Secured Income Fund Plc

SQN SECURED INCOME FUND PLC

(Registered number 09682883)

HALF-YEARLY REPORT AND UNAUDITED CONDENSED FINANCIAL STATEMENTS

For the six months ended 31 December 2019

CONTENTS

Key Points

31 DECEMBER 2019

NET ASSETS[1]

£48,686,000

(unaudited 31 December 2018: £50,963,000)
(audited 30 June 2019: £50,129,000)

DIVIDEND PER SHARE DECLARED IN RESPECT OF THE PERIOD

3.50p

(unaudited 31 December 2018: 3.50p)
(audited 30 June 2019: 7.00p)

NAV PER ORDINARY SHARE

92.36p

(unaudited 31 December 2018: 96.68p[2])
(audited 30 June 2019: 95.10p)

DIVIDEND COVER

0.67

(unaudited 31 December 2018: 0.81[2])
(audited 30 June 2019: 0.79)

SHARE PRICE

85.25p

(unaudited 31 December 2018: 92.25p)
(audited 30 June 2019: 92.00p)

TOTAL RETURN PER ORDINARY SHARE (BASED ON NAV)[3]

+0.8%

(unaudited 31 December 2018: +2.3%[2])
(audited 30 June 2019: +4.4%)

DISCOUNT TO NAV

7.7%

(unaudited 31 December 2018: 4.6%[2])
(audited 30 June 2019: 3.3%)

TOTAL RETURN PER ORDINARY SHARE (BASED ON SHARE PRICE)[3]

-3.5%

(unaudited 31 December 2018: +4.5%)
(audited 30 June 2019: +8.2%)

PROFIT FOR THE PERIOD

£399,000

(unaudited 31 December 2018: £1,227,000)
(audited 30 June 2019: £2,236,000)

ORDINARY SHARES IN ISSUE

52,660,350

(unaudited 31 December 2018: 52,660,350)
(audited 30 June 2019: 52,660,350)

[1] *In addition to the Ordinary Shares in issue, 50,000 Management Shares of £1 each are in issue (see note 19).*

[2] *The 31 December 2018 NAV per Ordinary Share has been restated from 97.64p (as reported in the 31 December 2018 half-yearly report and unaudited condensed financial statements) to 96.68p. This is the result of a change in the Company's approach to IFRS 9 provisioning, as disclosed in note 3i and the 30 June 2019 audited annual report and financial statements.*

[3] *Total return per Ordinary Share has been calculated by comparing the NAV or share price, as applicable, at the start of the period with the NAV or share price, as applicable, plus dividends paid, at the period end.*

CHAIRMAN'S STATEMENT

Introduction

I am pleased to update our Shareholders with my Chairman's statement, covering the period from 1 July 2019 to 31 December 2019. Over this interim period, the Company has continued to make excellent progress in reorganising the asset base to better reflect the secured and collateralised nature of the Investment Manager's core credit focus. Despite continued macro uncertainty caused by Brexit and wider geopolitical issues, income and steady NAV performance have been delivered for our Shareholders. At the time of writing, the COVID-19 pandemic is gripping the world and I shall comment on this development later in my statement.

SQN Secured Income Fund plc (LSE: SSIF) (the "Company" or "SSIF"), is a UK-listed specialist investment trust with a focus on secured investments that produce regular, collateralised income from investments made in a diversified portfolio of loans to lower middle market companies predominantly in the UK but with significant exposure to other major economies in the US and Europe.

I should begin my statement with a few words regarding the COVID-19 pandemic. During these turbulent times our priority is to focus on preserving cash and maintenance of dividend cover for our Shareholders. Equally, we are pleased that the Manager is conducting sensible and cooperative conversation with our borrowers to set their minds at rest with a priority given to protecting their financial health and that of their people. This emergency period will pass and it is incumbent on all stakeholders to behave in a responsible and fair manner. We do expect the maturity profile of the loans to be extended but are encouraged that updates from underlying businesses have been broadly encouraging at this early stage.

Performance

During the reporting period, the Company was able to maintain steady income and NAV performance. This is a testament to the uncorrelated nature of the assets that the Company targets and the strong foundation the security associated with the loans provides. Encouragingly, all loans underwritten since April 2017 are performing in line with expectations with zero impairments. The Investment Manager has also been successful in limiting impairment risk from legacy loans via platforms, although a decision was taken in September to begin impairing moribund positions.

For the reporting period ended 31 December 2019, the Company generated a net profit of £0.4m comprised of earnings per Ordinary Share of 0.76p. The Company's NAV at 31 December 2019 was £48.69m (92.36p (cum income) per Ordinary Share) compared with £50.96m (96.68p per Ordinary Share) as at 31 December 2018. The total return for the six months to 31 December 2019 was +0.80%.

Foreign exchange exposure on non-Sterling loans is fully hedged and any liquidity calls arising from the hedging strategy are considered manageable within the Company's cash flow even with increased volatility assigned to Brexit and COVID-19.

Note that all returns are net of all fees and no gearing was applied to the portfolio during the reporting period.

Corporate Activity

Despite continued retail interest, the Company has been unable to encourage large-scale purchasing interest from larger institutional investors and in particular discretionary wealth managers, to narrow the discount to NAV. Previously, this was due to increased concern regarding the sector and as investors made strategic decisions to divest from the UK due to Brexit concerns. However, a portfolio update published by a fund managed by our investment manager's parent company pursuing a different investment strategy has made marketing the fund in its present form more challenging. The Board is in discussions with the manager and other stakeholders to consider a practicable way forward for a fund that has performed well while facing challenges but associated with a management group which is experiencing difficulties with another client.

Dividends

The Company elected to designate all dividends for the period ended 31 December 2019 as interest distributions to its Shareholders. In doing so, the Company took advantage of UK tax treatment by "streaming" income from interest-bearing investments into dividends that will be taxed in the hands of Shareholders as interest income.

As set out in the Prospectus, the Company intends to distribute at least 85% of its distributable income by way of dividends on a monthly basis. During any year the Company may retain some of the distributable income as a loss reserve to smooth future dividend flows.

The Company reached its dividend target of 7.00p in July 2019 and is on target to deliver a total return of at least 8.00% based on the portfolio as it stands today. Further, during the reporting period, dividend cover has been stable. At the end of the reporting period, the Company can again report that income flow from new underwriting and committed deals has stabilised with dividend cover at sustainable levels for the first half of the year. Cash receipts from interest income remain consistent but in order to maintain this, I am pleased to note that no further deployment of cash shall be made to new counterparties. This to be a prudent position until after the economic outlook becomes clearer than at present.

CHAIRMAN'S STATEMENT (CONTINUED)

Discount

During the reporting period, the Company traded at an average discount to NAV of 3.92%.

In normal market conditions, stabilisation of dividend cover and stable NAV performance would have resulted in a narrowing of discount to NAV. However, overall market volatility and corporate uncertainty during most of the reporting period has led to the Company's shares continuing to trade at a discount to NAV.

Board of Directors

No changes to the Board composition were made during the reporting period and there are no future plans to increase the number of Directors until such time that we have sufficient funds under management to warrant such appointments.

The Board continues to engage with the management team and has regular communications in line with governance guidelines.

Outlook

The Company has performed well and continues to make positive progress in reassigning available cash to loans underwritten directly by the management team. The focus on risk management of legacy positions has been a particular focus for the Board and the Investment Manager has reduced further allocations to platform investments. We are pleased to see a further reduction in co-invested counterparty risk and some apposite, forward looking sales of direct loan exposures.

As a Board, we have given consideration to the ways in which we can support Shareholders to deliver the best outcome for their investment in a period when regular, monthly, sustainable income is in even shorter supply. As indicated in my last statement, there are two paths forward. The first option is for the Board to present investors with a wind down plan that will likely take two or three years to execute with the objective of delivering investors total proceeds as close to NAV as possible less the unavoidable expenses required in the process. An addendum to this position is that given the current COVID-19 pandemic, this time frame is likely to be extended by twelve months or more, depending on the period of time that the COVID-19 pandemic continues.

Alternatively, the Board are considering a number of alternative routes to strengthen our positioning including two identified options that are being considered at the time of writing. One option has a distribution channel to target a broader investor base eager to invest in high yielding, uncorrelated loans. Another option is to merge the fund with an existing similar vehicle to provide scale. The Board will endeavour to pursue the right path for Shareholders over the coming weeks. The Board's original intention to convene an EGM to consider the future of the Company by the end of March has been overtaken by events and we consider that it would be in the best interests of our shareholders to defer a vote on continuation in the short term in order to preserve capital and income until such time that the macro environment has stabilised. A further announcement will be made in the next few months.

We thank investors for their continued support and trust that the ongoing consistent high level of income has been welcome as the Board and the Investment Manager have continued to work to rebalance the portfolio away from inherited assets classes that have now proven to be problematic in other portfolios and sought to improve liquidity with an intensive campaign to market the fund.

During this uncertain time, I would like to extend my warmest thoughts to our Shareholders and their families, leaving you with the knowledge that we are all working hard to achieve the best possible outcome for all and continue to deliver a high level of consistent monthly income.

Ken Hillen
Chairman
30 March 2020

INVESTMENT MANAGER'S REPORT

We are pleased to report continued steady progress in delivering our targeted 7p dividend and we achieved a stable NAV performance throughout the remainder of 2019, despite making the decision to commence the write-down of peer to peer assets. This steady state belies an awful lot of work that has been done to invest a higher allocation to traditional underwriting and considerable success in the stabilisation of the legacy portfolio inherited in April 2017.

Background

SQN is a credit focussed alternative investment manager with a strong track record in managing loans and asset backed financing to the non–sponsored segment of the lower mid-market. For our borrowers we provide transformational funding on a senior secured basis using a traditional merchant banking model. For our investors, we provide regular, covered income with a focus on risk mitigation and returns uncorrelated to other asset classes.

Since January 2020, the larger of SQN's publicly listed funds, the SQN Asset Finance Income Fund, has been subject to a strategic review and a management tender process is being conducted by the non-executive Board of the Company. The fund manager for this larger fund no longer has an executive role at SQN and this has no impact on the management of SQN Secured Income Fund (SSIF) as it is managed by a different fund manager and team. Processes, governance and underwriting are controlled under a different regime to that deployed elsewhere within SQN and we have no problem assets in the direct lending segment of the portfolio.

Portfolio

No leverage has been used throughout the reporting period. Given the nature of the investments and the less predictable nature of repayments from legacy positions, we continue to see this as a challenge with regard to timing of reinvestments. Despite this, we have paid close attention to delivering a covered dividend and can confirm that this has been achieved and is now stable, with an expectation that it will remain the case.

Direct Loans

No substantial changes were made to our portfolio positioning during the reporting period apart from two transactions. In December we sold our exposure to a company specialising in remote operating vehicles for the oil and gas industry. Although performing according to expectation, we were concerned at their overall level of leverage. By way of replacement, we invested the proceeds into a loan to a health care business based in Illinois, USA. One media financing position was repaid and proceeds returned to the Company. This was replaced by another media transaction, meeting all our prerequisites for investment.

All non-Sterling capital and income has been fully hedged. Fluctuations in the value of Sterling during the reporting period made for some significant moves in the cost of this hedging and this has been mitigated by reducing brokerage costs and careful monitoring of timing of hedge rolls. Note, the Company remains 100% hedged versus USD and EUR exposures for both capital and income purposes. At present, costs of hedging are manageable and we shall maintain our 100% hedging policy to protect Sterling investors from currency fluctuations despite the significant increase in volatility.

