERGING RISKS

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

This incorporates input and insight from both a top-down and bottom-up perspective:

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

Emerging risks are monitored by the Audit and Risk Committee on an ongoing basis, with agreed actions tracked to ensure the Group's preparedness should an emerging risk crystallise.

The most significant emerging risk is the ongoing outbreak of the COVID-19. We are monitoring the situation carefully as it evolves. The Group's business model aims to ensure that it is able to continue to trade and support its clients in all economic conditions.

Key Performance Indicators (KPIs)

The Board monitors success in implementing the Group's strategy against a range of key performance indicators (KPIs), which are viewed as significant measures of success over the longer term. Although performance relative to the KPIs is also monitored over shorter periods, it is success over the long-term that is viewed as more important, given the inherent volatility of short-term investment returns. The principal KPIs are set out below (please see page 5 for details):

- The movement in Net Asset Value per ordinary share;
- Dividend per share (please see page 88);
- Dividend return;
- The share price premium/(discount) to NAV;
- The movement in the share price;
- Ongoing charges ratio; and
- Revenue return.

APPROVAL

The Strategic Report was approved by the Board of Directors on 27 May 2020 and signed on its behalf by:

Robert Sharpe
Chairman

27 May 2020

2 Directors' Report

Board of Directors

ROBERT SHARPE [1]

Chairman of the Board, Remuneration and Nomination and the Management Engagement Committees and a member of the Audit and Risk Committee

Robert has over 45 years' experience in retail banking. He is currently chairman at Hampshire Trust Bank plc and Bank of Ireland UK plc. He has had an extensive number of appointments both in the UK and the Middle East including Non-executive Director ("NED") at Aldermore Bank plc, George Wimpy plc, Barclays Bank UK Retirement Fund, Vaultex Limited, LSL Properties plc, RIAS plc and several independent NED roles at banks in Qatar, UAE, Oman and Turkey. Robert was previously Chief Executive Officer at West Bromwich Building Society, a role he took to chart and implement its rescue plan. Prior to this, he was Chief Executive Officer at Portman Building Society and Bank of Ireland in the UK.

JIM COYLE [1]

Chairman of the Audit and Risk Committee, and member of the Remuneration and Nomination and Management Engagement Committees

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

RICHARD ROWNEY [2]

Member of the Audit and Risk, Remuneration and Nomination and Management Engagement Committees

Richard was most recently Group Chief Executive of LV= a leading financial services provider and a mutual where he worked as an executive Member of the Board for 13 years. Richard left LV at the end of 2019 following the sale of the General Insurance business to the Allianz Group. Richard has led the business to win the Moneywise Most Trusted Life Insurer award as well as YouGov's UK's Most Recommended Insurer. Prior to his position as CEO he had been Managing Director of the group's Life & Pensions business which he successfully turned into one of the UK's leading Protection and Retirement specialist companies. Prior to his time at LV= Richard held various Director roles across Barclays corporate and retail banking. Richard holds a first-class degree in Geography from the University of Leeds, an MBA from Henley Business School and has completed the Harvard Management Programme in 2006.

[1] Appointed 14 December 2015
[2] Appointed 1 July 2019

Statutory Information

The Directors of Honeycomb Investment Trust plc (Registered: 09899024) present their report and audited financial statements of the Company and its subsidiaries (together, the "Group") for the year ended 31 December 2019. The shares are listed on the Specialist Fund Segment of the London Stock Exchange.

BOARD MEMBERS, AND DIRECTORS' AND OFFICERS' INSURANCE

The names and biographical details of the Board members who served on the Board as at the year-end can be found on page 31.

During the year under review the Group maintained directors' and officers' liability insurance for its Directors and officers as permitted by section 233 of the Companies Act 2006. The Group acquired specific Public Offering and Securities Insurance which commenced on 24 February 2015 with a five-year run-off period. This was subsequently renewed until 5 December 2020.

STATUS OF THE COMPANY

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

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

The Company is an externally managed closed-ended investment company with an unlimited life and has no employees (2018: no employees).

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

INTERNAL CONTROLS AND RISK MANAGEMENT

The Board has established an ongoing process for identifying, evaluating and managing risk on behalf of the Group. Further details of the Group's principal risks and uncertainties can be found in the Strategic Report on pages 24 to 28 and details of the Group's internal controls can be found on page 43. Details of the Group's hedging policies are set out in the Strategic Report on page 18.

SHARE CAPITAL – VOTING AND DIVIDEND

As at 31 December 2019, the Company had 39,449,919 ordinary shares in issue and no shares were held in Treasury (31 December 2018: 39,449,919). As at the date of this report, the Company had 39,449,919 ordinary shares in issue, of which 2,200,000 ordinary shares are held in Treasury. The total number of voting rights in the Company is therefore 37,249,919. On 6 June 2019, at the Company's last Annual General Meeting ("AGM"), the Board was granted authority to allot the Company's ordinary shares of £0.01 each or grant rights to subscribe for, or convert any security into ordinary shares in the Company up to a maximum nominal amount of £231,499.73 representing 23,149,973 ordinary shares. The authority will expire (unless previously renewed, varied or revoked) on the conclusion of the 2020 AGM of the Company (or, if earlier, at the close of business on 31 August 2020).

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, a continuation vote was scheduled to be held at the AGM of the Company in 2021 and, if passed, every five years thereafter. However, in order to provide greater certainty as to the Company's investment period to secure optimal terms in a replacement leverage facility, the Directors convened a General Meeting on 16 December 2019 at which a resolution for the continuation of the Company was proposed and passed by Shareholders. The Group is now in a stronger position to negotiate more favourable terms with lenders which the Directors believe will provide enhanced returns to Shareholders. In addition, increased certainty as to the life of the Group will further enable the Group to continue to build effective long-term partnerships with key new and existing counterparties and borrowers. It will also allow the Group the opportunity to continue to grow and diversify its portfolio whilst continuing to deliver its investment objective of providing Shareholders with an attractive level of dividend income and capital growth.

At the AGM held on 6 June 2019, the Directors were granted the authority to purchase in the market up to 5,913,543 ordinary shares, such authority expiring at the conclusion of the 2020 AGM of the Company (or, if earlier, until close of business on 31 August 2020). During the year the Company had not bought back any shares but post year-end, 2,200,000 ordinary shares were bought back on 27 January 2020 by the Company pursuant to this authority and are held in treasury. The Company intends to seek approval from the shareholders, by special resolution, to renew this authority at the next AGM.

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

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

No final dividend is being recommended. The Company's policy is to pay dividends on a quarterly basis, as set out in the Company's prospectuses dated 18 December 2015, 25 May 2017 and 21 December 2018 (the "Prospectus"). The dividends paid or payable in respect of the year ended 31 December 2019 are set out Note 10 to the financial statements. A reconciliation of movements in reserves is presented in the Statement of Changes in Shareholders' Funds on pages 67 to 68 of the financial statements. The Company may make distributions from the Revenue Reserve, the Special Distributable Reserve or from realised capital gains. There were no unrealised gains in the year.

SUBSTANTIAL SHARE INTERESTS

As at 31 December 2019, the Company had been notified in accordance with Disclosure Guidance and Transparency Rule 5 of the following interests in the voting rights attaching to the Company's issued share capital.

Holder	Ordinary shares	Percentage of total voting rights
Link Fund Solutions Limited*	7,009,634	17.77%

* The Company was notified that part of the voting control interest previously held by Woodford Investment Management LLP was transferred to Link Fund Solutions as new manager

Between 31 December 2019 and the date of this report, the Company had been notified in accordance with Disclosure Guidance and Transparency Rule 5 of the following interests in the voting rights attaching to the Company's issued share capital:

Holder	Ordinary shares	Percentage of total voting rights
C C Beekeeper Limited	4,542,006	12.19%
Weiss Asset Management LP	3,000,000	8.05%
The Thameside 1979 Settlement	2,702,000	7.25%
The Phoenix Holdings Limited	2,935,306	7.88%
Close Asset Management Limited	2,003,000	5.38%
Quilter Investors Limited	10,450,928	28.05%
Brookdale International Partners, L.P	3,000,000	8.05%
M&G Investment Management Limited	2,000,000	5.36%

INDEPENDENT AUDITORS

The Company's independent auditors, PricewaterhouseCoopers LLP ("PwC"), were re-appointed at the Company's AGM in 2019 and have expressed willingness to continue to act as the Group's auditors for the forthcoming financial year. The Audit and Risk Committee has carefully considered the auditors' appointment, as required in accordance with its Terms of Reference, and, having regard to its effectiveness and the services it has provided the Group during the year under review, has recommended to the Board that the independent auditors be re-appointed at the forthcoming 2020 AGM. At the 2020 AGM resolutions are therefore to be proposed for the re-appointment of the independent auditors and to authorise the Directors to agree its remuneration for the forthcoming financial year. In reaching its decision, the Audit and Risk Committee considered the points detailed on pages 47 to 48 of the Audit and Risk Committee's report.

AUDIT INFORMATION

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

ARTICLES OF ASSOCIATION

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

GOING CONCERN

The Directors have reviewed the financial projections of the Group from the date of this report, which shows that the Group will be able to generate sufficient cash flows in order to meet its liabilities as they fall due. Countries around the world have been affected by COVID-19 despite significant mitigating action including self-isolation for people suspected of having the virus, and an effective lockdown through social distancing for all but essential workers, the impact of the virus looks likely to be significant in terms of extent and timing. This represents a significant risk to the operations of the Group as a whole. The Directors have assessed the impact of COVID-19 and given the Group's UK focus, its performance is linked to the health of the UK economy. The Board expect the Group could experience further impairments and consequently reduced profits, particularly if economic expectations deteriorate further. However, the overall effect of this cannot be quantified reliably as we expect the impact of the government's assistance to non-bank lenders and the introduction of the furlough scheme to assist end borrowers are yet unknown, but they are expected to reduce the potential expected credit loss impact. The Group has performed a prudent financial stress geared towards ensuring that it has sufficient cash resources to weather the pandemic so that it can meet its liabilities as they fall due particularly in relation to its debt facility commitments and subsequently emerge in a strong enough position to selectively re-invest the cash generated. The conclusion of the stress testing is that the business has more than adequate cash resources 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 Group also has detailed policies and processes for managing the risk, set out in the Strategic Report on pages 24 to 28.

VIABILITY STATEMENT

In accordance with provision C.2.2 of the UK Corporate Governance Code, published by the Financial Reporting Council in April 2016 (the "Code"), the Directors have assessed the prospects of the Group over the three-year period to the AGM in 2023. The Board believes this period to be appropriate taking into account the current trading position and the potential impact of the principal risks, in particular the effect of COVID-19, that could affect the viability of the Group.

To prepare the viability statement the Board have considered the prospects of the Group in light of its current position and the potential impact of the health of the UK economy as a result of COVID-19. The Directors have considered these in relation to the Group's revenue and expenditure projections, working capital requirements and the fact that the Group's investments do not comprise readily realisable assets. The Board have considered each of the Group's principal risks and uncertainties and mitigating factors are detailed on pages 24 to 28.

Based on the Group's current position and the wider macro-economic uncertainty surrounding COVID-19, analysis to assess viability has focused on the risks in generating cashflows and meeting the debt facility covenants in relation to both the new refinanced Topco facility that was closed in May 2020 and the existing Sting facility. To do this a series of projections have been considered on the basis that the Investment Manager has adopted a prudent approach with the focus on the existing portfolio and ensuring cash collections remain robust as well not re-investing the cash generated by the portfolio in new investments until there is more visibility on the impact of the lockdown restrictions on performance and a return to some level of normality in the economy. With this there is also an expectation that we see an increase in expected credit losses. Given the maturity date of the debt facilities the Board have also projected the impact of changing funding levels as well as funding costs taking into account the possibility of an increase in funding costs as COVID-19 continues.

The analysis indicates that due to the stability and cash generating nature of the portfolio the Group would be able to withstand the impact of the risks identified. Based on the Group's current position and the performance of the assets acquired the principal risks that it faces and their potential impact on its future development and prospects, the Directors have concluded that there is a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three-year period to the AGM in 2023.

MANAGEMENT AND ADMINISTRATION

Administrator

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

Under the terms of the administration agreement, the Administrator charges a fee for its fund administration services equal to the greater of: (i) £5,305 per month (increased by 3 per cent on 1 January in each year); and (ii) an amount equal to the sum of 1/12 of 0.06 per cent of the portion of Net Asset Value up to £150 million, and 1/12 of 0.05 per cent of the excess of Net Asset Value above £150 million. The monthly fee is then reduced by £2,083.33 to reflect the fact that the Administrator no longer provides company secretarial services to the Group. The Administrator is also entitled to reimbursement of all reasonable out of pocket expenses incurred by it in connection with the performance of its duties. The administration agreement can be terminated by either party by providing 90 days' written notice.

Company Secretary

Company Secretary Link Company Matters Limited (the "Company Secretary") has been appointed as the company secretary of the Group. The Company Secretary was appointed in September 2018. The Company Secretary undertakes the general secretarial functions required by the Companies Act and is responsible for the maintenance of specified statutory registers of the Company. The Company Secretary is entitled to a general annual fee of £54,180 (all fees excluding VAT). The Company Secretary shall also be entitled to reimbursement of reasonable out of pocket expenses incurred in connection with the performance of its duties (without prior consent of the Company, but such expenses are subject to limits).

Registrar

Computershare Investor Services plc has been appointed as the Company's registrar to provide share registration services. Under the terms of the Registrar Agreement, the Registrar is entitled to an annual register maintenance fee from the Company equal to £1.30 per Shareholder per annum or part thereof, subject to a minimum of £3,800 per annum and a potential annual fee increase capped by inflation.

Other activity beyond the agreed services will be charged for in accordance with the Registrar's normal tariff as published from time to time.

Investment Manager

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

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

For as long as the Origination Partner is part of the same group as the Investment Manager the fees payable to the Origination Partner, which are calculated as a percentage of the purchase price for each Credit Asset acquired by the Group 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 2019 and 2018.

Depositary

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

(A) Where NAV is less than or equal to £200 million, 0.02 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 Group monthly in arrears in respect of the periodic fee (together, if applicable, with any VAT thereon), which shall be payable by the Group within 30 days of the relevant invoice.

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

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

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

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

Custodian

The Depositary has delegated its obligations in respect of the safe keeping of the Group's financial instruments to Sparkasse Bank Malta plc. The Depositary is primarily liable to the Group and investors for losses of financial instruments held by the by the Custodian, however, the Group and Investment Manager have permitted the transfer of that obligation to the Custodian in compliance with Articles 21(13) or 21(14) of the AIFMD. The Depositary has transferred such obligation and therefore the Custodian, and not the Depositary, will be liable to the Group for a loss of financial instruments held in custody, but the Depositary must take reasonable steps to pursue and enforce any associated claim on behalf of the Group. No amount is payable by the Group to the Custodian.

Corporate broker and financial adviser

Liberum Capital Limited ("Liberum"), a company authorised and regulated in the United Kingdom by the FCA, has been appointed as the Group's corporate broker and financial adviser.

CHANGE OF CONTROL

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

SUBSEQUENT EVENTS

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

On 27 January 2020 Honeycomb Investment Trust plc repurchased into treasury 2,200,000 Ordinary Shares at a price of 850 pence per Ordinary Share. Following completion of the Buyback, the Company has 39,449,919 Ordinary Shares in issue, of which 2,200,000 Ordinary Shares are held in treasury. The total number of voting rights in the Company is therefore 37,249,919 Ordinary Shares.

On 27 March 2020, a dividend of 20.0 pence per ordinary share was paid.

In March 2020, the World Health Organisation recognised an outbreak of a new virus that causes coronavirus disease 2019 ("COVID-19") as a pandemic. COVID-19 has caused disruption to businesses and economic activity which has been reflected in recent fluctuations in global stock markets. There are no comparable recent events which may provide guidance as to the effect of the spread of COVID-19 and a potential pandemic, and, as a result, the ultimate impact of the COVID-19 outbreak or a similar health epidemic is highly uncertain and subject to change.

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

However, given the Group's UK focus, its performance is linked to the health of the UK economy. We expect the Group could also experience further impairments, particularly if economic expectations deteriorate further from the base case. However, the overall effect of this cannot be quantified reliably as we expect the impact of the government's assistance schemes are yet unknown, but they are expected to reduce the potential expected credit loss impact. The government has also launched a number of initiatives aimed at providing finance to SMEs. Two of our largest borrowers are in the process of lending under the CBIL government guarantee scheme which will also refinance part of their exposure with the benefit of the government guarantee. The Investment Manager has adopted a prudent approach with the focus on the existing portfolio and ensuring cash collections remain robust as the appropriate strategies are in place.

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

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

The NAV for 31 March 2020 was released on 1 May 2020 and included a £1.8 million provision arising from the change to the economic scenarios due to the COVID-19 situation. This provision was based on the data at the time and the assumptions will continue to be updated as more information on the lockdown and development of the pandemic continues.

In May 2020 the Company's main topco debt facility was refinanced with the maturity extended to May 2021. This new facility has a combination of a term loan and a revolving loan and is secured on a diverse range of assets. The Group retains the flexibility to refinance the facility.

As at 27 May 2020, the Company's latest published NAV per Ordinary Share as at 31 March 2020 was 1,020.0 pence and the latest share price was 740 pence per share, which was the closing price on the 26 May 2020.

DONATIONS

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

GREENHOUSE GAS EMISSIONS

The Group has no greenhouse gas emissions to report from its operations, nor does it have responsibility for any other emissions producing sources under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013, including those within its underlying investment portfolio.

FUTURE DEVELOPMENTS

Indications of likely future developments in the business of the are discussed in more detail in the Chairman's Statement on pages 8 to 9 and the Investment Manager's Report on pages 10 to 12

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REGULATORY DISCLOSURES

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

Listing Rule	
9.8.4 (1) – capitalised interest	The Group has not capitalised any interest in the year under review.
9.8.4(2) – unaudited financial information	The Company publishes a monthly NAV statement. The Company published a supplementary prospectus approved by the UK Listing Authority on 12 August 2019. The publication of the Supplementary Prospectus is a regulatory requirement under the Prospectus Rules and did not constitute a profit forecast or profit estimate in accordance with listing rule 9.2.18. The Company also published its interim report and unaudited financial statements for the period from 1 January 2019 to 30 June 2019.
9.8.4 (4) – incentive schemes	The Group has no incentive schemes in operation.
9.8.4 (5) and (6) - waiver	No Director of the Company has waived or agreed to waive any current or future emoluments from the Group.
9.8.4 (7), (8) and (9)	During the year under review, Honeycomb Investment Trust plc did not issue shares, however Sting Funding Limited was incorporated and as such issued share capital which Honeycomb Investment Trust plc the sole owner of these shares.
9.8.4 (8) and 9.8.4 (9) – relate to companies that are part of a group of companies	During the year an unlisted subsidiary undertaking of the Group; Sting Funding Limited was incorporated with Honeycomb Investment Trust plc owning 100 per cent of the share capital.
9.8.4 (10) – contract of significance	During the year under review, there were no contracts of significance subsisting to which the Group is a party and in which a Director of the Group is or was materially interested or between the Group and a controlling shareholder.
9.8.4 (11)	The Company is not party to any contracts for the provision of services to the Company by a controlling shareholder.
9.8.4 (12) and (13) – waiving dividends	During the year under review, there were no arrangements under which a shareholder has waived or agreed to waive any dividends or future dividends.
9.8.4 (14)	As set out in the Prospectus, the Company has not voluntarily adopted Listing Rule 9.8.4(14).