Legacy Portfolio

After a reclassification of the way in which we define the legacy portfolio during the last reporting period, we are pleased to provide the following update:

Co-Investments

UK Venture Debt – this remains our only co-invested exposure, having reduced the counterparty count from six to one since April 2017. The status of this borrower has stabilised over the reporting period and the debt manager continues to make great efforts to return capital to investors during the wind-down period. As the portfolio runs off, we will receive cash earlier than the original maturity of the Loan Note, allowing for accelerated reinvestment into traditionally underwritten direct loans.

Small Company Bond Platform was a UK based debt platform for very small businesses requiring circa £1m loans and represented the highest risk to capital. As at December 2019, the last three loans were repaid after successfully negotiating early repayment of a loan to an Italian owned software company that represented the longest maturity, a refinancing of a private school and a specialised car hire business. One final 100% impaired loan remains outstanding and we continue to work with the liquidator in recouping loan monies.

Irish Venture Debt – this investment has been converted into a fund investment and is assessed as part of the direct loan portfolio.

These actions have reduced our overall exposure to co-invested legacy loans to 15% of the portfolio and one counterparty.

INVESTMENT MANAGER'S REPORT (CONTINUED)

Peer to Peer

Throughout SQN's tenor as manager of this portfolio, we have consistently warned of the risks associated with peer to peer lending and have endeavoured to diminish risk associated with this asset class for our Shareholders. We have now reduced our peer to peer lending to three counterparties as stated in the table below. The UK based peer to peer lender continues to make progress with impaired loans and other loans are amortising as expected. Progress is slow with the US and Spanish platforms and we have aged this exposure to reflect the time taken to recoup capital. Pure peer to peer lending is as follows:

UK Peer to Peer	1.2% of portfolio via 22 loans
Spanish Peer to Peer	0.8% of portfolio via 7 loans
US Peer to Peer	3.32% of portfolio via 16 loans
Total	5.32%

A further two loans representing 1% and 2.04% of the NAV respectively, are expected to be repaid by end Q2, 2020.

Investment Outlook – the COVID-19 Pandemic

After a troubled start, SQN assumed management in April 2017. Since then, the Company has been stabilised and is now delivering steady dividend cover and the net asset value has reflected the careful management of direct loans and legacy third party investments. At the time of the last report and accounts, the focus had been on Brexit. At the time of writing, the most pressing issue has become the global COVID-19 pandemic. This will clearly have an impact on global GDP and opinion on the period of time for this convulsion to pass ranges between 3 to 18 months.

In light of the fluidity of the COVID-19 pandemic, we continue to assess its potential effect on the portfolio. At the time of the publication of this report, the manager has not observed any material negative impact on the valuation of loans nor have we had any requests for payment holidays. The manager and the Board are monitoring the situation closely for any potential impact on the portfolio on an ongoing basis. We expect that our direct loan exposure might be subject to maturity extensions of up to 12 months and are preparing documentation for our counterparties to reflect this. This will give them the space to concentrate on the wellbeing of their staff and their economic health. We consider there is a heightened risk to the dwindling peer to peer exposures with potential for them to become moribund. We have taken the decision to commence further impairment of the Spanish and US exposures and this will be reflected in the IFRS9 data published during Q1. This is a prudent decision based on our experience of past crises and the nature of the counterparties involved.

We shall continue to pay dividends at 7p per Share for as long as we remain confident that our borrowers can meet their financial obligations. Recent updates from our borrower base have been encouraging and we have had no cause to impair any loans underwritten under our robust process and together with our security packages, we are confident that these businesses will ride the current storm. Our core strategy to lend to non-cyclical, non-retail companies has made this risk assessment an easier task than it may have been for other alternative lenders. We have enough cash at hand to stand by these commitments in the medium term and have deferred any further commitment of capital to new borrowers until we have greater clarity as to the extent and the timescale for this emergency to pass and until the future of the Company has been decided.

We are confident that loan origination opportunities will be very attractive by the end of this calendar year as bank loans granted under government schemes are required to be refinanced. Our focus on uncorrelated, non-consumer growth businesses may pivot to a more value orientated proposition, as we recalibrate our risk/reward expectations.

All processes and governance procedures remain strong. Our entire team is working with remote access and the transition from office to home working has been seamless.

Dawn Kendall
Managing Director
SQN Asset Management Limited
30 March 2020

COMPANY ANALYTICS

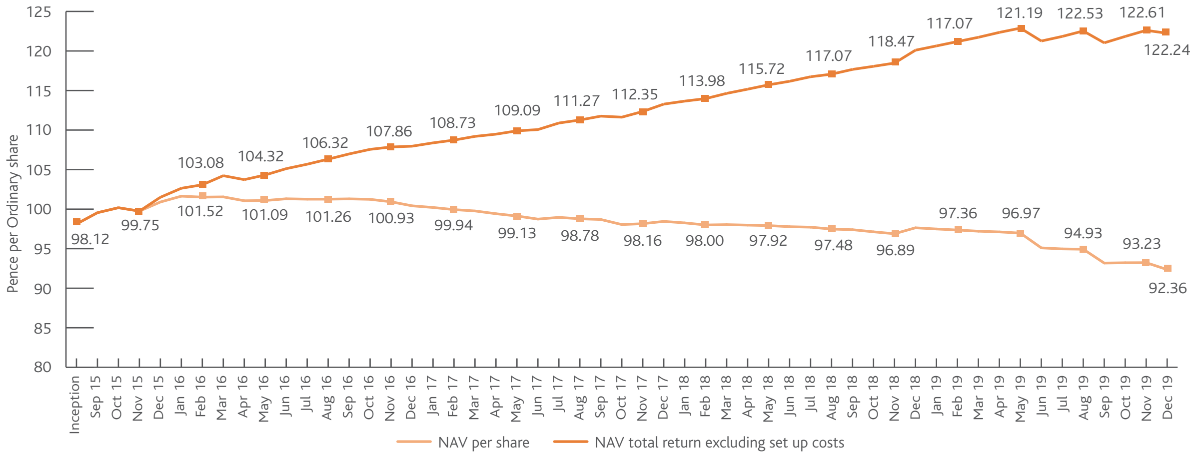
as at 31 December 2019

PERFORMANCE AND DIVIDEND HISTORY

		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	2017 to date
NAV per share	2017	0.38%	0.33%	0.43%	0.26%	0.38%	0.14%	0.76%	0.34%	0.44%	-0.12%	0.64%	0.83%	
total return,	2018	0.34%	0.27%	0.58%	0.47%	0.48%	0.39%	0.48%	0.28%	0.52%	0.33%	0.34%	1.38%	**12.48%**
including income*	2019	0.44%	0.46%	0.44%	0.51%	0.44%	-1.32%	0.47%	0.57%	-1.23%	0.67%	0.63%	-0.31%	
Dividend*	2017	0.60p	0.60p	0.60p	0.60p	0.676p	0.525p	0.525p	0.525p	0.525p	0.525p	0.525p	0.525p	
	2018	0.525p	0.525p	0.525p	0.525p	0.525p	0.525p	0.525p	0.525p	0.583p	0.583p	0.583p	0.583p	**20.28p**
	2019	0.583p	0.583p	0.583p	0.583p	0.583p	0.583p	0.583p	0.583p	0.583p	0.583p	0.583p	0.583p	
Share price	2017	-0.27%	-2.41%	6.32%	1.55%	-0.51%	0.00%	-0.51%	0.00%	-0.77%	-0.78%	-0.26%	-1.96%	
performance**	2018	-1.20%	0.00%	-1.62%	2.47%	-1.88%	0.00%	-0.82%	-1.10%	0.28%	1.11%	1.37%	0.00%	**-8.79%**
	2019	-0.27%	0.00%	-0.27%	-0.27%	0.55%	0.00%	0.27%	-0.54%	0.00%	-2.45%	-2.51%	-2.29%	

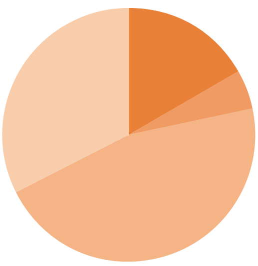
*Per Ordinary Share **Source Bloomberg

NAV/NAV TOTAL RETURN[1]



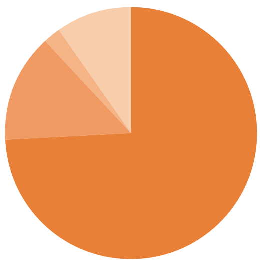
[1] The NAV and NAV total return figures in this graph are based on the NAVs announced by the Company each month.

PORTFOLIO EXPOSURE BY MATURITY



- 0 to 6 months, 16.7%
- 6 months to 18 months, 5.0%
- 18 months to 3 years, 45.9%
- >3 years, 32.3%

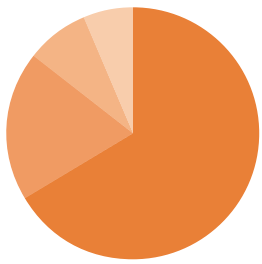
PORTFOLIO EXPOSURE BY GEOGRAPHY



- UK, 73.2%
- US, 13.7%
- Offshore Britain, 2.1%
- Europe, 9.5%

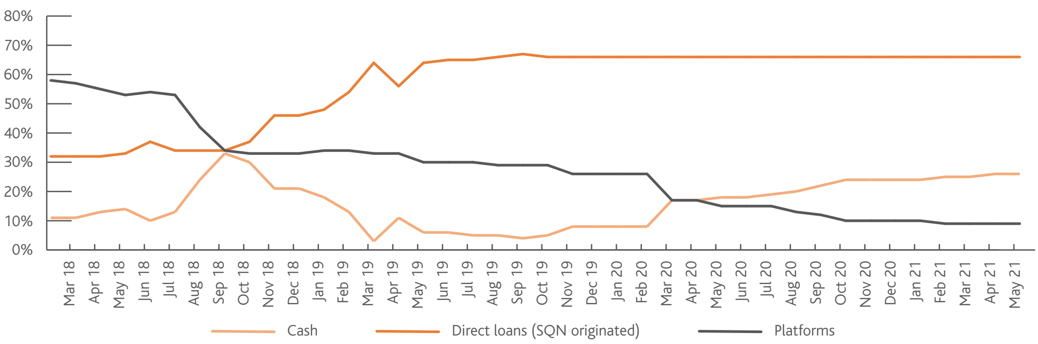
*Offshore Britain: Channel Islands, Gibraltar & Isle of Mar

PORTFOLIO EXPOSURE BY TYPE



- Direct loans (SQN originated), 66.5%
- Co-invested and solely owned private debt, 19.2%
- Cash including commited cash, 8.0%
- Peer to peer/crowdfunded, 6.3%

CURRENT AND PROJECTED PORTFOLIO EXPOSURE BY TYPE



All data source:
SQN Asset Management Limited

PRINCIPAL RISKS

Risk is inherent in the Company's activities, but it is managed through an ongoing process of identifying and assessing risks and ensuring that appropriate controls are in place. The key risks faced by the Company, are set out below:

- macroeconomic risk;
- credit risk;
- platform risk;
- regulatory risk; and
- reputational risk.

Further details of each of these risks and how they are mitigated are discussed in the Principal Risks section of the Strategic Report within the Company's Annual Report for the year ended 30 June 2019. The Board believes that these risks are applicable to the six month period ended 31 December 2019 and the remaining six months of the current financial year. However, while our economic scenarios last year were used to calculate a range of outcomes, the potential economic impact of the coronavirus was not explicitly considered then as the outbreak had not commenced at that time.

Following the UK's exit from the EU on 31 January 2020, and until trade agreements are signed, there may be some uncertainty in UK and European markets as they adjust to the new relationship between the UK and the EU and the rest of the world. Although the exact impact of Brexit is not known, the Board believes that the Company is well placed to deal with future impacts from it.

The coronavirus outbreak is a new emerging risk to the global economy. The Company's business is likely to be materially impacted by loan losses and crystallising losses on foreign currency hedges. The Company currently has sufficient resources to cover margin calls on foreign currency hedges, and the economic impact of coronavirus has led to a significant increase in the loss allowance at the end of February, resulting in a decrease in the NAV per share to 90.14p, compared to 92.36p at 31 December 2019. The Investment Manager and Administrator have invoked their business continuity plans to help ensure the safety and well-being of their staff thereby retaining the ability to maintain business operations. These actions help to ensure business resilience. The situation is changing so rapidly that the full impact cannot yet be understood, but the Company will continue to monitor the situation closely.

On behalf of the Board.

Ken Hillen
Chairman
30 March 2020

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the half-yearly report and condensed financial statements, which have not been audited or reviewed by an independent auditor, and are required to:

- prepare the condensed half-yearly financial statements in accordance with International Accounting Standard 34: *Interim Financial Reporting*, as adopted by the European Union, which give a true and fair view of the assets, liabilities, financial position and profit for the period of the Company, as required by Disclosure and Transparency Rules ("DTR") 4.2.4 R;
- include a fair review of the information required by DTR 4.2.7 R, being important events that have occurred during the period and their impact on the half-yearly report and condensed financial statements and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- include a fair review of information required by DTR 4.2.8 R, being related party transactions that have taken place during the period which have had a material effect on the financial position or performance of the Company.

The Directors confirm that the half-yearly report and condensed financial statements comply with the above requirements.

On behalf of the Board.

Ken Hillen
Chairman
30 March 2020

UNAUDITED CONDENSED STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 31 December 2019

	Note	*Period from 1 July 2019 to 31 December 2019 (unaudited) £'000*	*Period from 1 July 2018 to 31 December 2018 (unaudited) £'000*	*Year ended 30 June 2019 (audited) £'000*
Income				
Investment income		2,468	1,886	4,026
Other income		–	–	30
Total revenue		**2,468**	**1,886**	**4,056**
Operating expenses				
Management fees	*7a*	(250)	(259)	(513)
Transaction fees		(107)	(35)	(81)
Other expenses	*10*	(91)	(72)	(169)
Broker fees		(69)	(9)	(79)
Administration fees	*7b*	(57)	(56)	(117)
Directors' remuneration	*8*	(48)	(60)	(108)
Legal and professional fees		(48)	(14)	(51)
Total operating expenses		**(670)**	**(505)**	**(1,118)**
Investment gains and losses				
Movement in unrealised gains and losses on loans due to movement in foreign exchange on non-Sterling loans	*13*	(490)	18	110
Movement in unrealised gains and losses on loans due to movement in impairments	*13*	(875)	63	(415)
Movement in unrealised gain on investments at fair value through profit or loss	*14*	12	11	1
Movement in unrealised gain/(loss) on derivative financial instruments	*16*	522	(307)	(319)
Realised (loss)/gain on disposal of loans		(443)	82	16
Realised gain on disposal of investments at fair value through profit or loss		–	–	3
Realised loss on disposal of investments held for sale		–	–	(51)
Realised loss on derivative financial instruments	*16*	(112)	(120)	(206)
Total investment gains and losses		**(1,386)**	**(253)**	**(861)**
Net profit from operating activities before (loss)/gain on foreign currency exchange		**412**	**1,128**	**2,077**
Net foreign exchange (loss)/gain		(13)	99	159
Profit and total comprehensive income for the period/year attributable to the owners of the Company		**399**	**1,227**	**2,236**
Earnings per Ordinary Share *(basic and diluted)*	*12*	**0.76p**	**2.33p**	**4.25p**

All of the items in the above statement are derived from continuing operations.

There were no other comprehensive income items in the period/year.

Except for unrealised investment gains and losses, all of the Company's profit and loss items are distributable.

The accompanying notes on pages 17 to 39 form an integral part of the unaudited condensed half-yearly financial statements.

UNAUDITED CONDENSED STATEMENT OF CHANGES IN EQUITY

for the six months ended 31 December 2019

Unaudited	*Note*	*Called up share capital £'000*	*Special distributable reserve £'000*	*Profit and loss account £'000*	*Total £'000*
At 1 July 2019		577	50,253	(701)	50,129
Profit for the period	*21*	–	–	399	399
Transactions with Owners in their capacity as owners:					
Dividends paid	*5, 21*	–	(612)	(1,230)	(1,842)
Total transactions with Owners in their capacity as owners		–	(612)	(1,230)	(1,842)
At 31 December 2019		**577**	**49,641**	**(1,532)**	**48,686**

UNAUDITED CONDENSED STATEMENT OF CHANGES IN EQUITY

for the six months ended 31 December 2018

Unaudited and restated	*Note*	*Called up share capital £'000*	*Special distributable reserve £'000*	*Profit and loss account (as restated) £'000*	*Total (as restated) £'000*
At 1 July 2018		577	50,942	20	51,539
Impact of transition to IFRS 9 *(as restated)*	*3i*	–	–	(23)	(23)
At 1 July 2018 – revised for the application of IFRS 9		577	50,942	(3)	51,516
Profit for the period	*21*	–	–	1,227	1,227
Transactions with Owners in their capacity as owners:					
Dividends paid	*5, 21*	–	(263)	(1,517)	(1,780)
Total transactions with Owners in their capacity as owners		–	(263)	(1,517)	(1,780)
At 31 December 2018		**577**	**50,679**	**(293)**	**50,963**

AUDITED STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2019

Audited	*Note*	*Called up share capital £'000*	*Special distributable reserve £'000*	*Profit and loss account £'000*	*Total £'000*
At 1 July 2018		577	50,942	20	51,539
Impact of transition to IFRS 9	*3i*	–	–	(23)	(23)
At 1 July 2018 – revised for the application of IFRS 9		577	50,942	(3)	51,516
Profit for the year	*21*	–	–	2,236	2,236
Transactions with Owners in their capacity as owners:					
Dividends paid	*5, 21*	–	(689)	(2,934)	(3,623)
Total transactions with Owners in their capacity as owners		–	(689)	(2,934)	(3,623)
At 30 June 2019		**577**	**50,253**	**(701)**	**50,129**

There were no other comprehensive income items in the period/year.

The above amounts are all attributable to the owners of the Company.

The accompanying notes on pages 17 to 39 form an integral part of the unaudited condensed half-yearly financial statements.

UNAUDITED CONDENSED STATEMENT OF FINANCIAL POSITION

as at 31 December 2019

	Note	31 December 2019 (unaudited) £'000	31 December 2018 (as restated) (unaudited) £'000	30 June 2019 (audited) £'000
Non-current assets				
Loans at amortised cost	13	41,025	37,262	36,614
Investments at fair value through profit or loss	14, 15	244	291	232
Total non-current assets		**41,269**	**37,553**	**36,846**
Current assets				
Loans at amortised cost	13	3,305	3,372	10,642
Cash held on client accounts with platforms	13	25	272	48
Derivative financial instruments	15, 16	171	–	–
Other receivables and prepayments	17	1,528	964	1,141
Cash and cash equivalents		2,502	9,265	1,987
Total current assets		**7,531**	**13,873**	**13,818**
Total assets		**48,800**	**51,426**	**50,664**
Current liabilities				
Other payables and accruals	18	(114)	(124)	(184)
Derivative financial instruments	15, 16	–	(339)	(351)
Total liabilities		**(114)**	**(463)**	**(535)**
Net assets		**48,686**	**50,963**	**50,129**
Capital and reserves attributable to owners of the Company				
Called up share capital	20	577	577	577
Other reserves	21	48,109	50,386	49,552
Equity attributable to the owners of the Company		**48,686**	**50,963**	**50,129**
Net asset value per Ordinary Share	22	**92.36p**	**96.68p**	**95.10p**

These unaudited condensed half-yearly financial statements of SQN Secured Income Fund plc (registered number 09682883) were approved by the Board of Directors on 30 March 2020 and were signed on its behalf by:

KEN HILLEN
Chairman
30 March 2020

GAYNOR COLEY
Director
30 March 2020

The accompanying notes on pages 17 to 39 form an integral part of the unaudited condensed half-yearly financial statements.

UNAUDITED CONDENSED STATEMENT OF CASH FLOWS

for the six months ended 31 December 2019

	Period from 1 July 2019 to 31 December 2019 (unaudited) £'000	*Period from 1 July 2018 to 31 December 2018 (unaudited) £'000*	*Year ended 30 June 2019 (audited) £'000*
Cash flows from operating activities			
Net profit before taxation	399	1,227	2,236
Adjustments for:			
Movement in unrealised gains and losses on loans due to movement in foreign exchange on non-Sterling loans	490	(18)	(110)
Movement in unrealised gains and losses on loans due to movement in impairments	875	(63)	415
Movement in unrealised gain on investments at fair value through profit or loss	(12)	(11)	(1)
Movement in unrealised (gain)/loss on derivative financial instruments	(522)	307	319
Realised loss/(gain) on disposal of loans	443	(82)	(16)
Realised gain on disposal of investments at fair value through profit or loss	–	–	(3)
Realised loss on disposal of investments held for sale	–	–	51
Realised loss on derivative financial instruments	112	120	206
Amortisation of transaction fees	107	35	81
Interest received and reinvested by platforms	(43)	(174)	(287)
Capitalised interest	(735)	(467)	(915)
Decrease/(increase) in investments	1,700	4,279	(2,141)
Net cash inflow/(outflow) from operating activities before working capital changes	2,814	5,153	(165)
Increase in other receivables and prepayments	(387)	(193)	(369)
(Decrease)/increase in other payables and accruals	(70)	(40)	19
Net cash inflow/(outflow) from operating activities	**2,357**	**4,920**	**(515)**
Cash flows from financing activities			
Dividends paid	(1,842)	(1,780)	(3,623)
Net cash outflow from financing activities	**(1,842)**	**(1,780)**	**(3,623)**
Increase/(decrease) in cash and cash equivalents in the period/year	**515**	**3,140**	**(4,138)**
Cash and cash equivalents at the beginning of the period/year	1,987	6,125	6,125
Cash and cash equivalents at 31 December 2019	**2,502**	**9,265**	**1,987**
Supplemental cash flow information			
Non-cash transaction – interest received	778	641	1,202

The accompanying notes on pages 17 to 39 form an integral part of the unaudited condensed half-yearly financial statements.

NOTES TO THE UNAUDITED CONDENSED HALF-YEARLY FINANCIAL STATEMENTS

for the six months ended 31 December 2019

1. GENERAL INFORMATION

The Company was incorporated in England and Wales under the Companies Act 2006 on 13 July 2015 with registered number 09682883 and its shares were admitted to trading on the London Stock Exchange Specialist Fund Segment on 23 September 2015 ("Admission").

The Company is an investment company as defined in s833 of the Companies Act 2006.

Investment objective

The investment objective of the Company is to provide Shareholders with attractive risk adjusted returns, principally in the form of regular, sustainable dividends, through investment predominantly in a range of secured loans and other secured loan-based instruments originated through a variety of channels and diversified by way of asset class, geography and duration.