Corporate Governance Statement

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

As the Company's shares are not admitted to the UK Listing Authority's Official List, the UK Listing Rules applicable to closed-ended investment companies which are listed on the premium listing segment of the UK Listing Authority do not apply to the Company. However, as set out in the Prospectus, the Company has voluntarily adopted certain key provisions of the UK Listing Rules. Pursuant to the Listing Rules as voluntarily adopted by the Company, the Company must "comply or explain" against each of the provisions of the 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 UK Code, published by the Financial Reporting Council ("FRC") in July 2018. A copy of the Code is available from the website of the Financial Reporting Council at www.frc.org.uk. The Association of Investment Companies ("AIC") has revised and published the AIC Code of Corporate Governance (the "AIC Code") in February 2019. The AIC Code provides a comprehensive guide to best practice in certain areas of governance where the specific characteristics of investment trusts suggest alternative approaches to those set out in the Code. The Company is not a member of the AIC but has voluntarily adopted reporting against the AIC Code to meet its obligations in relation to the Code and the associated disclosure requirements of the DTR. The AIC Code is available from the AIC's website at www.theaic.co.uk.

The Board considers that voluntarily reporting against the principles and recommendations of the AIC 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 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;
- The Chairman's position as Chairman of the Remuneration Committee; and
- The requirement for a separate Nomination Committee.

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

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

The Board does not, at present, consider that separate Nomination Committee would be appropriate at this stage in the Company's life and given the Board's size, being three members in total. Currently, decisions concerning the Board's nomination and Board appraisals are undertaken by the Remuneration and Nomination Committee.

The Company has not followed the recommendation of the AIC Code that the Chairman of the Board should not chair the Remuneration Committee. It was considered that Robert Sharpe was most suited to the role of Chairman of the Committee due to the dual responsibility of the Committee in remuneration and nomination matters and his independence was not compromised as a result. However, the committee composition, the need for a separate Nomination Committee and an internal audit function will be considered on an annual basis.

THE BOARD OF DIRECTORS

The Board consists of three Directors, all of whom are independent non-executive Directors. Biographies of the Directors are shown on page 31 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 and in the most recent Director appointment. the Board engaged Lomond Consulting, who had previously been engaged in the recruitment of the Directors prior to the Company's IPO, to assist in the search. The Board will 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 in accordance with the Company's articles of association. The Directors' appointment can be terminated in accordance with the Company's articles of association and without compensation. There are no agreements between the Company and any Director which provide for compensation for loss of office in the event that there is a change of control of the Company.

Copies of the letters of appointment are available on request from the Company Secretary and will be available at the Company's 2020 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 31. The responsibilities of the Chairman have been agreed by the Board and are available to view on the Company's website.

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 the Directors are available to address shareholder queries or engage in consultation as required. In the absence of a Senior Independent Director, the Board has nominated the Audit & Risk Committee Chairman to lead the evaluation of the Chairman on behalf of the other Directors as part of the annual evaluation process.

THE OPERATION OF THE BOARD

The Board of Directors meets at least four times a year and more often if required. The table below sets out the Directors' attendance at scheduled Board and Committee meetings during the year under review.

Director	Board	Audit Committee	Remuneration and Nomination Committee	Management Engagement Committee
Robert Sharpe	4	4	2	1
Jim Coyle	4	4	2	1
Ravi Takhar*	2	2	2	1
Richard Rowney*	2	2	-	-

* Following the introduction of the Director rotation policy by the Remuneration and Nominations Committee Ravi Takhar resigned as a Director on 6 June 2019 and Richard Rowney was appointed to the Board on 1 July 2019.

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

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

The Board has a formal schedule of matters specifically reserved to it for decision and also has oversight of the Investment Manager's operations and certain corporate actions to ensure effective control of strategic, financial, operational and compliance issues, which includes:

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

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

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

Culture

During 2019, the Directors considered and defined the Company's culture, purpose and values. By formally identifying the important elements of the Company's culture, the Directors are able to assess and monitor it and ensure that it remains well aligned with the Company's purpose, values and strategy.

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

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

Independence of Directors

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

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

Directors' interests

No Director holds shares in the Company.

Board evaluation

The performance of the Board, its committees and Directors and the independence of the Directors during 2019 was evaluated by means of a Director self-assessment questionnaire. The results of the evaluation process were reviewed by the Remuneration and Nomination Committee in February 2020 and actions arising from the evaluation process were agreed.

Any training needs identified as part of the Board evaluation process will be added to the agenda of the next Board meeting. Board training and induction.

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

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

Board appointment, election and tenure

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

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

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

The Board considers that all of the current Directors contribute effectively to the operation of the Board and the strategy of the Company. The Board has considered each Board member's independence from the Company and Investment Manager. As such the Board believes that it is in the best interests of shareholders that each of the Directors be re-elected at the forthcoming AGM. The next AGM will be held in June 2020.

MANAGEMENT AGREEMENT AND CONTINUING APPOINTMENT

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

The Board keeps the performance of the Investment Manager under continual review. The Company's Management Engagement Committee undertook its annual appraisal of the Investment Manager during the year under review on 18 February 2020. The Management Engagement Committee recommended to the Board that the appointments of all the Company's third-party service providers continue. It was felt that their appointment was in the best interests of the shareholders as the Investment Manager had performed in line with expectations and the Board is of the opinion that the continuing appointment of the Investment Manager on the terms agreed is in the interests of the Company's shareholders as a whole.

CONFLICTS OF INTEREST

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

Audit and Risk Committee

The Board has delegated certain responsibilities to its Audit and Risk 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 and Risk Committee which are available on the Group's website www.honeycombplc.com or from the Company Secretary upon request. An outline of the remit of the Audit and Risk Committee and its activities during the year are set out on page 45.

The Audit and Risk Committee is chaired by Jim Coyle and meets on a quarterly basis. It is responsible for ensuring that the financial performance of the Group is properly reported and monitored and provides a forum through which the Group's external auditors may report to the Board. It is also responsible for reviewing the Group's internal control and risk management systems. The Audit and Risk 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 Group.

Further details on the work of the Audit and Risk Committee can be found in the report of the Audit and Risk Committee on pages 45 to 48.

Management Engagement Committee

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

COMPANY SECRETARY

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

REVIEW OF SHAREHOLDER PROFILE

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

RELATIONS WITH SHAREHOLDERS

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

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

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

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

INTERNAL CONTROL REVIEW

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

The Administrator, Depositary and Investment Manager have established internal control frameworks to provide reasonable assurance on the effectiveness of the internal controls operated on behalf of their clients. The Investment Manager, the Administrator, the Depositary and the Company Secretary will report on any breaches of law or regulation, if and when they arise, periodically in scheduled Board reports. The Audit and Risk 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. Updates on the Investment Manager's outsourced internal audit function are bought to the Board on a quarterly basis.

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

The Group has established a risk matrix, consisting of the key risks and controls in place to mitigate those risks. The Board confirms that there is an ongoing process for identifying, evaluating and managing the principal risks faced by the Group. Details of the Group's risks can be found on pages 24 to 28 of the Strategic Report, together with an explanation of the controls that have been established to mitigate each risk. The risk matrix provides a basis for the Audit and Risk Committee and the Board to regularly monitor the effective operation of the controls and to update the matrix when new risks are identified.

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

ALTERNATIVE INVESTMENT FUND MANAGEMENT DIRECTIVE DISCLOSURE

Quantitative remuneration disclosure

In accordance with 3.3.5 (5) of the FCA's Investment Funds Sourcebook ("FUND") and in accordance with FCA Finalised guidance – General guidance on the AIFM Remuneration Code (SYSC 19B) ("the Guidelines"), dated January 2014, the total remuneration paid by Pollen Street Capital Group companies which include the AIFM during the year was £19.4 million, split £10.6 million into variable and £8.8 million in fixed remuneration. During the year, the average number of beneficiaries at the Group which includes the AIFM were 77 and the aggregate amount of remuneration paid in relation to the Senior Management of the firm was £6.4 million. Fixed remuneration is amounts paid as salaries. Variable remuneration is amounts paid under bonus arrangements and distributions. The AIFM does not consider that any individual member of staff of the AIFM has the ability to materially impact the risk profile of the Company.

Other disclosures

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

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

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 24 to 28 and in Note 13 to the financial statements, Financial Risk Management.

The Company is permitted to be leveraged and has borrowing restrictions in place. In accordance with the Company's prospectuses dated 18 December 2015, 25 May 2017 and 21 December 2018 (the "Prospectus"), the Company has a maximum limit of 100 per cent of NAV, the actual leverage employed by the Company as a percentage of NAV was 51.7 per cent. There have been no breaches of the permitted leverage limits within the year and no changes to maximum level of leverage employed by the Company.

The table below sets out the current maximum permitted and actual leverage under the gross and commitment method in accordance with Annex IV Article 8 of the AIFMD. This differs from the Company's borrowing restriction, which is an absolute measure. The gross and commitment method are ratios between the Company's gross assets and NAV. The gross method represents the sum of the Company's positions (total assets) after deducting cash balances. The commitment method represents the sum of the Company's positions without deducting cash balances. The Company is required to state its maximum and actual leverage levels, calculated as prescribed by the AIFMD as at 31 December 2019, and are as follows:

As a percentage of net asset value	Gross method	Commitment method
Maximum level of leverage	200%	200%
Leverage as at 31 December 2019	151%	104%

Other matters

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

APPROVAL

This Directors' Report was approved by the Board of Directors on 27 May 2020.

On behalf of the Board
Robert Sharpe
Chairman

27 May 2020

Report of the Audit and Risk Committee

As Chairman of the Audit and Risk Committee I am pleased to present the Audit and Risk Committee report for the year ended 31 December 2019. Full details of the number of committee meetings and attendance by individual committee members can be found on page 40.

MEMBERSHIP OF THE AUDIT AND RISK COMMITTEE

The Audit and Risk Committee comprises all Directors and is chaired by Jim Coyle. Please see page 31 for the members' biographies. All members of the Committee have recent and relevant financial experience, as a result of their involvement in financial services and other industries.

As Chairman of the Audit and Risk Committee, I can confirm that I am a Chartered Accountant and I maintain my membership of the Institute of Chartered Accountants of Scotland. As such, I have relevant financial experience. The AIC Corporate Governance Code stipulates that should the Chairman of the Board be a member of the Audit and Risk Committee an explanation should be provided as to why this is considered appropriate. Given the size of the Board and Mr. Sharpe's relevant financial experience gained through his involvement with other businesses during his career and given our opinion that the Chairman is independent, it is considered appropriate that he is a member of the Audit and Risk Committee.

THE ROLE OF THE AUDIT AND RISK COMMITTEE

The role of the Audit and Risk 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 Group's internal financial and internal control and risk management systems;
- To make recommendations to the Board on the re-appointment or removal of the external auditors and to approve its remuneration and terms of engagement;
- To review and monitor the external auditors' independence and objectivity; and
- To review and consider on an annual basis the need for an internal audit function.

Matters considered during the year

The Audit and Risk Committee has met four times during the year under review (please see page 40 for member's attendance) and considered the following items:

- The Group's Audited Annual Report and Financial Statements for the year ended 31 December 2019 and advised the Board accordingly;
- The Company's half-year financial statements for the period ended 30 June 2019 and advised the Board accordingly;
- The independence and re-appointment of the external auditor;
- The audit plan for the Group's annual audit shared by the external auditors;
- The policy on non-audit services;
- Monitored the Investment Manager's impairment approach required by IFRS 9;
- In order to support the Board's approval of the going concern assessment on page 34 and viability statement on pages 34 and 35 as to the longer-term viability of the Group, the Committee reviewed papers from the Investment Manager supporting the going concern and the viability statement;
- The Company's dividend policy; and
- The Investment Manager's whistleblowing policy.

The Audit and Risk Committee also reviewed the following items:

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

UK non-audit services

In relation to non-audit services, the Audit and Risk Committee has reviewed and implemented a policy on the engagement of the auditors to supply non-audit services and this is reviewed on an annual basis. All requests or applications for other services to be provided by the auditors over a threshold are submitted to the Audit and Risk Committee and will include a description of the services to be rendered and an anticipated cost. The Group's policy has been updated to follows the requirements of the Financial Reporting Council's Revised Ethical Standard for Auditors published in December 2019 and which implemented the European Union's revised Statutory Audit Directive (the revised Ethical Standard became effective for periods commencing on or after 15 March 2020). The policy specifies a number of prohibited services which it is not permitted for the auditors to provide under the revised Ethical Standard.

The auditors did not provide reporting accountant services during 2019. During 2018, the auditors provided reporting accountant services on the prospectus dated 21 December 2018 in relation to the Company's subsequent further issuance of ordinary shares. These non-audit fees amounted to £62,266.

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

SIGNIFICANT ACCOUNTING MATTERS

The Audit and Risk Committee met on 22 April 2020 to review the report and financial statements for the year ended 31 December 2019. The Audit and Risk Committee considered the following significant issues, including principal risks and uncertainties in light of the Group's activities and issues communicated by the Auditors during their audit, all of which were satisfactorily addressed:

Issue considered	How the issue was addressed
Risk of misappropriation of assets and ownership of investments	The Audit and Risk Committee reviews reports from its service providers on key controls over the assets of the Group. Any significant issues are reported to the Board by the Investment Manager or the Company's Depositary. The Investment Manager has put in place procedures to ensure that investments can only be made to the extent that the appropriate contractual and legal arrangements are in place to protect the Group's assets. The Company's Depositary issues a quarterly report on the status of the assets to the Directors for review.
The risk that income is overstated, incomplete or inaccurate through failure to recognise proper income entitlements or to apply the appropriate accounting treatment for recognition of income	The Board regularly reviews income statements from the Investment Manager, noting the consistency of approach with prior years. The Investment Manager reviews income performance against budget on a monthly basis and reviews its recognition policies for appropriateness and accuracy on a regular basis to ensure they meet the accounting policy set out in Note 1 to the financial statements.

The risk of material misstatement of expected credit losses under IFRS 9 Financial instruments	The Audit and Risk Committee views credit provisioning as the key accounting estimate area for the Group. As in previous years, it received presentations from the Investment Manager explaining key judgement areas, such as, consistency of approach and the Group's business mix. After challenging the Investment Manager, the Committee concluded that the provisioning approach and key judgements were reasonable. The Investment Manager also reviews impairment performance on a monthly basis and reviews its impairment policy for appropriateness and accuracy on a regular basis to ensure they meet the accounting policy set out in Note 1 to the financial statements. As the Group enters the 2020 financial year, the Committee has continued to monitor this area closely given the expected material impact of COVID-19 on expected credit losses. Expected credit losses are anticipated to increase however this cannot be accurately quantified as the effect and length of government measures around lockdown, the government economic stimulus and the resultant impact on underlying borrower's ability to pay are currently all unknown. The Board considers the emergence and spread of COVID-19 to be a non-adjusting post balance sheet event.
Going concern and viability statement	The Audit and Risk Committee reviewed a paper from the Investment Manager in support of the going concern basis and the longer-term viability of the Group. The Committee noted the stability of the Group's business model, its successful track record, the Group's three-year financial projections and the results of internal stress testing in relation to COVID-19 and concluded this provided sufficient evidence to support the Board's viability statement set out on pages 34 and 35. The Committee will continue to monitor this area closely given the expected material impact of COVID-19 on the profitability of the business as the longer-term effects on the UK economy begin to be seen.
Fair, balanced and understandable	On behalf of the Board, the Audit and Risk Committee reviewed the financial statements as a whole in order to assess whether they were fair, balanced and understandable. The Committee discussed and challenged the balance and fairness of the overall report and ensured that appropriate disclosure was made in relation to the impact of COVID-19. The Board considers the emergence and spread of COVID-19 to be a non-adjusting post balance sheet event, however, has included detail on the effects of this post year end. The Committee was satisfied that the Annual Report could be regarded as fair, balanced and understandable and proposed that the Board approve the Annual Report in that respect.
Retention of Investment Trust Status	The Audit and Risk Committee receives a report from the Investment Manager confirming if the Company has remained compliant with the requirements to maintain its Investment Trust status. HMRC approved the investment status of the Company. The Directors regularly review the investments and their mix to ensure they remain diversified, its retained income levels to ensure sufficient distributions are made and the Company's shareholdings to determine if the Company has become a close company.

External auditors

The Group's external auditors, PricewaterhouseCoopers LLP ("PwC"), were appointed on 16 May 2016 and last re-appointed on 6 June 2019 at the Company's AGM. Under the Financial Reporting Council's transitional arrangements, the Company is required to re-tender, at the latest, by 2025. The Audit and Risk Committee intends to re-tender within the timeframe set by the Financial Reporting Council.

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

The audit and non-audit fees for the year under review can be found in Note 7 to the financial statements.

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

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

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

Internal audit

The Audit and Risk Committee believes that the Group does not require an internal audit function, principally because the Group delegates its day-to-day operations to third parties, which are monitored by the Audit and Risk Committee, and which provide control reports on their operations at least annually. Updates on the Investment Manager's outsourced internal audit function are bought to the Board on a quarterly basis.

APPROVAL

This Report was approved by the Audit and Risk Committee on 27 May 2020.

Jim Coyle
Chairman of the Audit and Risk Committee

27 May 2020

Directors' Remuneration Report

STATEMENT FROM THE CHAIRMAN

The Remuneration and Nomination Committee (the "Committee") comprises all Directors and is chaired by Robert Sharpe. Please see page 31 for the member's biography's, and full details of the number of committee meetings and attendance by individual committee members can be found on page 40.