Investment policy

The Company achieves its investment objective by investing in a range of secured loan assets mainly through wholesale secured lending opportunities, secured trade and receivable finance and other collateralised lending opportunities. Loan assets include both direct loans as well as other instruments with loan-based investment characteristics (for example, but not limited to, bonds, loan participations, syndicated loans, structured notes, collateralised obligations or hybrid securities) and may include (subject to the limit set out in note 22) other types of investment (for example, equity or revenue- or profit-linked instruments). The Company may make investments through alternative lending platforms that present suitable investment opportunities identified by the Manager.

The Company will seek to ensure that diversification of its portfolio is maintained, with the aim of spreading investment risk.

2. STATEMENT OF COMPLIANCE

a) Basis of preparation

These unaudited condensed half-yearly financial statements present the results of the Company for the six months ended 31 December 2019. These unaudited condensed half-yearly financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34: *Interim Financial Reporting*, as adopted by the European Union.

The unaudited condensed half-yearly financial statements for the period ended 31 December 2019 have not been audited or reviewed by the Company's auditors and do not constitute statutory financial statements, as defined in s434 of the Companies Act 2006. The unaudited condensed half-yearly financial statements have been prepared on the same basis as the Company's annual financial statements.

b) Basis of measurement

The unaudited condensed half-yearly financial statements have been prepared on a historical cost basis, except for investments at fair value through profit or loss and derivative instruments, which are measured at fair value through profit or loss.

The Company's Articles of Association require the Directors to convene a general meeting to propose to Shareholders a NAV Continuation Resolution as the Company did not have a NAV of at least £250 million as at 31 December 2019. The outcome of a NAV Continuation Resolution is not known and, given that Shareholders have generally been supportive of the Company's plans to date, the Directors do not consider that this adversely affects the Company's going concern at this stage.

The coronavirus outbreak is a new emerging risk to the global economy. The Company's business is likely to be materially impacted by loan losses and crystallising losses on foreign currency hedges (see note 25). The Investment Manager and Administrator have invoked their business continuity plans to help ensure the safety and well-being of their staff thereby retaining the ability to maintain business operations. These actions help to ensure business resilience. The situation is changing so rapidly that the full impact cannot yet be understood. However, the Directors believe that the Company is well placed to survive the impact of the coronavirus outbreak and will continue to monitor the situation closely.

Therefore, the unaudited condensed half-yearly financial statements have been prepared on a going concern basis. Should the NAV Continuation Resolution not be passed, the financial statements will have to be prepared on a break-up basis. The Directors do not consider the impact of this to be material.

c) Segmental reporting

The Directors are of the opinion that the Company is engaged in a single economic segment of business, being investment in a range of SME loan assets.

NOTES TO THE UNAUDITED CONDENSED HALF-YEARLY FINANCIAL STATEMENTS

for the six months ended 31 December 2019 (continued)

2. STATEMENT OF COMPLIANCE (contInued)

d) Use of estimates and judgements

The preparation of unaudited condensed half-yearly financial statements in conformity with International Financial Reporting Standards ("IFRS") requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods.

Judgements made by management in the application of IFRS that have a significant effect on the unaudited condensed half-yearly financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 4.

3. SIGNIFICANT ACCOUNTING POLICIES

a) Foreign currency

Foreign currency transactions are translated into Sterling using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Unaudited Condensed Statement of Comprehensive Income. Translation differences on non-monetary financial assets and liabilities are recognised in the Unaudited Condensed Statement of Comprehensive Income.

b) Financial assets and liabilities

The financial assets and liabilities of the Company are defined as loans, bonds with loan type characteristics, investments at fair value through profit or loss, cash and cash equivalents, other receivables, derivative instruments and other payables.

Recognition

The Company recognises a financial asset or a financial liability when, and only when, it becomes a party to the contractual provisions of the instrument. Purchases and sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace are recognised on the trade date, i.e. the date that the Company commits to purchase or sell the asset.

Initial measurement

Financial assets and financial liabilities at fair value through profit or loss are recorded in the Unaudited Condensed Statement of Financial Position at fair value. All transaction costs for such instruments are recognised directly in profit or loss.

Financial assets and financial liabilities not designated as at fair value through profit or loss, such as loans, are initially recognised at fair value, being the amount issued less transaction costs.

Subsequent measurement

After initial measurement, the Company measures financial assets and financial liabilities not designated as at fair value through profit or loss, at amortised cost using the effective interest rate method, less impairment allowance. Gains and losses are recognised in the Unaudited Condensed Statement of Comprehensive Income when the asset or liability is derecognised or impaired. Interest earned on these instruments is recorded separately as investment income.

After initial measurement, the Company measures financial instruments which are classified at fair value through profit or loss at fair value. Subsequent changes in the fair value of those financial instruments are recorded in net gain or loss on financial assets and liabilities at fair value through profit or loss.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar assets) is derecognised where:

- The rights to receive cash flows from the asset have expired; or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and
- Either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

NOTES TO THE UNAUDITED CONDENSED HALF-YEARLY FINANCIAL STATEMENTS

for the six months ended 31 December 2019 (continued)

3. SIGNIFICANT ACCOUNTING POLICIES (contInued)

b) Financial assets and liabilities (continued)

When the Company has transferred its rights to receive cash flows from an asset (or has entered into a pass-through arrangement) and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset.

The Company derecognises a financial liability when the obligation under the liability is discharged, cancelled or expires.

Impairment

A financial asset is credit-impaired when one or more events that have occurred have a significant impact on the expected future cash flows of the financial asset. It includes observable data that has come to the attention of the holder of a financial asset about the following events:

- Significant financial difficulty of the issuer or borrower;
- A breach of contract, such as a default or past-due event;
- The lenders for economic or contractual reasons relating to the borrower's financial difficulty granted the borrower a concession that would not otherwise be considered;
- It becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for the financial asset because of financial difficulties; or
- The purchase or origination of a financial asset at a deep discount that reflects incurred credit losses.

Each direct loan is assessed on a continuous basis by the Investment Manager's own underwriting team with peer review occurring on a regular basis.

Each platform loan is monitored via the company originally deployed to conduct underwriting and management of the borrower relationship. When a potential impairment is identified, the Investment Manager requests data and management information from the platform. The Investment Manager will then actively pursue collections, giving guidance to the platforms on acceptable levels of impairment. In some cases, the Investment Manager will proactively take control of the process.

Impairment of financial assets is recognised on a loan-by-loan basis in stages:

Stage 1: As soon as a financial instrument is originated or purchased, 12-month expected credit losses are recognised in profit or loss and a loss allowance is established. This serves as a proxy for the initial expectations of credit losses. For financial assets, interest revenue is calculated on the gross carrying amount (i.e. without deduction for expected credit losses).

Stage 2: If the credit risk increases significantly and is not considered low, full lifetime expected credit losses are recognised in profit or loss. The calculation of interest revenue is the same as for Stage 1. This stage is triggered by scrutiny of management accounts and information gathered from regular updates from the borrower by way of email exchange or face-to-face meetings. The Investment Manager extends specific queries to borrowers if they acquire market intelligence or channel-check the data received. A covenant breach may be a temporary circumstance due to a one-off event and will not trigger an immediate escalation in risk profile to stage 2.

At all times, the Investment Manager considers the risk of impairment relative to the cash flows and general trading conditions of the company and the industry in which the borrower resides.

Stage 3: If the credit risk of a financial asset increases to the point that it is considered credit-impaired, interest revenue is calculated based on the amortised cost (i.e. the gross carrying amount less the loss allowance). Financial assets in this stage will generally be assessed individually. Lifetime expected credit losses are recognised on these financial assets. This stage is triggered by a marked deterioration in the management information received from the borrower and a view taken on the overall credit conditions for the sector in which the company resides. A permanent breach of covenants and a deterioration in the valuation of security would also merit a move to stage 3.

The Investment Manager also takes into account the level of security to support each loan and the ease with which this security can be monetised. This has a meaningful impact of the way in which impairments are assessed, particularly as the Investment Manager has a very strong track record in managing write-downs and reclaim of assets.

c) Cash and cash equivalents

Cash and cash equivalents are defined as cash in hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

d) Receivables and prepayments

Receivables are carried at the original invoice amount, less impairments, as discussed above.

NOTES TO THE UNAUDITED CONDENSED HALF-YEARLY FINANCIAL STATEMENTS

for the six months ended 31 December 2019 (continued)

3. SIGNIFICANT ACCOUNTING POLICIES (contInued)

e) Transaction costs

Transaction costs incurred on the acquisition of loans are capitalised upon recognition of the financial asset and amortised over the term of the respective loan.

f) Income and expenses

Interest income and bank interest are recognised on a time-proportionate basis using the effective interest rate method.

Dividend income is recognised when the right to receive payment is established.

All expenses are recognised on an accruals basis. All of the Company's expenses (with the exception of share issue costs, which are charged directly to the distributable reserve) are charged through the Unaudited Condensed Statement of Comprehensive Income in the period in which they are incurred.

g) Taxation

The Company is exempt from UK corporation tax on its chargeable gains as it satisfies the conditions for approval as an investment trust. The Company is, however, liable to UK corporation tax on its income. However, the Company has elected to take advantage of modified UK tax treatment in respect of its "qualifying interest income" in order to deduct all, or part, of the amount it distributes to Shareholders as dividends as an "interest distribution".

h) Changes in accounting policy and disclosures

New and amended standards and interpretations
The accounting policies adopted are consistent with those of the previous financial year, except as outlined below. The Company adopted the following new and amended relevant IFRS in the period:

IFRIC 23 Uncertainty over income tax treatment

i) Impact of adoption of IFRS 9 and 31 December 2018 restatement

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

a) Classification and measurement
The Company assessed the classification of financial instruments as at the date of initial application and applied such classification retrospectively. Based on that assessment:

- All financial assets previously held at fair value continue to be measured at fair value;
- Financial assets previously classified as loans and receivables are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. Thus, such instruments continue to be measured at amortised cost under IFRS 9; and
- The classification of financial liabilities to which the Company is exposed remains broadly the same under IFRS 9 as under IAS 39.

b) Impairment and restatement
IFRS 9 requires the Company to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis.

IFRS 9 provisioning originally led to a one-off increase in the Company's NAV of 0.94% from 1 July 2018 when the impairments decreased by £483,000 from £699,000 to £217,000 (0.42% of the 30 June 2018 NAV). Since then, the Company's approach to IFRS 9 provisioning has changed. In these financial statements, an approach (consistent with that adopted at 30 June 2019) has been followed from 1 July 2018. As reported in the 30 June 2019 audited financial statements, this resulted in a decrease in the Company's NAV at 1 July 2018 from the adoption of IFRS 9 of £23,000, instead of the 0.94% increase as originally announced.

NOTES TO THE UNAUDITED CONDENSED HALF-YEARLY FINANCIAL STATEMENTS

for the six months ended 31 December 2019 (continued)

3. SIGNIFICANT ACCOUNTING POLICIES (contInued)

i) Impact of adoption of IFRS 9 and 31 December 2018 restatement (continued)

b) Impairment and restatement (continued)

The figures in the 31 December 2018 half-yearly report and unaudited condensed financial statements were based on the Company's original approach to IFRS 9 provisioning. The 31 December 2018 comparative figures disclosed in these unaudited condensed financial statements have been restated to reflect the revised approach to IFRS 9 provisioning. The impact is as follows:

	Per 31 December 2018 unaudited condensed half-yearly financial statements £'000	*31 December 2018 As restated (unaudited) £'000*
Unaudited condensed statement of comprehensive income *(no impact)*		
Profit and total comprehensive income for the period	1,227	1,227
Unaudited condensed statement of changes in equity		
Impact of transition to IFRS 9	483	(23)
Opening net assets at 1 July 2018 – revised for the application of IFRS 9	52,022	51,516
Unaudited condensed statement of financial position		
Current assets: Loans at amortised cost	3,877	3,372
Net assets	51,468	50,963
Net assets per Ordinary Share *(pence)*	97.64p	96.68p
Unaudited condensed statement of cash flows		
No impact		

All material loss provisions are related to platform impairments on investments made before the Investment Manager took control of the portfolio. Since assuming management of the Company on 1 April 2017, SQN Asset Management Limited has reduced platform exposure from 100% to under 30%, delivering on the strategy of providing income from direct lending originated and underwritten solely by the Investment Manager. The Company has managed the risk posed by peer to peer platform exposure effectively and will continue to reduce the overall exposure to these platforms to the target weight of 20% of the whole portfolio.

j) Accounting standards issued but not yet effective

The International Accounting Standards Board ("IASB") has issued/revised a number of relevant standards with an effective date after the date of these unaudited condensed half-yearly financial statements. Any standards that are not deemed relevant to the operations of the Company have been excluded. The Directors have chosen not to early adopt these standards and interpretations and they do not anticipate that they would have a material impact on the Company's financial statements in the period of initial application.

		Effective date
IAS 1	Presentation of Financial Statements – *amendments regarding the definition of materiality*	1 January 2020
IAS 1	Presentation of Financial Statements – *amendments regarding the classification of liabilities*	1 January 2022
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors – *amendments regarding the definition of materiality*	1 January 2020

NOTES TO THE UNAUDITED CONDENSED HALF-YEARLY FINANCIAL STATEMENTS

for the six months ended 31 December 2019 (continued)

4. USE OF JUDGEMENTS AND ESTIMATES

The preparation of the Company's unaudited condensed half-yearly financial statements requires the Directors to make judgements, estimates and assumptions that affect the reported amounts recognised in the unaudited condensed half-yearly financial statements and disclosure of contingent liabilities. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability in future periods.

Estimates and assumptions

The Company based its assumptions and estimates on parameters available when the unaudited condensed half-yearly financial statements were approved. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

i) Recoverability of loans and other receivables

In accordance with IFRS 9, from 1 July 2018, the impairment of loans and other receivables has been assessed as described in note 3b. When assessing the credit loss on a loan, and the stage of impairment of that loan, the Company considers whether there is an indicator of credit risk for a loan when the borrower has failed to make a payment, either capital or interest, when contractually due and upon assessment. The Company assesses at each reporting date (and at least on a monthly basis) whether there is objective evidence that a loan classified as a loan at amortised cost is credit-impaired and whether a loan's credit risk or the expected loss rate has changed significantly. As part of this process:

- Platforms are contacted to determine default and delinquency levels of individual loans; and
- Recovery rates are estimated.

The analysis of credit risk is based on a number of factors and a degree of uncertainty is inherent in the estimation process. The determination of whether a specific factor is relevant and its weight compared with other factors depends on the type of product, the characteristics of the financial instrument and the borrower, and the geographical region. It is not possible to provide a single set of criteria that will determine what is considered to be a significant increase in credit risk. Events that the Company will assess when deciding if a financial asset is credit impaired include:

- significant financial difficulty of the borrower;
- a breach of contract, such as a default or past-due event; and
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

Although it may not always be the case (e.g. if discussions with a borrower are ongoing), generally a loan is deemed to be in default if the borrower has missed a payment of principal or interest by more than 90 days, unless the Company has good reason not to apply this rule. If the Company has evidence to the contrary, it may make an exception to the 90 day rule to deem that a borrower is, or is not, in default. Therefore the definitions of credit impaired and default are aligned as far as possible so that stage 3 represents all loans that are considered defaulted or otherwise credit impaired.

At present no direct loans to SMEs fall within Stage 2 or Stage 3. However, if a situation were to arise where a direct loan to an SME were reclassified as Stage 2 or Stage 3, the probability of default and lifetime expected credit loss would be assessed on a case by case basis and would be pertinent to the probability of recovery.

IFRS 9 confirms that a Probability of Default ("PD") must never be zero as everything is deemed to have a risk of default; this has been incorporated by the Company. All PDs will be assessed against historic data as well as the prevailing economic conditions at the reporting date, adjusted to account for estimates of future economic conditions that are likely to impact the risk of default. 12-month PD will be applied across the collective as a cumulative in Stage 1, currently set at 2% in line with the Investment Manager's historic performance data, market knowledge, and credit enhancements (this is equivalent to there being 1 default for an average portfolio of 50 unique borrowers). Once an investment moves to Stage 2 then PD will be calculated on an individual basis (and adjusted for Stage 3 if appropriate). All assessment is based on reasonable and supportive information available at the time.

Lifetime ECL will be applied across the collective as a cumulative in Stage 1, split according to the investment's classification. For direct loan investments this is calculated as 2% of the individual investment's Contracted Cash Flows ("CCF"), and 2% of the investment's CCF for platform investments. These Stage 1 Lifetime ECL amounts are taken to be the investments' floor amounts- the Lifetime ECL for any investment can never be less than its floor amount. Once an investment moves to Stage 2 then Lifetime ECL will be calculated on an individual basis. Lifetime ECL will be reviewed at each reporting date based on reasonable and supportive information available at the time.

NOTES TO THE UNAUDITED CONDENSED HALF-YEARLY FINANCIAL STATEMENTS

for the six months ended 31 December 2019 (continued)

4. USE OF JUDGEMENTS AND ESTIMATES (contInued)

i) Recoverability of loans and other receivables (continued)

LiftForward impairment

The Company's largest peer to peer investment is a junior position and represents a risk of write-down. In March 2019, the Investment Manager met with the owner/founder and agreed an incentive plan to expedite collections of the underlying portfolio and agreed a three month period to show improvement. They informed the Company that they had written down a large proportion of this portfolio in their accounts due to a sales process underway at the time. They were advised that if no improvement was forthcoming, the Investment Manager would take over collections and it was explained that the Investment Manager has a good track record, together with its partners, in achieving better recoveries.

With effect from 30 June 2019, the Company has impaired this platform exposure by 25% with a 100% expectation of write-down for this part of the portfolio. This is a pre-emptive move and takes into account a best estimate of loans that are now being managed out by attorneys. The decision to use a 25% impairment rate is based upon the Investment Manager's past experience of platform performance.

Whilst a 25% impairment is based on past experience, the amount finally received may be higher or lower than this. A 10% increase or decrease in the impairment on this loan would result in a -/+£217,000 (30 June 2019: -/+£226,000) change in the net asset value of the Company.

Further details of the judgements applied in assessing the recoverability of loans can be found in the IFRS 9 section of the Investment Manager's Report.

Collateral

While the presence of collateral is not a key element in the assessment of whether there has been a significant increase in credit risk, it is of great importance in the measurement of ECL. IFRS 9 states that estimates of cash shortfalls reflect the cash flows expected from collateral and other credit enhancements that are integral to the contractual terms. Due to the business nature of the Investment Manager, this is a key component of its ECL measurement and interpretation of IFRS 9, as any investment would include elements of (if not all): a fully collateralised position, fixed and floating charges, a corporate guarantee, a personal guarantee, coverage ratios between 130% to 150%, and an average LTV of 85%.

Loans written off

Financial assets (and the related impairment allowances) are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, this is generally after receipt of any proceeds from the realisation of security. In circumstances where the net realisable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier. Platform loans of £179,000 were written off in the period (31 December 2018: £126,000; 30 June 2019: £126,000).

Renegotiated loans

A loan is classed as renegotiated when the contractual payment terms of the loan are modified because the Company has significant concerns about a borrower's ability to meet payments when due. On renegotiation, the loan will also be classified as credit impaired, if it is not already. Renegotiated loans will continue to be considered to be credit impaired until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future payments.

All data calculated for IFRS 9 purposes is consistent with the overall methodology employed by SQN across all of its UK public funds. In addition to the methodology used, the Company has taken impairment data from Platforms for the assessment of loans with third party exposure. Again, this is consistent with the approach SQN would expect to take in these circumstances.

There were no new assets originated during the period that were credit-impaired at the point of initial recognition. There were no financial assets that have been modified since initial recognition at a time when the loss allowance was measured at an amount equal to lifetime expected credit losses and for which the loss allowance changed during the period to an amount equal to 12-month expected credit losses.

There were no financial assets for which cash flows were modified in the period while they had a loss allowance measured at an amount equal to the lifetime expected credit loss.

Please see note 3b, note 13 and note 22 for further information on the loans at amortised cost and credit risk.

NOTES TO THE UNAUDITED CONDENSED HALF-YEARLY FINANCIAL STATEMENTS

for the six months ended 31 December 2019 (continued)

5. DIVIDENDS

The Company distributes at least 85% of its distributable income earned in each financial year by way of dividends. The Company's annual dividend target is 7.00p per Share. Over the longer term, the Company will be targeting an annual net asset value total return of at least 8%. The Company intends to continue to pay monthly dividends to Shareholders.

The Company elected to designate all of the dividends for the period ended 31 December 2019 as interest distributions to its Shareholders. In doing so, the Company took advantage of UK tax treatment by "streaming" income from interest-bearing investments into dividends that will be taxed in the hands of Shareholders as interest income.

To date, the Company has declared the following dividends in respect of earnings for the period ended 31 December 2019:

Announcement date	*Pay date*	*Total dividend declared in respect of earnings in the period £'000*	*Amount per Ordinary Share*
29 August 2019	27 September 2019	307	0.583p
25 September 2019	25 October 2019	307	0.583p
31 October 2019	29 November 2019	307	0.583p
27 November 2019	27 December 2019	307	0.583p
18 December 2019	24 January 2020	307	0.583p
30 January 2020	28 February 2020	307	0.583p
Dividends declared (to date) for the period		1,842	3.50p
Less, dividends paid after the period end		(614)	(1.17)p
Add, dividends paid in the period in respect of the prior year		614	1.17p
Dividends paid in the period		1,842	3.50p

In accordance with IFRS, dividends are only provided for when they become a contractual liability of the Company. Therefore, during the period a total of £1,842,000 (31 December 2018: £1,780,000, 30 June 2019: £3,623,000) was incurred in respect of dividends, none of which was outstanding at the reporting date (31 December 2018 and 30 June 2019: none). The dividends of £307,010 each, which were declared on 18 December 2019 and 30 January 2020, had not been provided for at 31 December 2019 as, in accordance with IFRS, they were not deemed to be liabilities of the Company at that date.

All dividends in the period were paid out of revenue (and not capital) profits.

On 27 February 2020, the Company declared a dividend of 0.583p per Share for the period from 1 July 2019 to 31 January 2020. This dividend was paid on 27 March 2020.

6. RELATED PARTIES

As a matter of best practice and good corporate governance, the Company has adopted a related party policy which applies to any transaction which it may enter into with any Director, the Investment Manager, or any of their affiliates which would constitute a "related party transaction" as defined in, and to which would apply, Chapter 11 of the Listing Rules. In accordance with its related party policy, the Company obtained: (i) the approval of a majority of the Directors; and (ii) a third-party valuation in respect of these transactions from an appropriately qualified independent adviser.