I am pleased to present the Directors' remuneration report for the year ended 31 December 2019, prepared in accordance with The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 and the Companies Act 2006. The Group's auditors are required to verify certain information within this report subject to statutory audit by the Companies Act 2006. Where information set out below has been audited it is indicated as such.

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 in the interim require shareholder approval.

Ordinary resolutions to approve the Directors' remuneration policy and the Directors' remuneration report will be put to shareholders at the 2020 AGM. The full text of the Directors' remuneration policy is set out below, the Directors have made a minor amendment to the policy to reflect the Directors' Succession Policy adopted during 2019.

As at 31 December 2019, the Board comprised three non-executive Directors, all of whom are independent of the Investment Manager.

Given the size of the Board, and as the Company has no employees, it is not considered appropriate for the Company to establish a separate Nomination Committee.

It is the responsibility of the Committee to consider and approve Directors' remuneration, review the structure, size and composition of the Board, plan for adequate Board succession and evaluate the balance of experience and diversity of the Board. At the start of 2019 the Directors remuneration was set at a rate of £45,000 per annum for the Chairman and £38,000 per annum for the other Directors. A further £5,000 per annum was payable to the Chairman of the Audit and Risk Committee. The Committee met on 21 February 2019 and considered the continued time commitment required to carry out their duties and the development and growing complexity of the business. The Committee recommended to the Board an increase of the Board's fees by £3,000 for the Chairman and £2,000 for all other members from 1 March 2019. The Directors remuneration was therefore set at a rate of £48,000 per annum for the Chairman and £40,000 per annum for the other Directors. A further £5,000 per annum will be paid to the Chairman of the Audit and Risk Committee. The Committee met on 18 February 2020 and considered the continued time commitment required to carry out their duties and recommended no change in Board salaries.

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' SUCCESSION POLICY

At the start of 2019, the Association of Investment Companies (the "AIC") has published an updated AIC Code of Corporate Governance. The Committee welcomed the AIC's approach to tenure of chairs of investment companies which, recognising that the circumstances of chairs of investment companies differed from other companies, the AIC recommended that instead of adhering to a nine year limit on chair tenure, the Boards could determine and disclose their policy on the chair tenure instead. The Committee and then the Board debated its approach to tenure and after careful consideration, it adopted a policy on Directors' Succession. In accordance with the policy, the Company put into effect an orderly rotation of the Board which commenced at the 2019 AGM and will subsequently occur every other year.

DIRECTORS' REMUNERATION POLICY

The fees for the Board as a whole are limited to £250,000 per annum in accordance with the Prospectus, divided between the Directors as they may determine. Subject to this limit, the Board's policy is that remuneration of non-executive Directors should reflect the experience of each Board member and the time commitment required by Board members to carry out their duties and is determined with reference to the appointment of Directors of similar investment companies. The level of remuneration has been set with the aim of promoting the future success of the Group.

With this in mind the Board considers remuneration in order to attract individuals of a calibre appropriate to promote the long-term success of the Company and to reflect the specific circumstances of the Company and its field of investment, the duties and responsibilities of the Directors and the value and amount of time commitment required of Directors to the Group's affairs.

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

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

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

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

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

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

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

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

Subject to shareholder approval, this policy will take effect from the 2020 AGM.

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

Remuneration Type - Fixed Fees

The fees for the Board as a whole are limited to £250,000 per annum in accordance with the Prospectus, divided between the Directors as they may determine.

Annual fees are set to reflect the experience of each Board member and the time commitment required by Board members to carry out their duties and is determined with reference to the appointment of Directors of similar investment companies.

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

Remuneration Type - Additional Fees

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

Board members are entitled to such fees as they may determine in respect of any extra or special services performed by them, having been called upon to do so. Such fees would be determined at the Board's absolute discretion and would be set at a similar rate to other comparable investment companies who have undertaken equivalent activities.

Remuneration Type - Expenses 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.

Remuneration Type - Other

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

VOTING AT ANNUAL GENERAL MEETING

The Directors' Remuneration Report for the year ended 31 December 2018 and the Directors' Remuneration Policy were approved by shareholders at the Annual General Meetings held on 6 June 2019 and 2 June 2017 respectively. The votes cast by proxy were as follows:

	Directors' Remuneration Report		Directors' Remuneration Policy	
	Number of Votes	**% of votes cast**	**Number of Votes**	**% of votes cast**
For	35,323,936	100.00	17,226,166	100.00
Against	-	-	-	-
Total votes cast	**35,323,936**	**100.00**	**17,226,166**	**100.00**
Number of votes withheld	-	-	-	-

The Directors' remuneration report, excluding the implementation of the Directors' remuneration policy, is subject to an annual advisory vote via an ordinary resolution. An advisory vote is a non-binding 'advisory' resolution. In the event that shareholders vote against the 'advisory' resolution, the Board will be required to put its remuneration policy to shareholders for approval at the next AGM, regardless of whether the remuneration policy was approved by shareholders. The votes cast at the 2020 AGM on the advisory resolutions will be disclosed in the remuneration report for the year to 31 December 2020.

DIRECTORS' FEES (AUDITED)

Single total aggregate Directors' remuneration for the year under review was £131,834 (2018: £126,000). The Directors who served during the year under review received the following emoluments:

Director	Fixed Fees paid during the year (1)	Variable Fees paid during the year (1)	Taxable benefits	Non-taxable benefits	31 December 2019	31 December 2018
Robert Sharpe (Chair)	£47,500	-	-	-	£47,500	£45,000
Jim Coyle	£44,667	-	-	-	£44,667	£43,000
Richard Rowney (2)	£20,000	-	-	-	£20,000	-
Ravi Takhar (3)	£19,667	-	-	-	£19,667	£38,000
Total	**£131,834**	**-**	**-**	**-**	**£131,834**	**£126,000**

(1) Fees paid to the Directors during the year under review does not include any employment taxes or valid business expenses.
(2) Richard Rowney was appointed on 1 July 2019
(3) Ravi Thakar resigned from his position on 6 June 2019

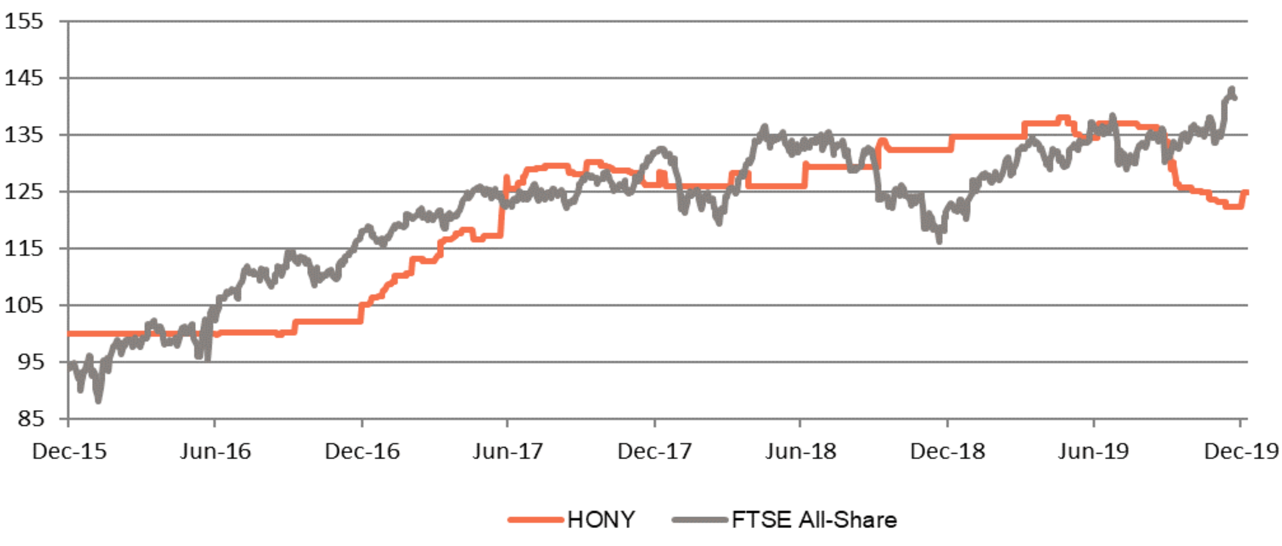
No payments were made to past Directors for loss of office. In the absence of further major increases in the workload and responsibility involved, the Board does not expect fees to increase significantly over the next three years. The overall remuneration of each Director will continue to be monitored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

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

Company Performance

The Board is responsible for the Company's investment strategy and performance, although day-to-day management of the Company's affairs, including the management of the Company's portfolio, has been delegated to third-party service providers. An explanation of the performance of the Company is given in the Chairman's statement on pages 8 to 9 and Investment Manager's review on pages 10 to 12.

The graph below compares the total shareholder return on the Company's share classes from inception to 31 December 2019 with that of the FTSE All-Share Total Return Index (ASXTR Index).



This graph assumes that on 23 December 2015, £100 was invested in the Company's share classes and the FTSE All-Share Total Return Index. The graph also assumes the reinvestment of all cash dividends received prior to any tax effect at the closing share price on the day the dividend was paid.

This index has been selected as the most relevant, although there is no listed index that is directly comparable to the Company's portfolio.

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

The following table is provided in accordance with The Small and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 which sets out the relative importance of spend on pay in respect of the year ended 31 December 2019. The table shows the remuneration paid to Directors for the year under review, compared to the distribution payments to shareholders.

	31 December 2019 £'000	31 December 2018 £'000
Total remuneration paid to Directors	132	126
Shareholder distributions – dividends or share buybacks	31,560	27,750

DIRECTORS' INTERESTS (AUDITED)

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

As at 31 December 2019, the Directors do not hold shares in the Company (31 December 2018: None).

There have been no changes to any holdings between 31 December 2019 and the date of this report.

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

The Annual Report on remuneration was approved by the Board on 27 May 2020 and signed on behalf of the Board by:

Robert Sharpe
Chairman of the Remuneration and Nomination Committee

27 May 2020

Management Report and Statement of Directors' Responsibilities

Listed companies are required by the Financial Conduct Authority's Disclosure Guidance and Transparency Rules (the "Rules") to include a management report in their annual Financial statements. The information required to be in the management report for the purpose of the Rules is included in the Chairman's Statement (pages 8 and 9), the Investment Manager's Report (pages 10 to 12), Top Ten Holdings (pages 13), Portfolio composition (page 14), the Business Review (pages 15 to 23) and the Report of the Directors (pages 30 to 62). Therefore, a separate management report has not been included.

DIRECTORS' RESPONSIBILITIES STATEMENT IN RELATION TO THE FINANCIAL STATEMENTS

The Directors are responsible for preparing the Annual Report and the Group and Company Financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards ("IFRS") as adopted by the European Union. The Directors are also required to prepare a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement. Under company law, the Directors must not approve the Financial statements unless they are satisfied that they present a fair, balanced and understandable report and provide the information necessary for shareholders to assess the Company's performance, business model and strategy. In preparing the Financial statements, the Directors are required to:

- select suitable accounting policies in accordance with IAS 8: 'Accounting Policies, Changes in Accounting Estimates and Errors' and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Company's financial position and financial performance;
- state that the Company has complied with IFRS, subject to any material departures disclosed and explained in the financial statements;
- make judgements and estimates that are reasonable and prudent; and
- prepare the financial statements on a going concern basis unless it is inappropriate to assume that the Company will continue in business.

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

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

- the Group and Company's Financial statements, prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, Financial position and profit or loss of the Company;
- the Strategic Report (comprising the Chairman's Statement, Manager's Report, top ten largest Holdings, Analysis of Investment Portfolio by Sector and Business Model and Strategy) and the Report of the Directors include a fair review of the development and performance of the business and the position of the Company together with a description of the principal risks and uncertainties that it faces;
- taken as a whole, the Annual Report and Financial statements are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy;
- the Financial statements include details on related party transactions; and
- having assessed the principal risks and other matters discussed in connection with the Viability Statement, it is appropriate to adopt the going concern basis in preparing the Financial statements.

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

Robert Sharpe
Chairman

27 May 2020

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

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

- give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2019 and of the Group's profit and the Group's and the Company's cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Company's financial statements, as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual Report and Audited Financial Statements (the "Annual Report"), which comprise: the Consolidated and Company Statement of Financial Position as at 31 December 2019; the Consolidated Statement of Comprehensive Income, the Consolidated and Company Statement of Cash Flows, and the Consolidated and Company Statement of Changes in Shareholders' Funds for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

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

Basis for opinion

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

Independence

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

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

We have provided no non-audit services to the Group or the Company in the period from 1 January 2019 to 31 December 2019.

Our audit approach

Overview

Materiality	• Overall Group materiality: £4.0 million, based on 1% of Net assets. • Overall Company materiality: £3.8 million (2018: £4.0 million), based on 1% of Net assets capped at 95% of Group materiality. • Specific materiality of £3.1m used for certain Statement of Comprehensive Income line items of the Group, being a percentage of profit before taxation.
Audit scope	• The investment objective of Honeycomb Investment Trust plc (the "Company") and its subsidiaries (together the 'Group') is to provide shareholders with an attractive level of dividend income and capital growth through investing in asset secured loans ("Credit Assets") and selected equity investments that are aligned with the Group's strategy and that present opportunities to enhance the Group's returns from its investments ("Equity Assets"). • 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 and Group, the involvement of the Investment Manager, the accounting processes and controls, and the industry in which the Company and Group operates.
Key audit matters	• Valuation of credit assets at amortised cost less expected credit losses (Group and Company) • Valuation of equity investments held at fair value through profit and loss (Group and Company) • Interest income on credit assets at amortised cost (Group) • Consideration of the impact of COVID-19 (Group and Company)

The scope of our audit

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

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to the ongoing qualification as an Investment Trust under the Corporation Tax Act 2010 and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006 and the UK Listing Rules applicable to the Company. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to, posting inappropriate journal entries to increase revenue, and management bias in accounting estimates particularly the valuation of equity investments and impairment of credit assets. We performed the following procedures in response to those risks:

- Discussions with the Investment Manager and the Audit and Risk Committee, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Assessment of the Company's compliance with the requirements of Section 1158 of the Corporation Tax Act 2010, including recalculation of numerical aspects of the eligibility conditions;
- Reviewing relevant meeting minutes including those of the Board and Audit and Risk Committee;
- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular in relation to valuation of equity investments and impairment of credit assets (see related key audit matters below); and
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations, unusual amounts, containing unusual words in the description and journal entries posted by unexpected users of the Group's accounting system.

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

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Valuation of credit assets reported at amortised cost less expected credit losses (Group and Company) Refer to pages 71 to 81 (Principal Accounting Policies), pages 82 to 84 (Significant Accounting Judgements, Estimates and Assumptions), pages 89 to 92 (Note 11 to the financial statements) and page 47 (Report of the Audit and Risk Committee). Credit assets are recorded at amortised cost in the Statement of Financial Position and amounted to £581.0 million as at 31 December 2019. The amount is net of provision for impairment and allowance for expected credit losses in accordance with IFRS 9 of £30.2 million (shown in Note 11 to the financial statements). The impairment assessment requires estimates and significant judgements to be applied by the Directors, especially around expected credit loss allowance for IFRS 9, such that changes to key inputs to the estimates and/or judgements made can result in a material change to the valuation.	We understood and assessed the methodology and assumptions applied by the Group in determining the amortised cost of credit assets less expected credit losses, by reference to accounting standards and industry practice. We understood and evaluated the internal controls relating to the accounting and reporting of credit assets at amortised cost less expected credit losses. We understood and evaluated the valuation methodology and assumptions applied, by reference to IFRS 9 applicable for the current year and industry practice, and tested the techniques used, in determining the amortised cost, and recognition of any expected credit loss. Our testing included: • We obtained confirmations from underlying borrowers or performed alternative procedures, where applicable; • We worked with our risk modelling specialist team to review and analyse the methodology used by the Investment Manager against the requirements of IFRS 9; • We assessed the selection of economic scenarios and the Investment Manager's experts used in the development of these scenarios; • We assessed key assumptions used, such as those relating to when a significant increase in credit risk has occurred; • We performed sample testing on certain inputs to the underlying expected credit loss models; • We validated the key parameters within expected credit loss models, such as the probabilities of default, loss given default, and exposure at default; and • We tested the integrity of the data used in the models and its completeness and accuracy. We found that the recording of credit assets at amortised cost was consistent with the accounting policies and that the assumptions used to calculate the expected credit losses were supported by appropriate evidence.

Interest income on credit assets at amortised cost (Group) Refer to page 73 (Principal Accounting Policies), page 84 (Significant Accounting Judgements, Estimates and Assumptions), page 85 (Note 5 to the financial statements) and page 46 (Report of the Audit and Risk Committee). The Group reported interest income on credit assets at amortised cost of £62.7 million in the Statement of Comprehensive Income for the year ended 31 December 2019. The accuracy and occurrence of interest income is an area of focus for our audit given the objective of the Group to provide shareholders with an attractive level of dividend income.	We understood and evaluated the design and implementation of controls surrounding income accounting and reporting of interest income on credit assets. Our testing procedures included the following: • We assessed the accounting policy for income recognition and determined that it was in compliance with IFRSs as adopted by the European Union; • We tested that income had been recognised in accordance with the accounting policy; • We performed sample testing on loan interest income, agreeing interest rates and maturities to supporting documentation, including loan agreements, and to cash received; and • We recalculated loan interest income recognised using the effective interest method on a sample basis. No material misstatements were identified by our testing.
Valuation of equity investments held at fair value through profit and loss (Group and Company) Refer to pages 74 (Principal Accounting Policies), page 84 (Significant Accounting Judgements, Estimates and Assumptions) and pages 93 and 94 (Note 12 to the financial statements). The fair value of the unlisted investments ("investee companies"), of the Group and the Company, which are the equity investments held at fair value through profit or loss, is £8.4 million and £12.9 million as at 31 December 2019, respectively. Unlisted investments do not have readily determinable prices. The investments in unquoted equities are valued using several different techniques, primarily recent transactions, net assets and earnings multiples. The price of recent transaction approach refers to any investment into that investee company that would give an indication of fair value. The earnings multiples approach is a comparable analysis using similar companies' financial metrics, such as the company's share price and the underlying earnings to value to the investee companies. As such, the valuation of unlisted investments is judgmental, increasing the risk of material misstatement in relation to the overall financial statements.	We understood and evaluated the valuation methodology applied, by reference to industry practice and applicable accounting standards, and tested the techniques used by the Investment Manager in determining the fair value of the unlisted investments. We understood and evaluated the internal controls surrounding valuation of unlisted investments held at fair value through profit and loss. We performed the following: • Agreed the price of recent transaction to supporting documentation such as purchase agreements or bank statements; • Agreed the net assets to supporting financial information; • 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; and • Performed substantive testing to corroborate key assumptions and inputs and agree these to supporting information; and • Obtained independent confirmation from the investee companies of the shareholding of the Company. We found that the valuations of equity investments held at fair value through profit and loss were supported by the audit evidence we obtained.

Consideration of the impact of COVID-19 (Group and Company)	
Refer to page 105 (Note 28 to the financial statements) and the Strategic Report and Directors' Report. From a small number of cases of an unknown virus in 2019, the COVID-19 viral infection has become a global pandemic. It has caused disruption to supply chains and travel, slowed global growth and caused volatility in global markets and in exchange rates during the most of 2020. The impact of the COVID-19 pandemic has been treated as a non-adjusting event as it is indicative of conditions that arose after the end of the reporting period. The Directors have prepared the financial statements of the Group and Company on a going concern basis, and believe this assumption remains appropriate. This conclusion is based on the assessment that notwithstanding the significant disruption and the related uncertainties, they are satisfied that the Group and Company has adequate resources to continue in operational existence for the foreseeable future and that the Group and Company and its key third party service providers have in place appropriate business continuity plans and will be able to maintain service levels through the COVID-19 pandemic.	We evaluated the Directors' assessment of the impact of the COVID-19 pandemic on the Group and Company by: • Evaluating their updated risk assessment and considering whether it addresses the relevant threats presented by COVID-19. • Evaluating their assessment of operational impacts, considering their consistency with other available information and our understanding of the business and assessing the potential impact on the financial statements. We assessed the disclosures presented in the Annual Report in relation to COVID-19 by reading the other information, including the Principal Risks and Uncertainties and Viability Statement set out in the Strategic Report and Directors' Report and assessing its consistency with the financial statements and the evidence we obtained in our audit. Our conclusions relating to other information are set out in the 'Reporting on other information' section of our report. We agree with the Directors' conclusion that the impact of COVID-19 should be treated as a non-adjusting event after the end of the reporting period and are satisfied that it has been appropriately disclosed as such in the financial statements. We obtained and evaluated the Directors' going concern assessment which reflects conditions up to the point of approval of the Annual Report by: Obtaining evidence to support the key assumptions driving the Directors' assessment, including the refinancing of its loan facility. This included reviewing the Directors' assessment of the Group and Company's financial position, including the liquidity of its assets, updated loan covenant analysis, stress testing, as well as their review of the operational resilience of the Group and Company and oversight of key third-party service providers. Our conclusions relating to going concern are set out in the 'Going Concern' section below.

How we tailored the audit scope

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

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

Materiality

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

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

	Group financial statements	Company financial statements
Overall materiality	£4.0 million.	£3.8 million (2018: £4.0 million).
How we determined it	1% of Net assets.	1% of Net assets capped at 95% of Group materiality.
Rationale for benchmark applied	We have applied this benchmark, which is a generally accepted auditing practice for investment trust clients.	We have applied this benchmark, which is a generally accepted auditing practice for investment trust clients.

In addition to overall materiality, a specific materiality of £3.1 million based on 10% of profit before taxation was also applied to Statement of Comprehensive Income line items except for income on equity assets held at fair value through profit and loss and credit impairment losses as they are directly linked to net assets. Our specific materiality is aligned with the revenue return that we believe is of the interest to the members, which is driven by those Statement of Comprehensive Income line items.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was £3.1 – 3.8 million.

We agreed with the Audit and Risk Committee that we would report to them misstatements identified during our audit above £0.2 million (Group audit) and £0.2 million (Company audit) (2018: £0.2 million) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Going concern

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

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

REPORTING ON OTHER INFORMATION

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

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

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

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

Strategic Report and Directors' Report
In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06) In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material

misstatements in the Strategic Report and Directors' Report. (CA06)

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

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

- The Directors' confirmation on page 24 of the Annual Report that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity.

- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.

- The Directors' explanation on pages 34 and 35 of the Annual Report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report in respect of this responsibility.

Other Code Provisions

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

- The statement given by the Directors, on page 54, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group and Company obtained in the course of performing our audit.

- The section of the Annual Report on pages 45 to 48 describing the work of the Audit and Risk Committee does not appropriately address matters communicated by us to the Audit and Risk Committee.

We have nothing to report in respect of this responsibility.

Directors' Remuneration

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

RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS AND THE AUDIT

Responsibilities of the Directors for the financial statements

As explained more fully in the Directors' Responsibilities Statement in Relation to the Financial Statements set out on page 54, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

OTHER REQUIRED REPORTING

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

APPOINTMENT

Following the recommendation of the Audit Committee, we were appointed by the Directors on 16 May 2016 to audit the financial statements for the year ended 31 December 2016 and subsequent financial periods. The period of total uninterrupted engagement is 4 years, covering the years ended 31 December 2016 to 31 December 2019.

OTHER VOLUNTARY REPORTING

Going concern

The Directors have requested that we review the statement on page 34 in relation to going concern as if the Company were a premium listed company. We have nothing to report having performed our review.

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

The Directors have requested that we perform a review of the Directors' statements on pages 24, 34 and 35 that they have carried out a robust assessment of the principal risks facing the Group and in relation to the longer-term viability of the Group, as if the Company were a premium listed company. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit. We have nothing to report having performed this review.

Other Code provisions

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

Richard McGuire

Richard McGuire (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
27 May 2020

3 Financial Statements

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2019

		For the year ended 31 December 2019			For the year ended 31 December 2018 (Restated)		
	Notes	**Revenue £'000**	**Capital £'000**	**Total £'000**	**Revenue £'000**	**Capital £'000**	**Total £'000**
Income							
Interest Income on credit assets at amortised cost	5	62,697	-	62,697	54,445	-	54,445
Income / (Loss) on equity assets at fair value through profit and loss		-	30	30	-	(750)	(750)
Credit impairment losses	11	(7,372)	-	(7,372)	(7,467)	-	(7,467)
Third Party Servicing		(3,739)	-	(3,739)	(3,523)	-	(3,523)
Net operating income/expense before financing and fund costs		**51,586**	**30**	**51,616**	**43,455**	**(750)**	**42,705**
Finance costs	12	(8,417)	-	(8,417)	(5,429)	-	(5,429)
Net operating income/expense before fund costs		**43,169**	**30**	**43,199**	**38,026**	**(750)**	**37,276**
Management fee	6	(5,971)	(95)	(6,066)	(4,907)	(90)	(4,997)
Performance fee	6	(3,468)	-	(3,468)	(2,873)	-	(2,873)
Fund expenses	7	(2,454)	-	(2,454)	(1,209)	-	(1,209)
Total operating expenses		**(11,893)**	**(95)**	**(11,988)**	**(8,989)**	**(90)**	**(9,079)**
Profit / (loss) before taxation		**31,276**	**(65)**	**31,211**	**29,037**	**(840)**	**28,197**
Tax expense	8	-	-	-	-	-	-
Profit / (loss) after taxation		**31,276**	**(65)**	**31,211**	**29,037**	**(840)**	**28,197**
Earnings per share (basic and diluted)	9	**79.3p**	**(0.2)p**	**79.1p**	**79.6p**	**(2.3)p**	**77.3p**

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 ("AIC"). All items in the above statement derive from continuing operations.

No operations were discontinued during the year.

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

The notes on pages 71 to 106 form an integral part of the financial statements.

Consolidated Statement of Financial Position

As at 31 December 2019

	Notes	31 December 2019 £'000	31 December 2018 £'000 (Restated)
Non-current assets			
Equity Investments held at fair value through profit or loss	12	8,390	9,980
Credit Assets at amortised cost	11	580,998	576,530
Fixed assets	15	41	217
		589,429	**586,727**
Current assets			
Cash and cash equivalents		15,154	5,559
Receivables	16	8,875	3,375
		24,029	**8,934**
Total assets		**613,458**	**595,661**
Current liabilities			
Management fee payable	6	(511)	(985)
Performance fee payable	6	(3,468)	(2,873)
Other payables	17	(2,326)	(1,830)
Interest bearing borrowings	18	(130,741)	-
		(137,046)	**(5,688)**
Total assets less current liabilities		**476,412**	**589,973**
Non-Current Liabilities			
Interest bearing borrowings	18	(76,051)	(189,263)
Net assets		**400,361**	**400,710**
Shareholders' funds			
Ordinary share capital	20	394	394
Share premium		299,599	299,599
Revenue reserves		5,270	4,934
Capital reserves		(1,030)	(965)
Special distributable reserves	21	96,128	96,748
Total shareholders' funds		**400,361**	**400,710**
Net asset value per share	24	**1,014.9p**	**1,015.7p**

The notes on pages 71 to 106 form an integral part of the financial statements.

The financial statements on pages 64 to 106 were approved by the Board of Directors of Honeycomb Investment Trust plc (a public limited company incorporated in England and Wales with company number 09899024) and authorised for issue on 27 May 2020. They were signed on its behalf by:

Robert Sharpe, Chairman

Company Statement of Financial Position

As at 31 December 2019

	Notes	31 December 2019 £'000	31 December 2018 £'000 (Restated)
Non-current assets			
Equity Investments held at fair value through profit or loss	12	12,883	9,980
Credit Assets at amortised cost	11	580,998	576,530
Fixed assets	15	41	217
		593,922	**586,727**
Current assets			
Cash and cash equivalents		13,251	5,559
Receivables	16	8,325	3,375
		21,576	**8,934**
Total assets		**615,498**	**595,661**
Current liabilities			
Management fee payable	6	(511)	(985)
Performance fee payable	6	(3,468)	(2,873)
Other payables	17	(1,805)	(1,830)
Interest bearing borrowings	18	(130,741)	-
		(136,525)	**(5,688)**
Total assets less current liabilities		**478,973**	**589,973**
Non-Current Liabilities			
Deemed Loan	19	(78,612)	-
Interest bearing borrowings	18	-	(189,263)
Net assets		**400,361**	**400,710**
Shareholders' funds			
Ordinary share capital	20	394	394
Share premium		299,599	299,599
Revenue reserves		5,270	4,934
Capital reserves		(1,030)	(965)
Special distributable reserves	21	96,128	96,748
Total shareholders' funds		**400,361**	**400,710**
Net asset value per share	24	**1,014.9p**	**1,015.7p**

Advantage has been taken of the exemption under section 408 of the Companies Act 2006 and accordingly the Company has not presented a Statement of Comprehensive Income for the Company alone. The profit on ordinary activities after taxation of the Company for the year ended 31 December 2019 was £31.2 million (2018: £28.2 million).

The financial statements on pages 64 to 106 were approved by the Board of Directors of Honeycomb Investment Trust plc (a public limited company incorporated in England and Wales with company number 09899024) and authorised for issue on 27 May 2020. They were signed on its behalf by:

Robert Sharpe, Chairman

Consolidated Statement of Changes in Shareholders' Funds

For the year ended 31 December 2019

	Ordinary Share Capital £'000	Share Premium £'000	Revenue Reserves £'000	Capital Reserves £'000	Special Distributable Reserves £'000	Total Equity £'000
Shareholders' funds at 1 January 2019	**394**	**299,599**	**4,934**	**(965)**	**96,748**	**400,710**
Ordinary shares issued	-	-	-	-	-	**-**
Ordinary shares issue costs	-	-	-	-	-	**-**
Profit / (loss) after taxation	-	-	31,276	(65)	-	**31,211**
Dividends paid in the year	-	-	(30,940)	-	(620)	**(31,560)**
Shareholders' funds at 31 December 2019	**394**	**299,599**	**5,270**	**(1,030)**	**96,128**	**400,361**

As at 31 December 2019 the Group had distributable reserves of £100.37 million for the payment of future dividends. The distributable reserves are the net of the revenue reserves (£5.27 million), realised capital reserves (-£1.03 million) and the special distributable reserves (£96.13 million).

For the year ended 31 December 2018

	Ordinary Share Capital £'000	Share Premium £'000	Revenue Reserves £'000	Capital Reserves £'000	Special Distributable Reserves £'000	Total Equity £'000
Shareholders' funds at 1 January 2018	**299**	**201,852**	**5,133**	**(125)**	**97,600**	**304,759**
Changes on initial application of IFRS 9	-	-	(2,338)	-	-	**(2,338)**
Restated balance at 1 January 2018	**299**	**201,852**	**2,795**	**(125)**	**97,600**	**302,421**
Ordinary shares issued	95	99,905	-	-	-	**100,000**
Ordinary shares issue costs	-	(2,158)	-	-	-	**(2,158)**
Profit / (loss) after taxation	-	-	29,037	(840)	-	**28,197**
Dividends paid in the year	-	-	(26,898)	-	(852)	**(27,750)**
Shareholders' funds at 31 December 2018	**394**	**299,599**	**4,934**	**(965)**	**96,748**	**400,710**

As at 31 December 2018 the Group had distributable reserves of £100.72 million for the payment of future dividends. The distributable reserves are the net of the revenue reserves (£4.93 million), realised capital reserves (-£0.97 million) and the special distributable reserves (£96.75 million).

The notes on pages 71 to 106 form an integral part of the financial statements.

Company Statement of Changes in Shareholders' Funds

For the year ended 31 December 2019

	Ordinary Share Capital £'000	Share Premium £'000	Revenue Reserves £'000	Capital Reserves £'000	Special Distributable Reserves £'000	Total Equity £'000
Shareholders' funds at 1 January 2019	**394**	**299,599**	**4,934**	**(965)**	**96,748**	**400,710**
Ordinary shares issued	-	-	-	-	-	**-**
Ordinary shares issue costs	-	-	-	-	-	**-**
Profit / (loss) after taxation	-	-	31,276	(65)	-	**31,211**
Dividends paid in the year	-	-	(30,940)	-	(620)	**(31,560)**
Shareholders' funds at 31 December 2019	**394**	**299,599**	**5,270**	**(1,030)**	**96,128**	**400,361**

As at 31 December 2019 the Company had distributable reserves of £100.37 million for the payment of future dividends. The distributable reserves are the net of the revenue reserves (£5.27 million), realised capital reserves (-£1.03 million) and the special distributable reserves (£96.13 million).

For the year ended 31 December 2018

	Ordinary Share Capital £'000	Share Premium £'000	Revenue Reserves £'000	Capital Reserves £'000	Special Distributable Reserves £'000	Total Equity £'000
Shareholders' funds at 1 January 2018	**299**	**201,852**	**5,133**	**(125)**	**97,600**	**304,759**
Changes on initial application of IFRS 9	-	-	(2,338)	-	-	**(2,338)**
Restated balance at 1 January 2018	**299**	**201,852**	**2,795**	**(125)**	**97,600**	**302,421**
Ordinary shares issued	95	99,905	-	-	-	**100,000**
Ordinary shares issue costs	-	(2,158)	-	-	-	**(2,158)**
Profit / (loss) after taxation	-	-	29,037	(840)	-	**28,197**
Dividends paid in the year	-	-	(26,898)	-	(852)	**(27,750)**
Shareholders' funds at 31 December 2018	**394**	**299,599**	**4,934**	**(965)**	**96,748**	**400,710**

As at 31 December 2018 the Company had distributable reserves of £100.72 million for the payment of future dividends. The distributable reserves are the net of the revenue reserves (£4.93 million), realised capital reserves (-£0.97 million) and the special distributable reserves (£96.75 million).

The notes on pages 71 to 106 form an integral part of the financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	Notes	31 December 2019 £'000	31 December 2018 £'000
Cash flows from operating activities:			
Profit after taxation		31,211	28,197
Adjustments for:			
Changes on initial application of IFRS 9		-	(2,338)
Change in expected credit loss	11	7,372	7,467
Net change in unrealised (gains)/losses	12	(30)	750
Finance costs		8,418	5,429
Amortisation	15	176	275
(Increase) / Decrease in receivables	16	(5,500)	102
Increase in payables	17	617	892
Net cash inflow from operating activities		**42,264**	**40,774**
Cash flows from investing activities:			
Net (Purchase) of Investments at amortised cost		(11,840)	(238,431)
(Purchase) of investments	12	(380)	(3,000)
Sale of investments	12	2,000	3,497
Purchase of fixed assets	15	-	(150)
Net cash (outflow) from investing activities		**(10,220)**	**(238,084)**
Cash flows from financing activities:			
Proceeds from issue of ordinary shares	19	-	100,000
Share issue costs		-	(2,158)
Interest bearing borrowings	18	272,463	366,900
Repayments of interest-bearing borrowings	18	(255,517)	(234,400)
Interest paid on financing activities	18	(7,835)	(5,453)
Dividends declared and paid	9	(31,560)	(27,750)
Net cash (outflow) / inflow from financing activities		**(22,449)**	**197,139**
Net change in cash and cash equivalents		**9,595**	**(171)**
Cash and cash equivalents at the beginning of the year		5,559	5,730
Net cash and cash equivalents		**15,154**	**5,559**

The notes on pages 71 to 106 form an integral part of the financial statements.

Company Statement of Cash Flows

For the year ended 31 December 2019

	Notes	31 December 2019 £'000	31 December 2018 £'000
Cash flows from operating activities:			
Profit after taxation		31,211	28,197
Adjustments for:			
Changes on initial application of IFRS 9		-	(2,338)
Change in expected credit loss	11	7,372	7,467
Net change in unrealised (gains)/losses	12	(4,523)	750
Finance costs		7,449	5,429
Amortisation	15	176	275
(Increase) / Decrease in receivables	16	(4,950)	102
Increase in payables	17	96	892
Net cash inflow from operating activities		**36,381**	**40,774**
Cash flows from investing activities:			
Net (Purchase) of Investments at amortised cost		(11,840)	(238,431)
(Purchase) of investments	12	(380)	(3,000)
Sale of investments	12	2,000	3,497
Purchase of fixed assets	15	-	(150)
(Purchase) / receipt from deemed loans		78,613	-
Net cash (outflow) from investing activities		**68,393**	**(238,084)**
Cash flows from financing activities:			
Proceeds from issue of ordinary shares	19	-	100,000
Share issue costs		-	(2,158)
Interest bearing borrowings	18	191,500	366,900
Repayments of interest-bearing borrowings	18	(250,500)	(234,400)
Interest paid on financing activities		(6,972)	(5,453)
Dividends declared and paid	9	(31,560)	(27,750)
Net cash (outflow) / inflow from financing activities		**(97,532)**	**197,139**
Net change in cash and cash equivalents		**7,692**	**(171)**
Cash and cash equivalents at the beginning of the year		5,559	5,730
Net cash and cash equivalents		**13,251**	**5,559**

The notes on pages 71 to 106 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") as adopted by the European Union ("EU"). They comprise standards and interpretations approved by the International Accounting Standards Board ("IASB") and International Financial Reporting Committee, including interpretations issued by the IFRS Interpretations Committee and interpretations issued by the International Accounting Standard Committee ("IASC") that remain in effect, to the extent they have been adopted by the EU.