Loan to Medical Equipment Solutions Limited ("MESL")

In June 2017, the Company loaned £1,380,000 to MESL, whose Chairman is Neil Roberts, who is also chairman of SQN Capital Management, LLC. Loan interest of £43,000 was earned in the period (31 December 2018: £55,000, 30 June 2019: £104,000), £2,000 of which was outstanding at 31 December 2019 (31 December 2018: £3,000, 30 June 2019: £2,000). The loan bears interest at 10.0% per annum and is for a period of five years from the date of drawdown. The loan is to be repaid via 60 monthly payments.

At 31 December 2019, the balance of the loan was £775,000 (31 December 2018: £1,035,000; 30 June 2019 £909,000).

NOTES TO THE UNAUDITED CONDENSED HALF-YEARLY FINANCIAL STATEMENTS

for the six months ended 31 December 2019 (continued)

7. KEY CONTRACTS

a) Investment Manager

The Investment Manager, SQN Asset Management Limited ("SQN UK") and SQN Capital Management, LLC ("SQN US"), has responsibility for managing the Company's portfolio. For their services, the Investment Manager is entitled to a management fee at a rate equivalent to the following schedule (expressed as a percentage of NAV per annum, before deduction of accruals for unpaid management fees for the current month):

- 1.0% per annum for NAV lower than or equal to £250 million;
- 0.9% per annum for NAV greater than £250 million and lower than or equal to £500 million; and
- 0.8% per annum for NAV greater than £500 million.

The management fee is payable monthly in arrears on the last calendar day of each month. No performance fee is payable by the Company to the Investment Manager.

The Company may also incur transaction costs for the purposes of structuring investments for the Company. These costs form part of the overall transaction costs that are capitalised at the point of recognition and are taken into account by the Investment Manager when pricing a transaction. When structuring services are provided by the Investment Manager or an affiliate of them, they shall be entitled to charge an additional fee to the Company equal to up to 1.0% of the cost of acquiring the investment (ignoring gearing and transaction expenses). This cost will not be charged in respect of assets acquired from the Investment Manager, the funds they manage or where they or their affiliates do not provide such structuring advice.

The Investment Manager has agreed to bear all the broken and abortive transaction costs and expenses incurred on behalf of the Company. Accordingly, the Company has agreed that the Investment Manager may retain any commitment commissions received by the Investment Manager in respect of investments made by the Company save that if such commission on any transaction were to exceed 1.0% of the transaction value, the excess would be paid to the Company.

During the period, a total of £250,000 (31 December 2018: £259,000, 30 June 2019: £513,000) was incurred in respect of management fees, of which £41,000 was payable at the reporting date (31 December 2018: £43,000, 30 June 2019: £42,000).

b) Administration fees

Elysium Fund Management Limited ("Elysium") is entitled to an administration fee of £100,000 per annum in respect of the services provided in relation to the administration of the Company, together with time based fees in relation to work on investment transactions. During the period, a total of £57,000 (31 December 2018: £56,000, 30 June 2019: £117,000) was incurred in respect of administration fees, of which £29,000 (31 December 2018: £30,000, 30 June 2019: £30,000) was payable at the reporting date.

8. DIRECTORS' REMUNERATION

The Directors are paid such remuneration for their services as determined by the Remuneration and Nomination Committee, which comprises all of the Directors of the Company and is chaired by David Stevenson. Under the terms of their appointments, the Chairman of the Company receives £37,500 per annum, the chairman of the Audit and Valuation Committee receives £31,250 per annum, and other non-executive Directors receive £25,000 per annum.

David Stevenson receives an additional £2,500 in recognition of his increased time commitment and additional responsibilities arising from being the chairman of the Remuneration and Nominations Committee.

During the period, a total of £48,000 (31 December 2018: £60,000, 30 June 2019: £108,000) was incurred in respect of Directors' remuneration, none of which was payable at the reporting date (31 December 2018 and 30 June 2019: none). No bonus or pension contributions were paid or payable on behalf of the Directors.

NOTES TO THE UNAUDITED CONDENSED HALF-YEARLY FINANCIAL STATEMENTS

for the six months ended 31 December 2019 (continued)

9. KEY MANAGEMENT AND EMPLOYEES

The Company had no employees during the period (31 December 2018 and 30 June 2019: none). Therefore, there were no key management (except for the Directors) or employees during the period (31 December 2018 and 30 June 2019: none).

The following dividends were paid to the Directors during the period by virtue of their holdings of Ordinary Shares (these dividends were not additional remuneration):

Ken Hillen	£175 (31 December 2018: £169; 30 June 2019: £344)
David Stevenson	£709 (31 December 2018: £685; 30 June 2019: £1,394)
Gaynor Coley	£70 (31 December 2018: £0; 30 June 2019: £12)
Richard Hills *(resigned 18 December 2018)*	£0 (31 December 2018: £428; 30 June 2019: £428)

10. OTHER EXPENSES

	Period from 1 July 2019 to 31 December 2019 (unaudited) £'000	*Period from 1 July 2018 to 31 December 2018 (unaudited) £'000*	*Year ended 30 June 2019 (audited) £'000*
Directors' national insurance	23	–	28
Audit fees	20	21	42
Other expenses	20	22	34
Registrar fees	13	18	37
Accountancy and taxation fees	8	3	11
Listing fees	7	8	17
	91	**72**	**169**

11. TAXATION

The Company has received confirmation from HMRC that it satisfied the conditions for approval as an investment trust, subject to the Company continuing to meet the eligibility conditions in s.1158 of the Corporation Tax Act 2010 and the ongoing requirements for approved investment trust companies in Chapter 3 of Part 2 of the Investment Trust (approved Company) Tax Regulations 2011 (Statutory Instrument 2011.2999). The Company intends to retain this approval and self-assesses compliance with the relevant conditions and requirements.

As an investment trust the Company is exempt from UK corporation tax on its chargeable gains. The Company is, however, liable to UK corporation tax on its income. However, the Company has elected to take advantage of modified UK tax treatment in respect of its "qualifying interest income" in order to deduct all, or part, of the amount it distributes to Shareholders as dividends as an "interest distribution".

	Period from 1 July 2019 to 31 December 2019 (unaudited) £'000	*Period from 1 July 2018 to 31 December 2018 (unaudited) £'000*	*Year ended 30 June 2019 (audited) £'000*
Reconciliation of tax charge:			
Profit before taxation	399	1,227	2,236
Tax at the standard UK corporation tax rate of 19%	76	233	425
Effects of:			
– Non-taxable investment gains and losses	263	48	164
– Interest distributions	(339)	(281)	(589)
Total tax expense	–	–	–

NOTES TO THE UNAUDITED CONDENSED HALF-YEARLY FINANCIAL STATEMENTS

for the six months ended 31 December 2019 (continued)

11. TAXATION (continued)

Domestic corporation tax rates in the jurisdictions in which the Company operated were as follows:

	Period from 1 July 2019 to 31 December 2019 (unaudited) £'000	*Period from 1 July 2018 to 31 December 2018 (unaudited) £'000*	*Year ended 30 June 2019 (audited) £'000*
United Kingdom	19%	19%	19%
Guernsey	nil	nil	nil

Due to the Company's status as an investment trust and the intention to continue to meet the required conditions, the Company has not provided for deferred tax on any capital gains and losses.

12. EARNINGS PER ORDINARY SHARE

The earnings per Ordinary Share of 0.76p (31 December 2018: 2.33p, 30 June 2019: 4.25p) is based on a profit attributable to the owners of the Company of £399,000 (31 December 2018: £1,227,000, 30 June 2019: £2,236,000) and on a weighted average number of 52,660,350 (31 December 2018 and 30 June 2019: 52,660,350) Ordinary Shares in issue since Admission. There is no difference between the basic and diluted earnings per share.

13. LOANS AT AMORTISED COST

	31 December 2019 (unaudited) £'000	*31 December 2018 (as restated) (unaudited) £'000*	*30 June 2019 (audited) £'000*
Loans	46,142	40,941	47,726
Unrealised loss*	(1,787)	(35)	(422)
Balance at period/year end	**44,355**	**40,906**	**47,304**
Loans: Non-current	41,025	37,262	36,614
Current	3,305	3,372	10,642
Cash held on client accounts with platforms	25	272	48
Loans at amortised cost and cash held on client accounts with platforms	**44,355**	**40,906**	**47,304**
*Unrealised loss:			
Foreign exchange on non-Sterling loans	225	624	715
Impairments	(2,012)	(659)	(1,137)
Unrealised loss	**(1,787)**	**(35)**	**(422)**

The movement in unrealised gain/loss on loans comprises:

	31 December 2019 (unaudited) £'000	*31 December 2018 (as restated) (unaudited) £'000*	*30 June 2019 (audited) £'000*
Movement in foreign exchange on non-Sterling loans	(490)	18	110
Movement in impairments	(875)	63	(415)
Movement in unrealised gains and losses on loans	**(1,365)**	**81**	**(305)**
Impact of transition to IFRS 9	–	(23)	(23)
Total movement in unrealised gains and losses on loans	**(1,365)**	**58**	**(328)**

The weighted average interest rate of the loans as at 31 December 2019 was 9.67% (31 December 2018: 9.79%, 30 June 2019: 10.31%).

NOTES TO THE UNAUDITED CONDENSED HALF-YEARLY FINANCIAL STATEMENTS

for the six months ended 31 December 2019 (continued)

13. LOANS AT AMORTISED COST (continued)

The table below details expected credit loss provision ("ECL") of financial assets in each stage at 31 December 2019:

	Stage 1 £'000	*Stage 2 £'000*	*Stage 3 £'000*	*Total £'000*
31 December 2019				
Direct loans [1]	33,554	–	–	33,554
ECL on direct loans	(16)	–	–	(16)
Direct loans net of the ECL	33,538	–	–	33,538
Platform loans [1]	7,579	3,018	2,060	12,657
ECL on platform loans	(8)	(711)	(1,277)	(1,996)
Platform loans net of the ECL	7,571	2,307	783	10,661
Accrued interest	1,095	290	113	1,498
Total loans [1]	41,133	3,018	2,060	46,211
Total ECL	(24)	(711)	(1,277)	(2,012)
Total net of the ECL	41,109	2,307	783	44,199

[1] These are the principal amounts outstanding at 31 December 2019 and do not include the capitalised transaction fees, which are not subject to credit risk. At 31 December 2019, the amortised cost of the capitalised transaction fees totalled £131,000.

The table below details the movements in the period of the principal amounts outstanding and the ECL on those loans:

	Non-credit impaired				*Credit impaired*			
	Stage 1		*Stage 2*		*Stage 3*		*Total*	
	Principal outstanding[1] £'000	*Allowance for ECL £'000*	*Principal outstanding[1] £'000*	*Allowance for ECL £'000*	*Principal outstanding[1] £'000*	*Allowance for ECL £'000*	*Principal outstanding[1] £'000*	*Allowance for ECL £'000*
At 1 July 2019	44,617	(28)	3,117	(735)	426	(374)	48,160	(1,137)
Transfers from:								
– stage 1 to stage 3	(1,846)	(2)	–	–	1,846	2	–	–
Net re-measurement of ECL arising from transfer of stage	–	–	–	–	–	(1,074)	–	(1,074)
Net new and further lending/repayments, and foreign exchange movements	(1,638)	6	(99)	24	(37)	(6)	(1,774)	24
Loans written-off in the period	–	–	–	–	(175)	175	(175)	175
At 31 December 2019	41,133	(24)	3,018	(711)	2,060	(1,277)	46,211	(2,012)

[1] These are the principal amounts outstanding at 31 December 2019 and do not include the capitalised transaction fees, which are not subject to credit risk. At 31 December 2019, the amortised cost of the capitalised transaction fees totalled £131,000.