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

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

The principal accounting policies adopted by the Company and Group are set out below. Where presentational guidance set out in the Statement of Recommended Practice ("SORP") for investment trusts issued by the Association of Investment Companies ("AIC") in July 2018 is consistent with the requirements of IFRS, the Directors have sought to prepare the financial statements on a basis compliant with the recommendations of the SORP.

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

Except for new accounting policies introduced by IFRS 9 the accounting policies have been applied consistently year on year.

Changes to Accounting Policies

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):

Accounting standards effective

IFRS 16 Leases

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

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

Accounting standards issued but not yet effective

IFRS 17 Insurance Contract

IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows. IFRS 17 was issued in May 2017 and applies to annual reporting periods beginning on or after 1 January 2023.

The Directors do not anticipate that the adoption of this standard and interpretations will have a material impact on the financial statements, given the nature of the Group's business being that it has no insurance contracts.

IFRS 3 Amendments regarding the definition of a business

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

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

Accounting Policies

Consolidation

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

On 20 June 2019 the Group incorporated Sting Funding Limited ("Sting"), a limited Company incorporated under the law of England and Wales. Sting became active on 28 August 2019 when it drew down on a debt facility backed by commercial and second charge residential mortgages. The company is registered at 35 Great St. Helen's, London, United Kingdom, EC3A 6AP. The Group is considered to control Sting through holding 100 per cent of the issued shares. As a result, the financial statements for the year ended 31 December 2019 are prepared on a consolidated basis.

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

As at 31 December 2018 the Company did not control a subsidiary.

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

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

Foreign Currency

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

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

Transactions involving foreign currencies are converted at the exchange rate ruling at the date of the transaction. Foreign currency monetary assets and liabilities are translated into Pounds Sterling at the exchange rate ruling on the year-end date. Foreign exchange differences arising on translation would be recognised in the Statement of Comprehensive Income.

Presentation of the Statement of Comprehensive Income

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

In respect of the analysis between revenue and capital items presented within the Statement of Comprehensive Income, all expenses and finance costs, which are accounted for on an accruals basis, have been presented as revenue items except those items listed below:

- Expenses are allocated to capital where a direct connection with the maintenance or enhancement of the value of the investments can be demonstrated; and
- Expenses which are incidental to the disposal of an investment are deducted from the disposal proceeds of the investment.

The following are presented as capital items:

- Gains and losses on the realisation of investments;
- Increases and decreases in the valuation of investments held at the 31 December 2019;
- Realised and unrealised gains and losses on transactions undertaken to hedge an exposure of a capital nature;
- Realised and unrealised exchange differences of a capital nature; and
- Expenses, together with the related taxation effect, allocated to capital in accordance with the above policies.

Income

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

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

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

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

Expenses

All expenses are accounted for on the 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; and
- Expenses are split and presented partly as capital items where a connection with the maintenance or enhancement of the value of the investments held can be demonstrated and, accordingly, the management fee for the financial year has been allocated 98.2 per cent to revenue and 1.8 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 Group.

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.

Shares

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

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

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

Taxation

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

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

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

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

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

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

Investments at amortised cost

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

Investments

All investments held by the Group have been designated at fair value through profit or loss ("FVTPL") but are also described in these financial statements as investments held at fair value and are valued in accordance with the International Private Equity and Venture Capital Valuation Guidelines ("IPEVCV") effective 1 January 2019 as recommended by the British Private Equity and Venture Capital Association.

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

Fixed assets

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

Receivables

Receivables do not carry any interest and are short term in nature. They are initially stated at their nominal value and reduced by appropriate allowances for expected credit losses (if any). Given their short-term nature a lifetime ECL is not deemed necessary as expected life is less than a month.

Cash and cash equivalents

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

Financial liabilities

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

Payables

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

Interest bearing borrowings

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

Dividends

Interim dividends to shareholders are recognised in the year of the ex-dividend date.

Associates

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

No associates are presented on the Statement of Financial Position as the Group elects to hold such investments at fair value through profit and loss. This treatment is permitted by IAS 28 Investment in Associates and Joint Ventures, which permits investments held by entities that are venture capital organisations, mutual funds or similar entities to be excluded from its measurement methodology requirements where those investments are designated, upon initial recognition, as at fair value through profit or loss and accounted for in accordance with IFRS 9. Changes in fair value of associates are recognised in the Statement of Comprehensive Income in the period in which the change occurs.

The disclosures required by Section 409 of the Companies Act 2006 for associated undertakings are included in Note 23 to the financial statements.

Classification and measurement

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

IFRS 9 contains a classification and measurement approach for debt instruments that reflects the business model in which assets are managed and their cash flow characteristics. This is a principle-based approach and applies one classification approach for all types of debt instruments. For debt instruments two criteria are used to determine how financial assets should be classified and measured:

- The entity's business model (i.e. how an entity manages its debt Instruments in order to generate cash flows by collecting contractual cash flows, selling financial assets or both); and
- The contractual cash flow characteristics of the financial asset (i.e. whether the contractual cash flows are solely payments of principal and interest).

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

A debt instrument is measured at fair value through other comprehensive income ("FVOCI") if it meets both of the following conditions and is not designated as at FVTPL:

(a) it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

(b) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Movements in the carrying amount are taken through the Other Comprehensive Income ("OCI"), except for the recognition of expected credit losses, interest revenue and foreign exchange gains and losses on the investments at amortised cost which is recognised in the Consolidated Statement of Comprehensive Income. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to the Consolidated Statement of Comprehensive Income and recognised in 'Income'. Interest income from these financial assets in included in 'Income' using the EIRM.

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

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. All equity positions are measured at FVTPL. Financial assets measured at FVTPL are recognised in the balance sheet at their fair value. Fair value gains and losses together with interest coupons and dividend income are recognised in the income statement within net trading income in the period in which they occur. The fair values of assets and liabilities traded in active markets are based on current bid and offer prices respectively. If the market is not active the Group establishes a fair value by using valuation techniques. In addition, on initial recognition the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

The Group assesses the objective of the business model in which a financial asset is held at a portfolio level in order to generate cash flows because this best reflects the way the business is managed, and information is provided to the Investment Manager. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these are applicable, then the financial assets are classified as part of the other business model and measured at FVTPL.

The information that is considered includes:

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

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

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

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

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

Deemed loans

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

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

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

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer’s perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer’s net assets. Examples of equity instruments include basic ordinary shares.

The Group subsequently measures all equity investments at FVTPL Gains and losses on equity investments at FVTPL are included in the ‘Income’ line in the Statement of Comprehensive Income.

Expected Credit loss allowance for financial assets measured at amortised cost

The impairment charge in the income statement includes the change in expected credit losses which are recognised for loans and advances to customers, other financial assets held at amortised cost and certain loan commitments.

IFRS 9 applies a single impairment model to all financial instruments subject to impairment testing. Impairment losses are recognised on initial recognition, and at each subsequent reporting period, even if the loss has not yet been incurred. In addition to past events and current conditions, reasonable and supportable forecasts affecting collectability are also considered when determining the amount of impairment in accordance with IFRS 9. Under IFRS 9 expected credit loss model expected credit losses are recognised at each reporting period, even if no actual loss events have taken place. In addition to past events and current conditions, reasonable and supportable forward-looking information that is available without undue cost or effort is considered in determining impairment, with the model applied to all financial instruments subject to impairment testing.

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

The measurement of ECLs is primarily based on the product of the instrument's probability of default ("PD"), loss given default ("LGD"), and exposure at default ("EAD"), taking into account the value of any collateral held or other mitigants of loss and including the impact of discounting using the effective interest rate.

- The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months ("12M PD"), or over the remaining lifetime ("Lifetime PD") of the obligation.
- EAD is based on the amounts the Group expects to be owed at the time of default, over the next 12 months ("12M EAD") or over the remaining lifetime ("Lifetime EAD"). For example, for a revolving commitment, the Group includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur. The EAD is discounted back to the reporting date using the effective interest rate ("EIR") determined at initial recognition.
- LGD represents the Group's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

The estimated credit loss ("ECL") is determined by estimating the PD, LGD, and EAD for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original EIR or an approximation thereof. The Lifetime PD is developed by applying a maturity profile to the current 12M PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band where supported by historical analysis. The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type.

- For amortising products and bullet repayment loans, this is based on the contractual repayments owed by the borrower over a 12 month or lifetime basis. This is also adjusted for any expected overpayments made by a borrower. Early repayment/refinance assumptions are also incorporated into the calculation.
- For revolving products, the exposure at default is predicted by taking current drawn balance and adding a "credit conversion factor" which allows for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type and current limit utilisation band, based on analysis of the Company's recent default data.

The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default. These vary by product type.

- For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and recovery costs observed.
- For unsecured products, LGD's are typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGD's are influenced by collection strategies, including contracted debt sales and price.

The main difference between Stage 1 and Stage 2 is the respective PD horizon. Stage 1 estimates use a maximum of a 12-month PD, while Stage 2 estimates use a lifetime PD. The main difference between Stage 2 and Stage 3 is Stage 3 is effectively the point at which there has been a default event. For financial assets in stage 3, entities continue to recognise lifetime ECL but now recognise interest income on a net basis. This means that interest income is calculated based on the gross carrying amount of the financial asset less ECL. Stage 3 estimates continue to leverage existing processes for estimating losses on impaired loans, however, these processes are updated to reflect the requirements of IFRS 9, including the requirement to consider multiple forward-looking scenarios using independent third-party economic information.

Movements between Stage 1 and Stage 2 are based on whether an instrument's credit risk as at the reporting date has increased significantly relative to the date it was initially recognised. Where the credit risk subsequently improves such that it no longer represents a significant increase in credit risk since origination, the asset is transferred back to Stage 1. Where the credit risk subsequently improves such that it no longer represents a significant increase in credit risk since origination, the asset is transferred back to Stage 1.

In assessing whether a borrower has had a significant increase in credit risk the following indicators are considered:

- Consumer
  - Short-term forbearance
  - Extension of terms granted
- Structured/SME/Property
  - Significant increase in credit spread
  - Significant adverse changes in business, financial and/or economic conditions in which the borrower operates
  - Actual or expected forbearance or restructuring
  - Actual or expected significant adverse change in operating results of the borrower
  - Significant change in collateral value (secured facilities only) which is expected to increase the risk of default
  - Early signs of cashflow/liquidity problems such as delay in servicing of trade creditors

However, as a backstop, unless identified at an earlier stage, the credit risk of financial assets is deemed to have increased significantly when repayments are more than 30 days past due. Movements between Stage 2 and Stage 3 are based on whether financial assets are credit impaired as at the reporting date. IFRS 9 contains a rebuttable presumption that default occurs no later than when a payment is 90 days past due. The Group uses this 90-day backstop for all its assets except for UK second mortgages, the Group has assumed a backstop of 180 days past due as mortgage exposures more than 90 days past due, but less than 180 days, typically show high cure rates and this aligns to the Group's risk management practices. Assets can move in both directions through the stages of the impairment model.

In assessing whether a borrower is credit impaired the following qualitative indicators are considered:

- Consumer
  - Long-term forbearance
  - Borrower deceased
  - Borrower insolvent

- Structured/SME/Property
  - Borrower in breach of financial covenants
  - Concessions have been made by the lender relating to the borrower's financial difficulty
  - Significant adverse changes in business, financial or economic conditions on which the borrower operates
  - Long term forbearance or restructuring.

The following quantitative indicators are also considered

- The remaining lifetime PD at the reporting date has increased, compared to the residual lifetime PD expected at the reporting date when the exposure was first recognised; and
- Based on data developed internally and obtained from external sources.

The criteria above have been applied to all financial instruments held by the Group and are consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the PD, EAD and LGD throughout the Group's expected credit loss calculations.

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

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

The measurement of expected credit losses for each stage and the assessment of significant increases in credit risk considers information about past events and current conditions as well as reasonable and supportable forward-looking information. A 'Base case' view of the future direction of relevant economic variables and a representative range of other possible forecasts scenarios have been developed. The process has involved developing two additional economic scenarios and considering the relative probabilities of each outcome.

The base case represents a most likely outcome and is aligned with information used for other purposes, such as strategic planning and budgeting. The number of scenarios and their attributes are reassessed at each reporting date. At 31 December 2019 as well as 31 December 2018, all the portfolios of the Group use one positive, more optimistic and one downside, more pessimistic outcomes. The scenario weightings are determined by a combination of statistical analysis and expert credit judgement, taking account of the range of possible outcomes each chosen scenario is representative of.

The estimation and application of forward-looking information requires significant judgement. PD, LGD and EAD inputs used to estimate Stage 1 and Stage 2 credit loss allowances, are modelled and adjusted based on the macroeconomic variables (or changes in macroeconomic variables) that are most closely correlated with credit losses in the relevant portfolio. The Group has utilised macroeconomic scenarios for each relevant jurisdiction prepared and provided by Oxford Economics ("Oxford"). Oxford combines two decades of forecast errors with the quantitative assessment of the current risks facing the global and domestic economy to produce robust forward-looking distributions for the economy. Oxford construct 3 alternative scenarios at specific percentile points in the distribution. In any distribution, the probability of a given discrete scenario is close to zero. Therefore, scenario probabilities represent the probability of that scenario or similar scenarios occurring. In effect, a given scenario represents the average of a broader bucket of similar severity scenarios and the probability reflects the width of that bucket. Given that it is known where the IFRS 9 scenarios sit in the distribution (the percentiles), their probability (the width of the bucket of similar scenarios) depends on how many scenarios are chosen. Scenario probabilities must add up to 100 per cent so the more scenarios chosen, the smaller the section of the distribution, or bucket, each scenario represents and therefore the smaller the probability. This allows the probabilities to be calculated according to whichever subset of scenarios chosen to use in the ECL calculation. The scenarios are generated at the year-end and are only updated during the year if economic conditions change significantly. The Base case is given a 40 per cent weighting and the downside and upside a 30 per cent weighting each. These weightings were introduced in the 2018 financial year and maintained in the current financial year.

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Group considers these forecasts to represent its best estimate of the possible outcomes and has analysed the non-linearities and asymmetries within the Group's different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

Other forward-looking considerations not otherwise incorporated within the above scenarios, such as the impact of any regulatory, legislative or political changes, have also been considered, but no adjustment has been made to the ECL for such factors. This is reviewed and monitored for appropriateness on an annual basis.

In March 2020, the World Health Organisation recognised COVID-19 as a pandemic. COVID-19 has caused disruption to businesses and economic activity which has been reflected in recent fluctuations in global stock markets. There are no comparable recent events which may provide guidance as to the effect of the spread of COVID-19 and a potential pandemic, and, as a result, the ultimate impact of the COVID-19 outbreak or a similar health epidemic is highly uncertain and subject to change. The Board considers the emergence and spread of COVID-19 to be a non-adjusting post balance sheet event. Given the Group's UK focus, its performance is linked to the health of the UK economy. We expect the Group could experience further impairments and consequently reduced profits, particularly if economic expectations deteriorate further. However, the overall effect of this cannot be quantified reliably as we expect the impact of the government's assistance to non-bank lenders and the introduction of the furlough scheme to assist end borrowers are yet unknown, but they are expected to reduce the potential expected credit loss impact The government has also launched a number of initiatives aimed at providing finance to SMEs. Two of our largest borrowers are in the process of lending under the CBIL government guarantee scheme which will also refinance part of their exposure with the benefit of the government guarantee.

Collateral and other credit enhancements

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

The Group prepares a valuation of the collateral obtained as part of the loan origination process. This assessment is reviewed periodically. The principal collateral types for loans and advances are:

- Mortgages over residential properties;
- Margin agreement for derivatives, for which the Group has also entered into master netting agreements;
- Charges over business assets such as premises, inventory and accounts receivable; and
- Charges over financial instruments such as debt securities and equities.

Longer-term finance and lending to corporate entities are generally secured; revolving individual credit facilities are generally unsecured.

Collateral held as security for financial assets other than loans and advances depends on the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured, with the exception of asset-backed securities and similar instruments, which are secured by portfolios of financial instruments. Derivatives are also collateralised.

The Group's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Company since the prior period.

The Group closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the Group will take possession of collateral to mitigate potential credit losses.

Modification of financial assets

The Group sometimes modifies the terms or loans provided to customers due to commercial renegotiations, or for distressed loans, with a view to maximising recovery.

Such restructuring activities include extended payment term arrangements, payment holidays and payment forgiveness. Restructuring policies and practice are based on indicators or criteria which, in the judgement of management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans.

The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in derecognition of the original assets. The Group monitors the subsequent performance of modified assets. The Group may determine that the credit risk has significantly improved after restructuring, so that the assets are moved from Stage 3 or Stage 2.

Modification of loans

The Company sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Group assesses whether or not the new terms are substantially different to the original terms. The Group does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay;
- Whether any substantial new terms are introduced, such as a profit share/equity-based return that substantially affects the risk profile of the loan;
- Significant extension of the loan term when the borrower is not in financial difficulty;
- Significant change in the interest rate;
- Change in the currency the loan is denominated in; and
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Group derecognises the original financial asset and recognises a 'New' asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Group also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amounts are also recognised in the Consolidated Statement of Comprehensive Income as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in the Consolidated Statement of Comprehensive Income. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

Derecognition other than a modification

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Group transfers substantially all the risks and rewards of ownership, or (ii) the Group neither transfers nor retains substantially all the risks and rewards of ownership and the Company has not retained control.

The Company enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as 'pass through' transfers that result in derecognition if the Group:

- Has no obligation to make payments unless it collects equivalent amounts from the assets;
- Is prohibited from selling or pledging the assets; and
- Has an obligation to remit any cash it collects from the assets without material delay.

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

Financial liabilities

Classification and subsequent measurement

In both the current period and prior year, financial liabilities are classified and subsequently measured at amortised cost, except for:

- Financial liabilities at fair value through profit or loss: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in the trading booking) and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to change in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in the Consolidated Statement of Comprehensive Income;
- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition, whereby a financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Company recognises any expense incurred on the financial liability; and
- Financial guarantee contracts and loan commitments.