NOTES TO THE UNAUDITED CONDENSED HALF-YEARLY FINANCIAL STATEMENTS

for the six months ended 31 December 2019 (continued)

13. LOANS AT AMORTISED COST (continued)

The table below details expected credit loss provision ("ECL") of financial assets in each stage at 31 December 2018:

	Stage 1 *£'000*	*Stage 2* *£'000*	*Stage 3* *£'000*	*Total* *£'000*
31 December 2018				
Direct loans [1]	21,054	–	–	21,054
ECL on direct loans	(11)	–	–	(11)
Direct loans net of the ECL	21,043	–	–	21,043
Platform loans [1]	18,794	854	426	20,074
ECL on platform loans	(17)	(258)	(373)	(648)
Platform loans net of the ECL	18,777	596	53	19,426
Accrued interest	924	2	1	927
Total loans [1]	39,848	854	426	41,128
Total ECL	(28)	(258)	(373)	(659)
Total net of the ECL	39,820	596	53	40,469

[1] These are the principal amounts outstanding at 31 December 2018 and do not include the capitalised transaction fees, which are not subject to credit risk. At 31 December 2018, the amortised cost of the capitalised transaction fees totalled £165,000.

The table below details the movements in the period of the principal amounts outstanding and the ECL on those loans:

	Non-credit impaired				*Credit impaired*			
	Stage 1		*Stage 2*		*Stage 3*		*Total*	
	Principal outstanding[1] £'000	*Allowance for ECL £'000*	*Principal outstanding[1] £'000*	*Allowance for ECL £'000*	*Principal outstanding[1] £'000*	*Allowance for ECL £'000*	*Principal outstanding[1] £'000*	*Allowance for ECL £'000*
At 1 July 2018	28,735	(19)	15,679	(310)	535	(393)	44,949	(722)
Transfers from:								
– stage 2 to stage 1	14,801	(52)	(14,801)	52	–	–	–	–
Net re-measurement of ECL arising from transfer of stage	–	41	–	(41)	–	–	–	–
Net new and further lending/repayments, and foreign exchange movements	(3,688)	2	(19)	41	12	(8)	(3,695)	35
Loans written-off in the period	–	–	(5)	–	(121)	28	(126)	28
At 31 December 2018	39,848	(28)	854	(258)	426	(373)	41,128	(659)

[1] These are the principal amounts outstanding at 31 December 2018 and do not include the capitalised transaction fees, which are not subject to credit risk. At 31 December 2018, the amortised cost of the capitalised transaction fees totalled £165,000.

NOTES TO THE UNAUDITED CONDENSED HALF-YEARLY FINANCIAL STATEMENTS

for the six months ended 31 December 2019 (continued)

13. LOANS AT AMORTISED COST (continued)

The table below details expected credit loss provision ("ECL") of financial assets in each stage at 30 June 2019:

	Stage 1 *£'000*	*Stage 2* *£'000*	*Stage 3* *£'000*	*Total* *£'000*
30 June 2019				
Direct loans [1]	33,032	–	–	33,032
ECL on direct loans	(16)	–	–	(16)
Direct loans net of the ECL	33,016	–	–	33,016
Platform loans [1]	11,585	3,117	426	15,127
ECL on platform loans	(12)	(735)	(374)	(1,121)
Platform loans net of the ECL	11,573	2,382	52	14,007
Accrued interest	799	288	3	1,090
Total loans [1]	44,617	3,117	426	48,160
Total ECL	(28)	(735)	(374)	(1,137)
Total net of the ECL	44,589	2,382	52	47,023

[1] These are the principal amounts outstanding at 30 June 2019 and do not include the capitalised transaction fees, which are not subject to credit risk. At 30 June 2019, the amortised cost of the capitalised transaction fees totalled £233,000.

The table below details the movements in the year of the principal amounts outstanding and the ECL on those loans:

	Non-credit impaired				***Credit impaired***			
	Stage 1		*Stage 2*		*Stage 3*		*Total*	
	Principal outstanding[1] *£'000*	*Allowance for ECL* *£'000*	*Principal outstanding*[1] *£'000*	*Allowance for ECL* *£'000*	*Principal outstanding*[1] *£'000*	*Allowance for ECL* *£'000*	*Principal outstanding*[1] *£'000*	*Allowance for ECL* *£'000*
At 1 July 2018	28,735	(19)	15,679	(310)	535	(393)	44,949	(722)
Transfers from:								
– stage 1 to stage 2	(2,176)	2	2,176	(2)	–	–	–	–
– stage 2 to stage 1	14,801	(52)	(14,801)	52	–	–	–	–
Net re-measurement of ECL arising from transfer of stage	–	41	–	(564)	–	–	–	(523)
Net new and further lending/repayments, and foreign exchange movements	3,257	–	68	89	12	(9)	3,337	80
Loans written-off in the year	–	–	(5)	–	(121)	28	(126)	28
At 30 June 2019	44,617	(28)	3,117	(735)	426	(374)	48,160	(1,137)

[1] These are the principal amounts outstanding at 30 June 2019 and do not include the capitalised transaction fees, which are not subject to credit risk. At 30 June 2019, the amortised cost of the capitalised transaction fees totalled £233,000.

NOTES TO THE UNAUDITED CONDENSED HALF-YEARLY FINANCIAL STATEMENTS

for the six months ended 31 December 2019 (continued)

13. LOANS AT AMORTISED COST (continued)

At 31 December 2019, the Board considered £2,012,000 (31 December 2018: £659,000; 30 June 2019: £1,137,000) of loans to be impaired:

	31 December 2019 (unaudited) £'000	*31 December 2018 (as restated) (unaudited) £'000*	*30 June 2019 (audited) £'000*
BMS UK	1,074	10	8
Liftforward	542	3	566
Sancus Funding	292	465	466
MyTripleA	71	64	62
Direct SME loans	17	11	15
UK Bond Network	15	105	17
Other	1	1	3
Total impairment	**2,012**	**659**	**1,137**

During the period, £175,000 (31 December 2018: £126,000, 30 June 2019: £126,000) of loans were written off and included within realised (loss)/gain on disposal of loans in the Unaudited Condensed Statement of Comprehensive Income.

14. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Period from 1 July 2019 to 31 December 2019 (unaudited) £'000	*Period from 1 July 2018 to 31 December 2018 (unaudited) £'000*	*Year ended 30 June 2019 (audited) £'000*
Balance brought forward	232	280	280
Disposals in the period/year	–	–	(52)
Realised gain on disposal of investments at fair value through profit or loss	–	–	3
Movement in unrealised gain on investments at fair value through profit or loss	12	11	1
Balance at period/year end	**244**	**291**	**232**

For further information on the investments at fair value through profit or loss, see note 15.

15. FAIR VALUE OF FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

The following table shows financial instruments recognised at fair value, analysed between those whose fair value is based on:

- Quoted prices in active markets for identical assets or liabilities (Level 1);
- Those involving inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and
- Those with inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

At 31 December 2019, the financial instruments designated at fair value through profit or loss were as follows:

	31 December 2019 (unaudited)			
Financial assets	*Level 1 £'000*	*Level 2 £'000*	*Level 3 £'000*	*Total £'000*
Unlisted equity shares	–	–	244	244
Derivative financial instruments *(note 16)*	–	171	–	171
Total financial assets designated as at fair value through profit or loss	**–**	**171**	**244**	**415**

NOTES TO THE UNAUDITED CONDENSED HALF-YEARLY FINANCIAL STATEMENTS

for the six months ended 31 December 2019 (continued)

15. FAIR VALUE OF FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS (contInued)

At 31 December 2018, the financial instruments designated at fair value through profit or loss were as follows:

		31 December 2018 (unaudited)		
Financial assets/(liabilities)	*Level 1 £'000*	*Level 2 £'000*	*Level 3 £'000*	*Total £'000*
Unlisted equity shares	–	–	291	291
Derivative financial instruments *(note 16)*	–	(339)	–	(339)
Total financial assets/(liabilities) designated as at fair value through profit or loss	**–**	**(339)**	**291**	**(48)**

At 30 June 2019, the financial instruments designated at fair value through profit or loss were as follows:

		30 June 2019 (audited)		
Financial assets/(liabilities)	*Level 1 £'000*	*Level 2 £'000*	*Level 3 £'000*	*Total £'000*
Unlisted equity shares	–	–	232	232
Derivative financial instruments *(note 16)*	–	(351)	–	(351)
Total financial assets/(liabilities) designated as at fair value through profit or loss	**–**	**(351)**	**232**	**(119)**

Level 2 financial instruments include foreign currency forward contracts. They are valued using observable inputs (in this case foreign currency spot rates).

Level 3 financial instruments include unlisted equity shares. Net asset value is considered to be an appropriate approximation of fair value as, if the Company were to dispose of these holdings, it would expect to do so at, or around, net asset value.

Transfers between levels

There were no transfers between levels in the period (31 December 2018 and 30 June 2019: none).

16. DERIVATIVE FINANCIAL INSTRUMENTS

During the period, the Company entered into foreign currency forward contracts to hedge against foreign exchange fluctuations. The Company realised a loss of £112,000 (31 December 2018: £120,000, 30 June 2019: £206,000) on forward foreign exchange contracts that settled during the period.

As at 31 December 2019, the open forward foreign exchange contracts were valued at £171,000 (31 December 2018: £(339,000), 30 June 2019: £(351,000)).

17. OTHER RECEIVABLES AND PREPAYMENTS

	31 December 2019 (unaudited) £'000	*31 December 2018 (unaudited) £'000*	*30 June 2019 (audited) £'000*
Accrued interest	1,498	927	1,090
Prepayments	30	13	27
Other receivables	–	24	24
	1,528	**964**	**1,141**

NOTES TO THE UNAUDITED CONDENSED HALF-YEARLY FINANCIAL STATEMENTS

for the six months ended 31 December 2019 (continued)

18. OTHER PAYABLES AND ACCRUALS

	31 December 2019 (unaudited) £'000	*31 December 2018 (unaudited) £'000*	*30 June 2019 (audited) £'000*
Management fee	41	43	42
Administration fee	29	30	30
Audit fee	20	19	40
Accountancy and taxation fees	10	10	–
Other payables and accruals	7	6	24
Directors' national insurance	5	5	23
Broker fee	2	11	–
Legal fees	–	–	25
	114	**124**	**184**

19. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

IAS 7 requires the Company to detail the changes in liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Company's statement of cash flows as cash flows from financing activities.

As at 31 December 2019, the Company had no liabilities classified as cash flows from financing activities (31 December 2018 and 30 June 2019: none).

20. SHARE CAPITAL

	31 December 2019 (unaudited) £'000	*31 December 2018 (unaudited) £'000*	*30 June 2019 (audited) £'000*
Authorised share capital:			
Unlimited number of Ordinary Shares of 1 pence each	–	–	–
Unlimited C Shares of 10 pence each	–	–	–
Unlimited Deferred Shares of 1 pence each	–	–	–
50,000 Management Shares of £1 each	50	50	50
Called up share capital:			
52,660,350 Ordinary Shares of 1 pence each	527	527	527
50,000 Management Shares of £1 each	50	50	50
	577	**577**	**577**

The Management Shares are entitled (in priority to any payment of dividend of any other class of share) to a fixed cumulative preferential dividend of 0.01% per annum on the nominal amount of the Management Shares.