Derecognition

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

Different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

2. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of financial statements in conformity with IFRS adopted in the EU requires the Group to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. UK company law and IFRS require the Directors, in preparing the Group's financial statements, to select suitable accounting policies, apply them consistently and make judgements and estimates that are reasonable. The Group's estimates and assumptions are based on historical experience and expectations of future events and are reviewed on an ongoing basis. Although these estimates are based on the Directors' best knowledge of the amount, actual results may differ ultimately from those estimates.

The estimates of most significance to the financial statements, are in relation to EIR, expected credit losses and equity investments at fair value through profit or loss. These are detailed below.

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

The critical judgements relate to the application of consolidation accounting principles, and within the Company, the treatment of asset derecognition and deemed loans. These have been explained on pages 84 as well as in the accounting policies section of the Notes.

Expected Credit loss allowance for financial assets measured at amortised cost (estimate)

The calculation of the Group's ECL allowances and provisions against loan commitments and guarantees under IFRS 9 is highly complex and involves the use of significant judgement and estimation. Loan impairment provisions represent an estimate of the losses incurred in the loan portfolios at the balance sheet date. Individual impairment losses are determined as the difference between the carrying value and the present value of estimated future cash flows, discounted at the loans' original effective interest rate. To calculate this involves the formulation and incorporation of multiple forward-looking economic conditions into ECL to meet the measurement objective of IFRS 9. Depending on a range of factors such as changes in the economic environment in the UK driven by COVID-19 pandemic, there could be a material adjustment to the carrying amounts of assets and liabilities in the next financial year. The most significant factors are set out below.

Definition of default - The Probability of Default ("PD") of an exposure, both over a 12-month period and over its lifetime, is a key input to the measurement of the ECL allowance. Default has occurred when there is evidence that the customer is experiencing significant financial difficulty which is likely to affect the ability to repay amounts due.

The definition of default adopted by the Company is described in expected credit loss allowance for financial assets measured at amortised cost above.

As noted on page 78, the Group has rebutted the presumption in IFRS 9 that default occurs no later than when a payment is 90 days past due on some of its portfolio. The impact on the Group's ECL allowance of assuming a backstop of 180 days past due for mortgages is not material.

The lifetime of an exposure - To derive the PDs necessary to calculate the ECL allowance it is necessary to estimate the expected life of each financial instrument. A range of approaches has been adopted across different product groupings including the full contractual life and taking into account behavioural factors such as early repayments and refinancing. The Group has defined the lifetime for each product by analysing the time taken for all losses to be observed and for a material proportion of the assets to fully resolve through either closure or write-off.

Significant increase in credit risk ("SICR") - Performing assets are classified as either Stage 1 or Stage 2. An ECL allowance equivalent to 12 months expected credit losses is established against assets in Stage 1; assets classified as Stage 2 carry an ECL allowance equivalent to lifetime expected credit losses. Assets are transferred from Stage 1 to Stage 2 when there has been an SICR since initial recognition. The Company uses a quantitative test together with qualitative indicators and a backstop of 30 days past due for determining whether there has been a SICR. The setting of precise trigger points combined with risk indicators requires judgement. The use of different trigger points may have a material impact upon the size of the ECL allowance.

Forward looking information - IFRS 9 requires the incorporation of forward-looking macroeconomic information that is reasonable and supportable, but it provides limited guidance on how this should be performed. The measurement of expected credit losses is required to reflect an unbiased probability-weighted range of possible future outcomes.

In order to do this the Group uses a model to project a number of key variables to generate future economic scenarios. These are ranked according to severity of loss and three economic scenarios have been selected to represent an unbiased and full loss distribution. They represent a 'most likely outcome' (the Base case scenario) and two, less likely, 'outer' scenarios, referred to as the 'Upside' and 'Downside' scenarios. These scenarios are used to produce a weighted average PD for each product grouping which is used to determine stage allocation and calculate the related ECL allowance. This weighting scheme is deemed appropriate for the computation of unbiased ECL. Key scenario assumptions are set using the average of forecasts from external economists, helping to ensure the IFRS 9 scenarios are unbiased and maximise the use of independent information. Using externally available forecast distributions helps ensure independence in scenario construction. While key economic variables are set with reference to external distributional forecasts, we also align the overall narrative of the scenarios to the macroeconomic risks faced by the Group at the 31 December 2019.

The choice of alternative scenarios and probability weighting is a combination of quantitative analysis and judgemental assessments, designed to ensure that the full range of possible outcomes and material non-linearity are captured. Paths for the two outer scenarios are benchmarked to the Base scenario and reflect the economic risk assessment. Scenario probabilities reflect management judgement and are informed by data analysis of past recessions, transitions in and out of recession, and the current economic outlook. The key assumptions made, and the accompanying paths, represent our 'best estimate' of a scenario at a specified probability. Suitable narratives are developed for the Central scenario and the paths of the two outer scenarios. Using three scenarios, maybe insufficient in certain economic environments. Additional analysis may be requested at management's discretion, including the production of extra scenarios. We anticipate there will be only limited instances when the standard approach will not apply. The Base case, Upside and Downside scenarios are generated annually and those described herein reflect the conditions in place at the balance sheet date and are only updated during the year if economic conditions change significantly.

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

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

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

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

Please see Note 11 for sensitivity analysis.

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

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

Effective Interest Rate Model

Within the EIRM there are several areas of estimate 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 credit losses;
- Incurred losses at acquisition; and
- Fees and expenses.

Equity Investments

The valuation of unquoted investments and investments for which there is an inactive market is a key area of estimation and may cause material adjustment to the carrying value of those assets and liabilities. The unquoted equity assets are valued on a periodic basis using techniques including a market approach, costs approach and/or income approach. The valuation process is collaborative, involving the finance and investment functions of the Investment Manager with the final valuations being reviewed by the Investment Manager's Valuation Committee. The techniques used include earnings multiples, discounted cash flow analysis, the value of recent transactions, and, where appropriate, industry rules of thumb. The valuations often reflect a synthesis of a number of different approaches in determining the final fair value estimate. The individual approach for each investment will vary depending on relevant factors that a market participant would take into account in pricing the asset. These might include the specific industry dynamics, the Investee'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 Consolidated Statement of Comprehensive Income as a capital item. On disposal, realised gains and losses are also recognised in the Consolidated Statement of Comprehensive Income. Transaction costs are included within gains or losses on investments held at fair value, although any related interest income, dividend income and finance costs are disclosed separately in the financial statements.

Consolidation

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

3. SEGMENTAL REPORTING

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

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

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

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

4. BUSINESS COMBINATION

On 20 June 2019 the Group incorporated Sting Funding Limited ("Sting"), a limited Company incorporated under the law of England and Wales. Sting became active on 28 August 2019 when it drew down on a debt facility backed by commercial and second charge residential mortgages. The Group is considered to control Sting through holding 100 per cent of the issued shares. As a result, the financial statements for the year ended 31 December 2019 are prepared on a consolidated basis.

5. INCOME

Group	31 December 2019 £'000	31 December 2018 £'000
Investment income		
Interest income	59,953	52,947
Commitment fee income	1,326	534
Arrangement fee income	1,416	962
Total investment income	**62,695**	**54,444**
Other income		
Deposit interest	2	1
Total income	**62,697**	**54,445**

6. MANAGEMENT AND PERFORMANCE FEE

Management Fee

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

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

Management fees charged for the year ended 31 December 2019 totalled £6.1 million (2018: £5.0 million) of which £0.5 million was payable at the year-end (2018: £1.0 million).

Performance Fee

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

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

Performance fees for the year ended 31 December 2019 totalled £3.5 million (2018: £2.9 million) of which £3.5 million was payable at the year-end (2018: £2.9 million).

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. 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 Group to the Origination Partner shall be deducted from the Management Fee.

The Group 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 Group 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 2019 (2018: £nil).

7. OTHER EXPENSES

Group	31 December 2019 £'000	31 December 2018 £'000
Directors' fees	149	145
Administrator's fees	192	199
Auditors' remuneration	160	129
Amortisation	176	275
Capital raise and project costs	671	-
Other expenses	1,106	461
Total other expenses	**2,454**	**1,209**

All expenses where applicable are inclusive of VAT (except those paid to the auditors which are net). Directors' fees above include £131,834 (2018: £126,000) paid to Directors' and £16,910 (2018: £19,276) of employment taxes and valid business expenses. Further details on Directors' fees can be found in the Directors' remuneration report on pages 49 to 53.

The capital raise and project costs are in relation to the third base prospectus that the Company released on 21 December 2018. These costs were expensed in the financial year under review on the expiration of this placement programme. This is a one-off cost incurred in the year.

The auditors' remuneration net of VAT for the audit of the Company was £160,000 (2018: £128,900). During 2019, the auditors did not provide reporting accountant services to the Group. During 2018 the auditors provided reporting accountant services in relation to its further issuance of ordinary shares in April 2018 and the release of its third base prospectus in December 2018. These non-audit fees amounted to 2019: £nil (2018: £62,266). These costs were deducted from the proceeds from the issuance of ordinary shares in line with IAS 32 where applicable.

8. TAXATION

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

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

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

The following table presents the tax chargeable for the period ended 31 December 2019.

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

The following table presents the tax chargeable for the year ended 31 December 2018.

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

Factors affecting taxation charge for the year

The taxation charge for the year is lower than the standard rate of UK corporation tax of 19.00 per cent (2018: 19.00 per cent). A reconciliation of the 2019 taxation charge based on the standard rate of UK corporation tax to the actual taxation charge is shown below.

Group	Revenue £'000	Capital £'000	Total £'000
Return on ordinary activities before taxation	31,276	(65)	31,211
Return on ordinary activities before taxation multiplied by the standard rate of UK corporation tax of 19.00%	5,942	(12)	5,930
Effects of:			
Excess management expenses not utilised	54	12	66
Interest distributions paid in respect of the year	(5,996)	-	(5,996)
Total tax charge in income statement	**-**	**-**	**-**

A reconciliation of the 2018 taxation charge based on the standard rate of UK corporation tax to the actual taxation charge is shown below.

Group	Revenue £'000	Capital £'000	Total £'000
Return on ordinary activities before taxation	29,037	(840)	28,197
Return on ordinary activities before taxation multiplied by the standard rate of UK corporation tax of 19.00%	5,517	(160)	5,357
Effects of:			
Excess management expenses not utilised	162	160	322
Interest distributions paid in respect of the year	(5,679)	-	(5,679)
Total tax charge in income statement	**-**	**-**	**-**

9. EARNINGS PER SHARE

Group	31 December 2019	31 December 2018
Revenue	79.3p	79.6p
Capital	(0.2)p	(2.3)p
Earnings per ordinary share	**79.1p**	**77.3p**

The calculation for the year ended 31 December 2019 is based on revenue returns of £31.3 million, capital returns of £(0.1) million and total returns of £31.2 million and a weighted average number of ordinary shares of 39,449,919.

The calculation for the year ended 31 December 2018 is based on revenue returns of £29.0 million, capital returns of £(0.8) million and total returns of £28.2 million and a weighted average number of ordinary shares of 36,475,359.

10. ORDINARY DIVIDENDS

	31 December 2019 £'000	31 December 2018 £'000
20.00p Interim dividend for the period ended 31 December 2017 (paid on 29 March 2018)	-	5,985
20.00p Interim dividend for the period to 31 March 2018 (paid on 30 April 2018)	-	5,985
20.00p Interim dividend for the period to 30 June 2018 (paid 28 September 2018)	-	7,890
20.00p Interim dividend for the period to 30 September 2018 (paid 28 December 2018)	-	7,890
20.00p Interim dividend for the period ended 31 December 2018 (paid on 29 March 2019)	7,890	-
20.00p Interim dividend for the period to 31 March 2019 (paid on 28 June 2019)	7,890	-
20.00p Interim dividend for the period to 30 June 2019 (paid on 30 September 2019)	7,890	-
20.00p Interim dividend for the period to 30 September 2019 (paid 27 December 2019)	7,890	-
Total dividend paid in period	**31,560**	**27,750**
20.00p Interim dividend for the period to 31 December 2018 (paid 29 March 2019)	-	7,890
20.00p Interim dividend for the period to 31 December 2019 (paid 27 March 2020)	7,890	-
Total dividend paid in relation to period	**39,450**	**35,640**

The 31 December 2019 interim dividend of 20.00 pence was approved on 19 February 2020 and paid on 27 March 2020 before the approval of the financial statements.

11. INVESTMENTS AT AMORTISED COST

(a) Credit Assets at amortised cost

The disclosure below presents the gross carrying value of financial instruments to which the impairment requirements in IFRS 9 are applied and the associated allowance for ECL. Please see Note 1 for more detail on the allowance for ECL.

The following table analyses loans by industry sector and represent the concentration of exposures on which credit risk is managed for both the Group and Company as at 31 December 2019.

	31 December 2019			1 January 2019		
Group and Company	**Gross Carrying Amount £'000**	**Allowance for ECL £'000**	**Net Carrying Amount £'000**	**Gross Carrying Amount £'000**	**Allowance for ECL £'000**	**Net Carrying Amount £'000**
Credit Assets at amortised cost						
Consumer	320,107	(19,844)	300,264	294,467	(12,724)	281,743
Property	246,846	(10,051)	236,795	237,310	(9,880)	227,430
SME	44,198	(259)	43,939	67,536	(179)	67,357
Total Assets	**611,152**	**(30,154)**	**580,998**	**599,313**	**(22,783)**	**576,530**

Group and Company	**Stage 1 £'000**	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
At 1 January 2019	3,526	2,927	16,330	**22,783**
Movement from stage 1 to stage 2	(66)	1,905	-	**1,839**
Movement from stage 1 to stage 3	(505)	-	7,065	**6,560**
Movement from stage 2 to stage 1	5	(905)	-	**(900)**
Movement from stage 2 to stage 3	-	(1,274)	2,028	**754**
Movement from stage 3 to stage 2	-	128	(465)	**(337)**
Movement from stage 3 to stage 1	8	-	(502)	**(494)**
Remeasurements due to modelling	640	332	(672)	**300**
Decreases due to repayments	(2,208)	(521)	(673)	**(3,402)**
Increases due to origination	1,189	-	-	**1,189**
Increases within Stage	628	14	1,220	**1,862**
Carrying Value at 31 December 2019	**3,217**	**2,606**	**24,331**	**30,154**

The following table analyses loans by industry sector and represent the concentration of exposures on which credit risk is managed for both the Group and Company as at 31 December 2018. Please see Note 1 to the financial statements for more detail on the allowance for ECL.

	31 December 2018			1 January 2018		
Group and Company	Gross Carrying Amount £'000	Allowance for ECL £'000	Net Carrying Amount £'000	Gross Carrying Amount £'000	Allowance for ECL £'000	Net Carrying Amount £'000
Credit Assets at amortised cost						
Consumer	294,467	(12,724)	281,743	233,644	(6,416)	227,228
Property	237,310	(9,880)	227,430	106,926	(5,665)	101,261
SME	67,536	(179)	67,357	14,739	-	14,739
Total Assets	**599,313**	**(22,783)**	**576,530**	**355,309**	**(12,081)**	**343,228**

Group and Company	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
At 1 January 2018	2,855	2,166	7,060	**12,081**
Movement from stage 1 to stage 2	(61)	1,919	-	**1,858**
Movement from stage 1 to stage 3	(444)	-	6,234	**5,790**
Movement from stage 2 to stage 1	6	(1,076)	-	**(1,070)**
Movement from stage 2 to stage 3	-	(991)	1,969	**978**
Movement from stage 3 to stage 2	-	305	(524)	**(219)**
Movement from stage 3 to stage 1	(1)	-	(361)	**(362)**
Remeasurements within existing stage	635	223	378	**1,236**
Decreases due to repayments	(2,032)	(367)	(1,645)	**(4,044)**
Increases due to origination	2,258	-	-	**2,258**
Increases within Stage	289	67	597	**953**
Acquired Losses on Acquisition	21	681	2,622	**3,324**
Carrying Value at 31 December 2018	**3,526**	**2,927**	**16,330**	**22,783**

(b) Expected Credit Loss allowance for IFRS 9

Under the expected credit loss model introduced by IFRS 9 impairment provisions are driven by changes in credit risk of instruments, with a provision for lifetime expected credit losses recognised where the risk of default of an instrument has increased significantly since initial recognition.

The following table analyses Group and Company loans by stage and sector for the year ended 31 December 2019:

Group	Consumer £'000	Property £'000	SME £'000	Total £'000
At 1 January 2019	12,724	9,880	179	22,783
Charge for the period – Stage 1	(526)	181	36	(309)
Charge for the period – Stage 2	278	(588)	(11)	(321)
Charge for the period – Stage 3	7,368	578	55	8,001
Carrying Value at 31 December 2019	**19,844**	**10,051**	**259**	**30,154**

The following table analyses Group and Company loans by stage and sector for the year ended 31 December 2018:

Group and Company	Consumer £'000	Property £'000	SME £'000	Total £'000
At 1 January 2018	4,675	5,068	-	9,743
Changes on initial application of IFRS 9	1,741	597	-	2,338
Revised opening balance 1 January 2018	**6,416**	**5,665**	**-**	**12,081**
Charge for the period – Stage 1	587	(43)	126	670
Charge for the period – Stage 2	469	264	29	762
Charge for the period – Stage 3	5,252	759	24	6,035
Total charge for expected credit losses	**6,308**	**980**	**179**	**7,467**
Acquired losses on acquisition	-	3,235	-	3,235
Amounts written off during the period	-	-	-	-
Amounts recovered during the period	-	-	-	-
Carrying Value at 31 December 2018	**12,724**	**9,880**	**179**	**22,783**

Measurement uncertainty and sensitivity analysis of ECL

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

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

The ECL recognised in the financial statements reflect the effect on expected credit losses of a range of possible outcomes, calculated on a probability-weighted basis, based on the economic scenarios described in Note 2 to the financial statement, including management overlays where required. The probability-weighted amount is typically a higher number than would result from using only the Base (most likely) economic scenario. ECLs typically have a non-linear relationship to the many factors which influence credit losses, such that more favourable macroeconomic factors do not reduce defaults as much as less favourable macroeconomic factors increase defaults. The ECL calculated for each of the scenarios represent a range of possible outcomes that have been evaluated to estimate ECL. As a result, the ECL calculated for the Upside and Downside scenarios should not be taken to represent the upper and lower limits of possible actual ECL outcomes. There is a high degree of estimation uncertainty in numbers representing tail risk scenarios when assigned a 100 per cent. A wider range of possible ECL outcomes reflects uncertainty about the distribution of economic conditions and does not necessarily mean that credit risk on the associated loans is higher than for loans where the distribution of possible future economic conditions is narrower.

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

The table below shows a sensitivity analysis for ECL based on changing the weighting of the scenarios to allocate a 100 per cent weight to the downside scenario. The scenarios are applicable to 31 December 2019 and subsequent to year end the outlook has materially changed following the COVID-19 situation. The analysis shows that the ECL would have been £2.1 million higher under this sensitivity. The ultimate impact of COVID-19 is not yet clear however the Group has used the 100% downside scenario to represent the revised outlook in its NAV calculation for 31 March 2020 resulting in an impairment charge of £1.8 million.

2019	Weighted Year end ECL £'000	100% Downside Scenario £'000
Consumer	19,844	20,749
Property	10,051	11,282
SME	259	260
Total	**30,154**	**32,291**

At 31 December 2018 if the weightings used represented a 100 per cent downside scenario the ECL would have been £1.5 million higher as split below:

2018	Weighted Year end ECL £'000	100% Downside Scenario £'000
Consumer	12,724	13,921
Property	9,880	10,209
SME	179	182
Total	**22,783**	**24,312**

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

The amortised cost of the structured portfolio is £288.7 million, and the largest exposure is on page 13. We have stress tested each structured position as at 31 December 2019 to analyse the sensitivity to impairment of the underlying assets. The portfolio was able to withstand the stress test without incurring a loss.

12. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

(a) Movements in the year

The table below sets out the movement in Investments at fair value through profit or loss for the Group for the year ended 31 December 2019.

Group	2019 £'000
Valued using transaction price	3,000
Valued using an earnings multiple	6,980
Opening fair value	**9,980**
Purchases at cost	380
Disposal at cost	(2,000)
Net change in unrealised (losses)/gains	30
Closing fair value at 31 December 2019	**8,390**
Comprising:	
Valued using sales value	550
Valued using an earnings multiple	7,840
Closing fair value as at 31 December 2019	**8,390**

The table below sets out the movement in Investments at fair value through profit or loss for the Company for the year ended 31 December 2019.

Company	2019 £'000
Valued using transaction price	3,000
Valued using an earnings multiple	6,980
Opening fair value	**9,980**
Purchases at cost	380
Disposal at cost	(2,000)
Net change in unrealised (losses)/gains	4,523
Closing fair value at 31 December 2019	**12,883**
Comprising:	
Valued using Net Asset Value	4,493
Valued using sales value	550
Valued using an earnings multiple	7,840
Closing fair value as at 31 December 2019	**12,883**

The table below sets out the movement in Investments at fair value through profit or loss for the Group and Company for the year ended 31 December 2018.

Group and Company	2018 £'000
Opening cost	11,227
Opening fair value	**11,227**
Purchases at cost	3,000
Disposal at cost	(3,497)
Net change in unrealised (losses)/gains	(750)
Closing fair value at 31 December 2018	**9,980**
Comprising:	
Valued using transaction price	3,000
Valued using an earnings multiple	6,980
Closing fair value as at 31 December 2018	**9,980**

(b) Fair value of financial instruments

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

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

An investment is always categorised as Level 1, 2 or 3 in its entirety. In certain cases, the fair value measurement for an investment may use a number of different inputs that fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The assessment of the significance of a particular input to the fair value measurement requires judgement and is specific to the investment.

The following sets out the classifications in valuing the Group's investments:

Group	Closing fair value as at 31 Dec 2019 £'000	Closing fair value as at 31 Dec 2018 £'000
Level 1	-	-
Level 2	-	-
Level 3	8,390	9,980
Total	**8,390**	**9,980**

The following sets out the classifications in valuing the Company's investments:

Group	Closing fair value as at 31 Dec 2019 £'000	Closing fair value as at 31 Dec 2018 £'000
Level 1	-	-
Level 2	-	-
Level 3	12,883	9,980
Total	**12,883**	**9,980**

The investments in unquoted equities are valued using several different techniques, primarily recent transactions and recent rounds of funding by the investee entities. Quantitative information regarding the unobservable inputs for the Group's Level 3 positions as at 31 December 2019 is given below:

Closing fair value as at 31 Dec 2019 £'000	Valuation Technique	Earnings multiple changed by 1 £'000
8,390	Earnings Multiple	1,948
8,390		**1,948**

Earnings multiples range from 2x to 8x.

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

Closing fair value as at 31 Dec 2019 £'000	Valuation Technique	Net Asset Value increased by 20% £'000
4,493	Net Asset Value	899
4,493		**899**

Closing fair value as at 31 Dec 2019 £'000	Valuation Technique	Earnings multiple changed by 1 £'000
8,390	Earnings Multiple	1,843
8,390		**1,948**

Earnings multiples range from 2x to 8x.

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

Closing fair value as at 31 Dec 2018 £'000	Valuation Technique	20% Change in price £'000
3,000	Recent transaction	**600**
3,000		**600**

Closing fair value as at 31 Dec 2018 £'000	Valuation Technique	Earnings multiple changed by 1 £'000
6,980	Earnings Multiple	2,249
6,980		**2,249**

Earnings multiples range from 2x to 12x.

13. FINANCIAL RISK MANAGEMENT

The Group's investing activities undertaken in pursuit of its investment objective, as set out on page 4, involve certain inherent risks. The main financial risks arising from the Group's financial instruments are 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 held by the Group 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 Group's exposure, sensitivity to and management of each of these risks is described in further detail below. Management of market risk is fundamental to the Group's investment objective. The investment portfolio is continually monitored to ensure an appropriate balance of risk and reward. The Board has also established a series of investment parameters, which are reviewed annually, designed to limit the risk inherent in managing a portfolio of investments.

(a) Price risk

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

The Group is exposed to price risk arising from its equity investments. COVID-19 has caused disruption to businesses and economic activity which has been reflected in recent fluctuations in global stock markets. There are no comparable recent events which may provide guidance as to the effect of the spread of COVID-19 and a potential pandemic, and, as a result, the ultimate impact of the COVID-19 outbreak or a similar health epidemic is highly uncertain and subject to change. The Board considers the emergence and spread of COVID-19 to be a non-adjusting post balance sheet event and the pricing of the group's equity investments have not been updated for this. Details of sensitivities to prices used are shown in note 12.

(b) Interest rate risk

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

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

The Group intends to manage the mismatch it has in respect of the income generated by its Credit Assets, on the one hand, with the liabilities in respect of its borrowings, on the other hand, by matching any floating rate borrowings with investments in Credit Assets that are also subject to a floating rate of interest. To the extent that the Group is unable to match its funding in this way, it may use derivative instruments, including interest rate swaps, to reduce its exposure to fluctuations in interest rates, however some unmatched risk may remain. The Group has not used any derivate instruments in the year.

The Group finances its operations through its share capital and reserves, including realised gains on investments as well as the Group's debt facilities. As at 31 December 2019 the Group had £206.8 million drawn down under these facilities (2018: £189.3 million).

Exposure of the Group's financial assets and liabilities to floating interest rates (giving cash flow interest rate risk when rates are reset) and fixed interest rates (giving fair value risk) as at 31 December 2019 is shown below:

Group Financial instrument	Floating Rate £'000	Fixed or Administered Rate £'000	Total £'000
Credit Assets at amortised cost	206,932	374,066	580,998
Cash and cash equivalents	15,154	-	15,154
Interest bearing borrowings	(205,946)	-	(205,946)
Total exposure	**16,140**	**374,066**	**390,206**

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 2019 is shown below:

Company Financial instrument	Floating Rate £'000	Fixed or Administered Rate £'000	Total £'000
Credit Assets at amortised cost	206,932	374,066	580,998
Cash and cash equivalents	13,251	-	13,251
Interest bearing borrowings	(130,000)	-	(130,000)
Total exposure	**90,183**	**374,066**	**464,249**

Exposure of the Company and Group's financial assets and liabilities to floating interest rates (giving cash flow interest rate risk when rates are reset) and fixed interest rates (giving fair value risk) as at 31 December 2018 is shown below:

Financial instrument Company	Floating Rate £'000	Fixed or Administered Rate £'000	Total £'000
Investments at amortised cost	106,387	470,143	576,530
Cash and cash equivalents	5,559	-	5,559
Interest bearing borrowings	(189,000)	-	(189,000)
Total exposure	**(77,054)**	**470,143**	**393,089**

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

A 1 per cent change in interest rates impacts income on the assets with a floating rate by £1.6 million (2018: £0.6 million). A 1 per cent change in interest rates impacts debt expense on the liabilities with a floating rate by £2.0 million (2018: £0.5 million).

(c) Currency risk

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

Concentration of foreign currency exposure

The Investment Manager monitors the fluctuations in foreign currency exchange rates and may use forward foreign exchange contracts to hedge the currency exposure of the Group's non-GBP denominated investments. The Investment Manager re-examines the currency exposure on a regular basis in each currency and manages the Group's currency exposure in accordance with market expectations. The Group does not currently designate any derivatives as hedges for hedge accounting purposes as described under IFRS 9 and records its derivative activities on a fair value basis.

The below table presents the net exposure to Euro's at 31 December 2019. The table includes forward foreign exchange contracts at their notional exposure value and excludes all GBP assets and liabilities recorded on the Consolidated Statement of Financial Position.

Total Assets (£'000)	Total Liabilities (£'000)	Forward Contract (£'000)	Net Exposure after Forward Contract (£'000)
4,208	(171)	(4,143)	(106)
4,208	**(171)**	**(4,143)**	**(106)**

If the GBP exchange rate simultaneously increased/decreased by 10 per cent against the above currencies, the impact on profit would be an increase/decrease of £11,000. 10 per cent is considered to be a reasonably possible movement in foreign exchange rates.

As at 31 December 2018 there were no foreign currency exposures.

14. CREDIT RISK

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

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

The Investment Manager and the Origination Partner establishes and adheres to stringent underwriting criteria as set out in the appropriate credit policies. 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 Group invests in a granular portfolio of assets, diversified at the underlying borrower level, with each loan being subject to a maximum single loan exposure limit. This helps mitigate credit concentrations in relation to an individual customer, a borrower group or a collection of related borrowers.

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

The Group further mitigates its exposure to Credit Risk through structuring facilities whereby the facilities are secured on a granular pool of performing loans and structured so that the Origination Platform and or borrower provides the first loss, and the Group finances the senior risk.

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

The outbreak of COVID-19 has caused major disruption across the globe. At the time of writing the portfolio has seen requests for payment holidays please see pages 14 to 15 for more detail. The impacts of the government's assistance to non-bank lenders and the introduction of the furlough scheme to assist end borrowers are yet unknown, but they are expected to reduce the potential expected credit loss impact. Depending on the evolution of the COVID-19 situation, this could result in a severe economic downturn and potentially a material increase in credit risk. This is being continually monitored.

Set out below is the analysis of the closing balances of the Group and Company's credit assets split by the type of loan and the credit risk band as at 31 December 2019:

Credit Risk Band	Unsecured £'000	Secured £'000	Total £'000
A & B	102,930	475,796	**578,726**
C	14,790	150	**14,940**
D & E	17,486	-	**17,486**
Total	**135,206**	**475,946**	**611,152**

Set out below is the analysis of the closing balances of the Group and Company's credit assets split by the type of loan and the credit risk band as at 31 December 2018:

Credit Risk Band	Unsecured £'000	Secured £'000	Total £'000
A & B	129,264	429,034	**558,298**
C	23,896	223	**24,119**
D & E	16,896	-	**16,896**
Total	**170,056**	**429,257**	**599,313**

Each credit risk band is defined below:

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

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

Liquidity risk

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

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

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

At 31 December 2019 the Company had a committed debt facility totalling £150.0 million with a maturity date of 20 Mach 2020, as well as a 2-year term facility that is structured as run-off financing in that the debt will paydown over the term of the facility. In May 2020 the Company's main debt facility was refinanced with a new lender with the maturity extended to May 2021. This facility is a term and revolving facility secured on a range of assets.

The repayment terms and the covenants have been stress tested over the term of each of these facilities to ensure compliance (details of which is disclosed in Note 18 to the financial statements).

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

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

For the Group for the year ended 31 December 2019:

Group	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets				
Investments at amortised cost	14,492	-	565,820	580,312
Receivables	-	8,875	-	8,875
Cash and cash equivalents	15,154	-	-	15,154
Total assets	**29,646**	**8,875**	**565,820**	**604,341**
Liabilities				
Management fee payable	-	511	-	511
Performance fee payable	-	3,468	-	3,468
Other payables	-	2,326	-	2,326
Interest bearing borrowings	-	206,792	-	206,792
Total liabilities	**-**	**213,097**	**-**	**213,097**

For the Company for the year ended 31 December 2019:

Company	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets				
Investments at amortised cost	14,492	-	565,820	580,312
Receivables	-	8,325	-	8,325
Cash and cash equivalents	13,251	-	-	13,251
Total assets	**27,743**	**8,325**	**565,820**	**601,888**
Liabilities				
Management fee payable	-	511	-	511
Performance fee payable	-	3,468	-	3,468
Other payables	-	1,805	-	1,805
Deemed Loan	-	78,613	-	78,613
Interest bearing borrowings	-	130,741	-	130,741
Total liabilities	**-**	**215,138**	**-**	**215,138**

For the Group and Company for the year ended 31 December 2018:

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Assets				
Investments at amortised cost	16,589	-	558,338	574,927
Receivables	-	3,375	-	3,375
Cash and cash equivalents	5,559	-	-	5,559
Total assets	**22,148**	**3,375**	**558,338**	**583,861**
Liabilities				
Management fee payable	-	985	-	985
Performance fee payable	-	2,873	-	2,873
Other payables	-	1,830	-	1,830
Interest bearing borrowings	-	189,263	-	189,263
Total liabilities	**-**	**194,951**	**-**	**194,951**

Categorisation within the hierarchy has been determined based on the lowest level input that is significant to the fair value measurement of the relevant asset or liability (see Note 12 Investments at Fair Value Through Profit or Loss for details). Further details of the loans at amortised cost held by the Group can be found in Note 11 to the financial statements.

Capital Management

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

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

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

The Board manage the capital structure and make adjustments to it considering changes in economic conditions and the risk characteristics of the business. The Company has met the above objectives through diversifying the leverage facilities through the introduction of a new debt facility which was £81.0 million on day one.

The Group monitors capital using a ratio of debt to equity. Debt is calculated as total interest-bearing borrowings (as shown in the Consolidated Statement of Financial Position). The Group's debt to equity ratio which is a key performance indicator used for internal management at Group level was 51.7 per cent at 31 December 2019 (31 December 2018: 47.2 per cent).

The Group is subject to externally imposed capital requirements:

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

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

15. FIXED ASSETS

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

Year ended 31 December 2019	IT Development and Software £'000	Total £'000
Opening net book amount	217	217
Additions	-	-
Amortisation charge	(176)	(176)
Closing net book amount	**41**	**41**
As at 31 December 2019		
Cost	830	830
Accumulated amortisation	(789)	(789)
Net book amount	**41**	**41**

Year ended 31 December 2018	IT Development and Software £'000	Total £'000
Opening net book amount	342	342
Additions	150	150
Amortisation charge	(275)	(275)
Closing net book amount	**217**	**217**
As at 31 December 2018		
Cost	830	830
Accumulated amortisation	(613)	(613)
Net book amount	**217**	**217**

16. RECEIVABLES

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

Group	31 December 2019 £'000	31 December 2018 £'000
Prepayments	2,656	2,145
Amounts due from platforms	5,889	776
Other receivables	330	454
Total receivables	**8,875**	**3,375**

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

Company	31 December 2019 £'000	31 December 2018 £'000
Prepayments	2,106	2,145
Amounts due from platforms	5,889	776
Other receivables	330	454
Total receivables	**8,325**	**3,375**

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

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

17. OTHER PAYABLES

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

Group	31 December 2019 £'000	31 December 2018 £'000
Accruals and deferred income	2,326	1,830
Total other payables	**2,326**	**1,830**

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

Company	31 December 2019 £'000	31 December 2018 £'000
Accruals and deferred income	1,805	1,830
Total other payables	**1,805**	**1,830**

Withholding Taxation

The Company's revenue income from loans is subject to tax, but offset by the interest distribution paid, which has the effect of reducing that corporation tax to nil. This means the interest distribution may be taxable in the hands of the Company's shareholders. There is no withholding tax payable by the Company at 31 December 2019 (31 December 2018: £nil) due to the changes made in 2017 Finance Act whereby all interest distributions will be paid gross of tax, therefore withholding tax is retained by the Company and paid directly to HMRC.

18. INTEREST BEARING BORROWINGS

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

Group	31 December 2019 £'000	31 December 2018 £'000
Current Liabilities		
Credit facility	130,000	-
Interest and commitment fees payable	741	-
Non-Current Liabilities		
Credit facility	75,946	189,000
Interest and commitment fees payable	105	263
Total interest-bearing borrowings	**206,792**	**189,263**

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

Company	31 December 2019 £'000	31 December 2018 £'000
Current Liabilities		
Credit facility	130,000	-
Interest and commitment fees payable	741	-
Non-Current Liabilities		
Credit facility	-	189,000
Interest and commitment fees payable	-	263
Total interest-bearing borrowings	**130,741**	**189,263**

At 31 December 2019 the Company's main debt facility was £150 million with The Royal Bank of Scotland plc as agent. The facility is secured upon the assets of the Company and had a maturity date of 20 March 2020. Interest is charged at one, three or six-month LIBOR plus a margin. The credit facility is syndicated, and other lenders may in the future accede to the facility. This facility was subsequently extended to 19 June 2020 and then further extended from May 2020.

In May 2020 this facility was refinanced with the maturity extended to May 2021. The Group retains the flexibility to refinance the facility.

In August 2019, the Group entered a two-year debt facility to finance three residential mortgage portfolios, two commercial mortgage pools and a small unsecured consumer pool. These portfolios were previously leveraged through the Company level debt facility but getting assets specific leverage on these provides a lower cost of funding at a higher advance rate. The total debt raised on day one of this facility was £81.0 million and comes with a Libor floating cost. The facility has a 2-year term with a 1-year extension option and is structured as a run-off financing in that the debt will paydown over the term of the facility.

As at the 31 December 2019 the below related debt costs had been incurred by the Group.

Group	31 December 2019 £'000	31 December 2018 £'000
Interest and commitment fees payable	6,166	3,373
Other finance charges	2,252	2,056
Total finance costs	**8,418**	**5,429**

As at the 31 December 2019 the below related debt costs had been incurred by the Company.

Company	31 December 2019 £'000	31 December 2018 £'000
Interest and commitment fees payable	5,311	3,373
Other finance charges	2,138	2,056
Total finance costs	**7,449**	**5,429**

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

As at the 31 December 2019 the below changes occurred for the Group:

Group	Total £'000
At 1 January 2019	189,263
Interest bearing borrowings	272,463
Repayments of interest-bearing borrowing	(255,517)
Finance costs	8,418
Interest paid on financing activities	(7,835)
At 31 December 2019	**206,792**

As at the 31 December 2019 the below changes occurred for the Company:

Company	Total £'000
At 1 January 2019	189,263
Interest bearing borrowings	191,500
Repayments of interest-bearing borrowing	(250,500)
Finance costs	7,450
Interest paid on financing activities	(6,972)
At 31 December 2019	**130,741**

As at the 31 December 2018 the below changes occurred for the Group and Company:

Group and Company	Total £'000
At 1 January 2018	56,787
Interest bearing borrowings	366,900
Repayments of interest-bearing borrowing	(234,400)
Finance costs	5,429
Interest paid on financing activities	(5,453)
At 31 December 2018	**189,263**

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

2019 **Group** **Financial instrument**	**< 1 year £'000**	**1 – 5 years £'000**	**Total £'000**
Credit facility	142,041	63,905	205,946
Interest and commitment fees payable	3,484	1,475	4,959
Total exposure	**145,525**	**65,380**	**210,905**

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

2019 **Company** **Financial instrument**	**< 1 year £'000**	**1 – 5 years £'000**	**Total £'000**
Credit facility	130,000	-	130,000
Interest and commitment fees payable	1,272	-	1,272
Total exposure	**131,272**	**-**	**131,272**

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

2018 **Financial instrument**	**< 1 year £'000**	**1 – 5 years £'000**	**Total £'000**
Credit facility	-	189,000	189,000
Interest and commitment fees payable	6,745	1,437	8,182
Total exposure	**6,745**	**190,437**	**197,182**

19. DEEMED LOAN

The Group has no deemed loans as at 31 December 2019 and 31 December 2018. Deemed loans can only relate to the Company as they relate to loans originated by the Company and subsequently securitised. Although the loans are no longer legally owned by the Company, the Company maintains the economic benefit of the underlying assets and therefore does not meet the criteria to derecognise as the economic exposure associated with the rights inherent in the asset are maintained. As the requirements of derecognition have not been met the Company has a deemed loan liability to the securitised special purpose entity. As at the 31 December 2019 the Company had the below deemed loan:

Opening as at 1 January 2019 £'000	Novation's/ (Redemptions) £'000	Closing as at 31 December 2019 £'000
-	78,612	78,612
-	**78,613**	**78,613**

The Company had no deemed loan as at 31 December 2018.

20. ORDINARY SHARE CAPITAL

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

	31 December 2019	31 December 2018
No. Issued, allotted and fully paid ordinary shares of £0.01 each	39,449,919	39,449,919
Cost £'000	394	394

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

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

On 23 December 2015, 10,000,000 ordinary shares of 1p each were issued to shareholders as part of the placing and offer for subscription in accordance with the Company's prospectus dated 18 December 2015.

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

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

On 25 April 2018 the Company announced the successful completion of a placing of a further 9,523,809 ordinary shares. The price paid per share was 1,050p and the total paid for the shares during the year amounted to £97.8 million net of issue costs.

21. SPECIAL DISTRIBUTABLE RESERVE

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

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

During the year £0.62 million (2018: £0.85 million) of the special distributable reserve was used to pay the Q4 2018 Dividend which was paid on 28 March 2019.

22. INVESTMENTS IN SUBSIDIARIES

On 20 June 2019 the Group incorporated Sting Funding Limited ("Sting"), a limited Company incorporated under the law of England and Wales. The company is registered at 35 Great St. Helen's, London, United Kingdom, EC3A 6AP. The Group is considered to control Sting through holding 100 per cent of the issued shares. As a result, the financial statements for the year ended 31 December 2019 are prepared on a consolidated basis.

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

As at the 31 December 2018 the Company had no structured entities assessed for consolidation.

23. INVESTMENTS IN ASSOCIATES

As at 31 December 2019, the Company has a single associate, being a 34.6 per cent investment in Allium Lending Group Limited ("Allium") (formally GDFC Group Limited, Hiber Limited and The Green Deal Finance Company Limited). The company number is 10028311 its registered office is Imperial House, 15 – 19 Kingsway, London, WC2B 6UN.

This is a UK platform responsible for setting-up, financing and administering unsecured personal loans. As permitted by IAS 28 'Investment in Associates' and in accordance with the Group's accounting policy the investment is accounted for at fair value through profit or loss. No dividends were declared during the year in respect of the investment. The Company holds Allium at a fair value of £3.4 million.

The unaudited net assets / (liabilities) as at 31 December 2019 were (£0.8) million (2018: audited (£2.6) million), and the loss after tax was £4.1 million (2018: audited loss £5.2 million).

Allium is incorporated in England and Wales.

The Group has also provided £8.7 million of debt funding to the platform (2018: £8.3 million).

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

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

24. NET ASSET VALUE PER ORDINARY SHARE

	31 December 2019	31 December 2018
Net asset value per ordinary share pence	1,014.9p	1,015.7p
Net assets attributable £'000	400,361	400,710

The net asset value per ordinary share as at 31 December 2019 is based on net assets at the year-end of £400.4 million and on 39,449,919 ordinary shares in issue at the year-end.

The net asset value per ordinary share as at 31 December 2018 is based on net assets at the year-end of £400.7 million and on 39,449,919 ordinary shares in issue at the year-end.

25. CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

As at 31 December 2019 and 31 December 2018 there were no contingent liabilities or capital commitments for the Group. The Group did have £96.1 million (2018: £48.7 million) of undrawn committed structured credit facilities at 31 December 2019 and £4.5 million (2018: £nil) of undrawn commitments in relation to secured real estate loans.

26. RELATED PARTY TRANSACTIONS AND TRANSACTIONS WITH THE INVESTMENT MANAGER

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

Associates - at 31 December 2019 outstanding loan balance from structured facilities totalling £8.7 million (2018: £8.3 million) and accrued interest of £1.1 million (2018: £0.3 million) with Allium Lending Group Limited (formally GDFC Group Limited, Hiber Limited and The Green Deal Finance Company Limited). The structured facilities are secured on a granular pool of consumer loans.

Directors – The remuneration of the Directors is set out in the Directors' Remuneration Report on pages 49 to 53. 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 2019, there was £nil (2018: £nil) 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 Note 6 to the financial statements.

During the year the Group paid £9.53 million (2018: £7.87 million) of fees and at 31 December 2019, there was £3.96 million (2018: £3.86 million) payable to the Investment Manager.

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

1st Stop Group Limited ("1st Stop") is an English based consumer lender. During the year the Company provided a structured facility to 1st Stop secured on a granular pool of consumer loans. 1st Stop is owned by a fund that is managed by an affiliate of the Investment Manager. As at 31 December 2019 the facility was £28.0 million drawn (31 December 2018: £14.9 million). The Group also had a forward flow relationship in place with 1st Stop in which the Group provided £11.1 million (31 December 2018: £nil million) and these loans have an outstanding balance as at 31 December 2019 of £10.6 million (31 December 2018: £nil million).

CapitalFlow Group ("CapitalFlow") is an Irish based SME lender. During the year the Group provided a short-term structured facility to CapitalFlow secured on a granular pool of SME loans. The facility was fully repaid during the year. CapitalFlow is owned by a fund that is managed by an affiliate of the Investment Manager.

The Company also carried out FX hedging with Infinity International Limited ("Infinity") in relation to some Euro development finance that it had entered during the year. Infinity is owned by a fund that is managed by an affiliate of the Investment Manager. There was no exposure at year end as a different provider was utilised.

Origination Partner – Freedom Finance Limited

During the year that the Origination Partner was part of the same group as the Investment Manager, the fees payable to the Origination Partner by the Company were deducted from the management fee payable to the Investment Manager and totalled £38,574 (2018: £92,800), and at 31 December 2019, there was £nil (2018: £nil) payable to the Origination Partner.

27. ULTIMATE CONTROLLING PARTY

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

28. SUBSEQUENT EVENTS

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

On 27 January 2020 Honeycomb Investment Trust plc repurchased into treasury 2,200,000 Ordinary Shares at a price of 850 pence per Ordinary Share. Following completion of the Buyback, the Company has 39,449,919 Ordinary Shares in issue, of which 2,200,000 Ordinary Shares are held in treasury. The total number of voting rights in the Company is therefore 37,249,919 Ordinary Shares.

On 27 March 2020, a dividend of 20.0 pence per ordinary share was paid.

In March 2020, the World Health Organisation recognised an outbreak of a new virus that causes coronavirus disease 2019 ("COVID-19") as a pandemic. COVID-19 has caused disruption to businesses and economic activity which has been reflected in recent fluctuations in global stock markets. There are no comparable recent events which may provide guidance as to the effect of the spread of COVID-19 and a potential pandemic, and, as a result, the ultimate impact of the COVID-19 outbreak or a similar health epidemic is highly uncertain and subject to change.

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

However, given the Group's UK focus, its performance is linked to the health of the UK economy. We expect the Group could experience further impairments and consequently reduced profits, particularly if economic expectations deteriorate further. However, the overall effect of this cannot be quantified reliably as we expect the impact of the government's assistance to non-bank lenders and the introduction of the furlough scheme to assist end borrowers are yet unknown, but they are expected to reduce the potential expected credit loss impact. The government has also launched a number of initiatives aimed at providing finance to SMEs. Two of our largest borrowers are in the process of lending under the CBIL government guarantee scheme, which will also refinance part of their exposure with the benefit of the government guarantee. The Investment Manager has adopted a prudent approach with the focus on the existing portfolio and ensuring cash collections remain robust as the appropriate strategies are in place.

The longer-term financial impact of coronavirus is not yet clear and given the significant change in the operating environment and economic expectations the Investment Manager is proposing to re-invest the cash generated by the portfolio very selectively during this period of uncertainty with the majority of cash going to reduce net debt. Note 11 and 12 includes, for illustrative purposes, sensitivities for expected credit losses and equity valuations. This is not an estimate or forecast of the impact of COVID-19. The analysis is designed solely to give an indication of the impact of certain changes to the Group's net asset value.

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

In May 2020 the Company's main debt facility was refinanced with a new lender with the maturity extended to May 2021. This facility has a combination of a term loan and a revolving loan and is secured on a range of the Company's assets.

29. RE-PRESENTATION OF FINANCIAL STATEMENTS

Following a review of the Consolidated Statement of Comprehensive Income and Consolidated Statement of Financial Position and the associated knock on effect on the Cashflow Statement, the Directors have decided to re-present these statements for 2018 and incorporate them in 2019. The changes made to the face of these financial statements are to make them easier to read and understand for the end user and to tie in with how the Company monitors and reviews performance internally and externally in other outputs. There have been no changes to the basis on which the items are estimated or measured. A summary of changes to the Statement of Comprehensive Income can be seen below. The key change is splitting credit asset servicing costs to its own line item. There has also be a renaming of several line items, so they better reflect how these assets are reviewed.

Statement of Comprehensive Income	**2018 £'000**	**Re-presentation £'000**	**2018 Re-stated £'000**
Investment interest	50,921	3,524	54,445
Other income	1	(1)	-
Third Party Servicing	-	(3,523)	(3,523)

A summary of changes to the Statement of Financial Position can be seen below. The change is adjusting the line item tittle, so they better reflect the assets they represent.

Statement of Financial Position	**2018 £'000**	**Re-presentation £'000**	**2018 Re-stated £'000**
Investments at amortised cost	9,980	(9,980)	-
Investments held at fair value through profit or loss	576,530	(576,530)	-
Equity Investments held at fair value through profit or loss	-	9,980	9,980
Credit Assets at amortised cost	-	576,530	576,530

4 Shareholders' Information

Directors, Portfolio Manager and Advisers

Directors
Robert Sharpe
Jim Coyle
Richard Rowney

all at the registered office below

Registered Office
6th Floor
65 Gresham Street
London EC2V 7NQ
England

Investment Manager and AIFM
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London W1S 1JJ
England

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

Custodian
Sparkasse Bank Malta PLC
101 Townsquare
Sliema SLM3112
Malta

Website
http://www.honeycombplc.com/

Share Identifiers
ISIN: GB00BYQDNR86
Sedol: BYZV3G2
Ticker: HONY

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

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

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

Company Secretary
Link Company Matters Limited
6th Floor
65 Gresham Street
London EC2V 7NQ
England

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

Website

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

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

Annual and half-yearly reports

Copies of the annual and half–yearly reports may be obtained from the Company Secretary by calling 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 Group's Consolidated Annual Report & audited financial statements, half-yearly reports and other formal communications are available on the Company's website. To reduce costs the Company's half-yearly financial statements are not posted to shareholders but are instead made available on the Company's website.

Whistleblowing

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

Warning to shareholders – share fraud scams

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

How to avoid share fraud

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

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

Report a scam

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

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

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

5 Definitions and reconciliation to alternative performance measures

Credit Assets	Credit Assets are loans made to consumers and small businesses as well as other counterparties, together with related investments.
Equity Assets	Equity Assets are selected equity investments that are aligned with the Company's strategy and that present opportunities to enhance the Company's returns from its investments.
Net asset value ("NAV")	Net asset value represents the total value of the Group's assets less the total value of its liabilities. For valuation purposes, it is common to express the NAV on a per share basis.
Ongoing charges	Ongoing charges is calculated as a percentage of annualised ongoing charge over average reported NAV. Ongoing charges are those expenses of a type which are likely to recur in the foreseeable future.
Premium	If the share price of the Company is higher than the NAV per share, the Company's shares are said to be trading at a premium. The premium is shown as a percentage of the NAV.
Discount	If the share price of the Company is lower than the NAV per share, the Company's shares are said to be trading at a discount. The discount is shown as a percentage of the NAV.
Fair Value	The amount for which an asset could be exchanged, or a liability settled, between willing parties in an arm's length transaction.
Registrar	An entity that manages the Company's shareholder register. The Company's registrar is Computershare Investor Services PLC.
Alternative Investment Fund ("AIF")	An AIF, as defined in the AIFM Directive 2011/61/EU on Alternative Investment Fund Managers.
LIBOR ("London Inter-Bank Offered Rate")	The interest rate participating banks offer to other banks for loans on the London market.
Whole Loan	Credit Assets whereby the Group is exposed to the underlying risk and rewards of the loan
Structured Loan	Credit Asset whereby the Group typically has senior secured loans to specialty finance companies, whereby the security on our investment comprises the assets originated by the specialty finance company and the company provides the 'first loss' in the form of 'real capital' whilst we are provide the senior capital. Corporate guarantees also typically taken
AIFM	An Alternative Investment Fund Manager, as defined in the AIFM Directive. Pollen Street Capital Limited undertakes this role on behalf of the Company.
Consumer Loan	An amount of money lent to an individual for personal, family, or household purposes.
Servicers	Comprehensive loan servicing to support the full loan lifecycle, from origination, through account servicing to arrears management.
Hedging	An investment to reduce the risk of adverse price movements in an asset.

RECONCILIATION TO ALTERNATIVE PERFORMANCE MEASURES

Net Asset Value (Ex-Income)

	31 December 2019 £'000	31 December 2018 £'000
Net asset value	400,361	400,710
Revenue Account	(5,270)	(4,934)
Capital Account	1,030	965
IFRS 9 Adoption	(2,337)	(2,337)
Net Asset Value (ex-income)	**393,784**	**394,404**

Net Asset Value (Ex Income) is calculated as 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. NAV per share is calculated by dividing the calculated figure by the total number of shares. Number of shares at 31 December 2019 39,499,919 (31 December 2018: 39,499,919).

Premium / (Discount) to NAV per share

	31 December 2019	31 December 2018
NAV per share (Cum income)	1,014,9p	1,015.7p
Share Price at Close	972.5p	1,130.0p
Premium / (Discount)	**(4.2)%**	**11.3%**

The premium / (discount) to NAV per share is calculated by taking the difference between the share price at close and the NAV per share (Cum income) and dividing it by the NAV per share.

Annual NAV per Share Return

	31 December 2019	31 December 2018
NAV per share (Cum income) at year end	1,014.9p	1,015.7p
Opening NAV per share (Cum income)	1,015.7p	1,010.6p*
Dividends per share paid in the year	80.0p	80.0p
Annual Nav per Share Return	**7.8%**	**8.4%**

*Opening balance adjusted for initial adoption of IFRS 9

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

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

	31 December 2019	31 December 2018
NAV per share (Cum income)	1,014.9p	1,015.7p
Opening NAV per share (Cum income) at inception	982.0p	982.0p
Dividends per share paid since inception	292.9p	212.9p
ITD NAV per Share Return	**33.2%**	**25.1%**

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

Debt to Equity

	31 December 2019 (£'000)	31 December 2018 (£'000)
Net Asset Value	400,361	400,710
Interest Bearing Borrowings	206,792	189,263
Debt to Equity ratio	**51.7%**	**47.2%**

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

Revenue Return

	31 December 2019 (£'000)	31 December 2018 (£'000)
Profit after income from revenue	31,276	29,037
Average NAV	402,619	371,858
Revenue Return	**7.8%**	**7.8%**

Revenue return is calculated as profit after tax related to income from revenue divided by average NAV during the year. Average NAV is calculated as the average of the previous 12 months published monthly NAV's.

Dividend Return

	31 December 2019	31 December 2018
Dividend declared (pence per share)	80.0	80.0
IPO issue price (pence per share)	1,000.0	1,000.0
Dividend Return	**8.0%**	**8.0%**

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

Ongoing Charges

	31 December 2019 (£'000)	31 December 2018 (£'000)
Auditors' remuneration	160	129
Administrator's fees	192	199
Directors' fees	149	145
Management Fee	6,066	4,997
Other costs	673	420
Average NAV	402,619	371,858
Ongoing Charges	**1.8%**	**1.6%**

Ongoing charges ratio: The Annualised Ongoing Charge is calculated using the Association of Investment Companies recommended methodology. It is calculated as a percentage of annualised ongoing charge over average reported Net Asset Value. Average NAV is calculated as the average of the previous 12 months published monthly NAV's. Ongoing charges are those expenses of a type which are likely to recur in the foreseeable future, whether charged to capital or revenue, and which relate to the operation of the investment company as a collective fund, excluding the costs of acquisition/disposal of investments, financing charges and gains/losses arising on investments. Ongoing charges are based on costs incurred in the year as being the best estimate of future costs. The AIC excludes performance fees from the Ongoing Charges calculation.