The Management Shares do not carry any right to receive notice of, nor to attend or vote at, any general meeting of the Company unless no other shares are in issue at that time. The Management Shares do not confer the right to participate in any surplus of assets of the Company on winding-up, other than the repayment of the nominal amount of capital.

NOTES TO THE UNAUDITED CONDENSED HALF-YEARLY FINANCIAL STATEMENTS

for the six months ended 31 December 2019 (continued)

21. OTHER RESERVES

	Special distributable reserve £'000	Profit and loss account Distributable £'000	Profit and loss account Non-distributable £'000	Total £'000
Period ended 31 December 2019 *(unaudited)*				
At 30 June 2019	50,253	–	(701)	49,552
Realised revenue profit	–	1,785	–	1,785
Realised investment gains and losses	–	(555)	–	(555)
Unrealised investment gains and losses	–	–	(831)	(831)
Dividends paid	(612)	(1,230)	–	(1,842)
At 31 December 2019	**49,641**	**–**	**(1,532)**	**48,109**
Period ended 31 December 2018 *(as restated) (unaudited)*				
At 30 June 2018	50,942	75	(55)	50,962
Impact of transition to IFRS 9	–	–	(23)	(23)
At 30 June 2018 – revised for the application of IFRS 9	50,942	75	(78)	50,939
Realised revenue profit	–	1,480	–	1,480
Realised investment gains and losses	–	(38)	–	(38)
Unrealised investment gains and losses	–	–	(215)	(215)
Dividends paid	(263)	(1,517)	–	(1,780)
At 31 December 2018	**50,679**	**–**	**(293)**	**50,386**
Year ended 30 June 2019 *(audited)*				
At 30 June 2018	50,942	75	(55)	50,962
Impact of transition to IFRS 9	–	–	(23)	(23)
At 30 June 2018 – revised for the application of IFRS 9	50,942	75	(78)	50,939
Realised revenue profit	–	3,097	–	3,097
Realised investment gains and losses	–	(238)	–	(238)
Unrealised investment gains and losses	–	–	(623)	(623)
Dividends paid	(689)	(2,934)	–	(3,623)
At 30 June 2019	**50,253**	**–**	**(701)**	**49,552**

With the exception of investment gains and losses, all of the Company's profit and loss items are of a revenue nature as it does not allocate any expenses to capital.

The two £307,010 dividends (see note 5), which were declared on 18 December 2019 and 30 January 2020, will be paid out of the special distributable reserve.

22. NET ASSET VALUE PER ORDINARY SHARE

The net asset value per Ordinary Share is based on the net assets attributable to the owners of the Company of £48,686,000 (31 December 2018 *(as restated)*: £50,963,000, 30 June 2019: £50,129,000), less £50,000 (31 December 2018 and 30 June 2019: £50,000), being amounts owed in respect of Management Shares, and on 52,660,350 (31 December 2018 and 30 June 2019: 52,660,350) Ordinary Shares in issue at the period end.

NOTES TO THE UNAUDITED CONDENSED HALF-YEARLY FINANCIAL STATEMENTS

for the six months ended 31 December 2019 (continued)

23. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Investment Manager manages the Company's portfolio to provide Shareholders with attractive risk adjusted returns, principally in the form of regular, sustainable dividends, through investment predominantly in a range of secured loans and other secured loan-based instruments originated through a variety of channels and diversified by way of asset class, geography and duration.

The Company will seek to ensure that diversification of its portfolio is maintained, with the aim of spreading investment risk.

Risk is inherent in the Company's activities, but it is managed through a process of ongoing identification, measurement and monitoring. The Company is exposed to market risk (which includes currency risk, interest rate risk and price risk), credit risk and liquidity risk from the financial instruments it holds. Risk management procedures are in place to minimise the Company's exposure to these financial risks, in order to create and protect Shareholder value.

Risk management structure

The Investment Manager is responsible for identifying and controlling risks. The Board of Directors supervises the Investment Manager and is ultimately responsible for the overall risk management approach within the Company.

The Company has no employees and is reliant on the performance of third party service providers. Failure by the Investment Manager, Administrator, Broker, Registrar or any other third party service provider to perform in accordance with the terms of its appointment could have a significant detrimental impact on the operation of the Company.

The market in which the Company participates is competitive and rapidly changing. The risks have not changed from those detailed on pages 20 to 30 in the Company's Prospectus, which is available on the Company's website.

Risk concentration

Concentration indicates the relative sensitivity of the Company's performance to developments affecting a particular industry or geographical location. Concentrations of risk arise when a number of financial instruments or contracts are entered into with the same counterparty, or where a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of liquidity risk may arise from the repayment terms of financial liabilities, sources of borrowing facilities or reliance on a particular market in which to realise liquid assets. Concentrations of foreign exchange risk may arise if the Company has a significant net open position in a single foreign currency, or aggregate net open positions in several currencies that tend to move together.

With the aim of maintaining a diversified investment portfolio, and thus mitigating concentration risks, the Company has established the following investment restrictions in respect of the general deployment of assets.

Investment Restriction	*Investment Policy*
Geography	
– Exposure to UK loan assets	Minimum of 60%
– Minimum exposure to non-UK loan assets	20%
Duration to maturity	
– Minimum exposure to loan assets with duration of less than 6 months	None
– Maximum exposure to loan assets with duration of 6-18 months and 18-36 months	None
– Maximum exposure to loan assets with duration of more than 36 months	50%
Maximum single investment	10%
Maximum exposure to single borrower or group	10%
Maximum exposure to loan assets sourced through single alternative lending platform or other third party originator	25%
Maximum exposure to any individual wholesale loan arrangement	25%
Maximum exposure to loan assets which are neither sterling-denominated nor hedged back to sterling	15%
Maximum exposure to unsecured loan assets	25%
Maximum exposure to assets (excluding cash and cash-equivalent investments) which are not loans or investments with loan-based investment characteristics	10%

The Company complied with the investment restrictions throughout the period and up to the date of signing this report.

NOTES TO THE UNAUDITED CONDENSED HALF-YEARLY FINANCIAL STATEMENTS

for the six months ended 31 December 2019 (continued)

23. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (contInued)

Market risk

(i) Price risk

Price risk exposure arises from the uncertainty about future prices of financial instruments held. It represents the potential loss that the Company may suffer through holding market positions in the face of price movements. The investments at fair value through profit or loss (see notes 14 and 15) are exposed to price risk and it is not the intention to mitigate the price risk.

At 31 December 2019, if the valuation of the investments at fair value through profit or loss had moved by 5% with all other variables remaining constant, the change in net assets would amount to approximately +/- £12,000 (31 December 2018: +/- £15,000, 30 June 2019: +/- £12,000). The maximum price risk resulting from financial instruments is equal to the £244,000 carrying value of the investments at fair value through profit or loss (31 December 2018: £291,000, 30 June 2019: £232,000).

(ii) Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign currency exchange rates. Currency risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the Company's functional currency. The Company invests in securities and other investments that are denominated in currencies other than Sterling. Accordingly, the value of the Company's assets may be affected favourably or unfavourably by fluctuations in currency rates and therefore the Company will necessarily be subject to foreign exchange risks.

As at 31 December 2019, a proportion of the net financial assets of the Company, excluding the foreign currency forward contracts, were denominated in currencies other than Sterling as follows:

	Investments at fair value through profit or loss £'000	*Loans and receivables £'000*	*Cash and cash equivalents £'000*	*Other payables and accruals £'000*	*Exposure £'000*	*Foreign currency forward contract £'000*	*Net exposure £'000*
31 December 2019 *(unaudited)*							
US Dollars	–	8,850	–	–	8,850	(8,523)	327
Euros	–	4,376	–	–	4,376	(4,358)	18
	–	**13,226**	**–**	**–**	**13,226**	**(12,881)**	**345**
31 December 2018 *(as restated) (unaudited)*							
US Dollars	–	5,063	2,812	–	7,875	(7,533)	342
Euros	66	3,069	2,336	–	5,471	(5,461)	10
	66	**8,132**	**5,148**	**–**	**13,346**	**(12,994)**	**352**
30 June 2019 *(audited)*							
US Dollars	–	4,359	32	–	4,391	(4,625)	(234)
Euros	–	3,658	1	–	3,659	(3,583)	76
	–	**8,017**	**33**	**–**	**8,050**	**(8,208)**	**(158)**

In order to limit the exposure to foreign currency risk, the Company entered into hedging contracts during the period. At 31 December 2019, the Company held foreign currency forward contracts to sell US$11,330,000 and €5,120,000 (31 December 2018: US$10,000,000 and €6,100,000, 30 June 2019: US$11,480,000 and €4,110,000) with a settlement date of 29 May 2020.

Other future foreign exchange hedging contracts may be employed, such as currency swap agreements, futures contracts and options. There can be no certainty as to the efficacy of any hedging transactions.

At 31 December 2019, if the exchange rates for US Dollars and Euros had strengthened/weakened by 5% against Sterling with all other variables remaining constant, net assets at 31 December 2019 would have increased/(decreased) by £17,000/£(17,000) (31 December 2018 *(as restated)*: £(18,000)/£18,000, 30 June 2019: £(8,000)/£8,000), after accounting for the effects of the hedging contracts mentioned above.

NOTES TO THE UNAUDITED CONDENSED HALF-YEARLY FINANCIAL STATEMENTS

for the six months ended 31 December 2019 (continued)

23. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (contInued)

Market risk (continued)

(iii) Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Company is exposed to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial instruments and cash flow. However, due to the fixed rate nature of the majority of the loans, cash and cash equivalents of £2,502,000 (31 December 2018: £9,265,000, 30 June 2019: £1,987,000) were the only interest bearing financial instruments subject to variable interest rates at 31 December 2019. Therefore, if interest rates had increased/decreased by 50 basis points, with all other variables held constant, the change in value of interest cash flows of these assets in the period would have been £13,000 (31 December 2018: £46,000, 30 June 2019: £10,000).

31 December 2019 *(unaudited)*	*Fixed interest £'000*	*Variable interest £'000*	*Non-interest bearing £'000*	*Total £'000*
Financial assets				
Loans	44,330	–	–	44,330
Cash held on client accounts with Platforms	–	–	25	25
Investments at fair value through profit or loss	–	–	244	244
Derivative financial instruments	–	–	171	171
Other receivables	–	–	1,498	1,498
Cash and cash equivalents	–	2,502	–	2,502
Total financial assets	**44,330**	**2,502**	**1,938**	**48,770**
Financial liabilities				
Other payables	–	–	(114)	(114)
Total financial liabilities	**–**	**–**	**(114)**	**(114)**
Total interest sensitivity gap	**44,330**	**2,502**	**1,824**	**48,656**

31 December 2018 *(as restated) (unaudited)*	*Fixed interest £'000*	*Variable interest £'000*	*Non-interest bearing £'000*	*Total £'000*
Financial assets				
Loans	40,634	–	–	40,634
Cash held on client accounts with Platforms	–	–	272	272
Investments at fair value through profit or loss	–	–	291	291
Other receivables	–	–	951	951
Cash and cash equivalents	–	9,265	–	9,265
Total financial assets	**40,634**	**9,265**	**1,514**	**51,413**
Financial liabilities				
Other payables	–	–	(124)	(124)
Derivative financial instruments	–	–	(339)	(339)
Total financial liabilities	**–**	**–**	**(463)**	**(463)**
Total interest sensitivity gap	**40,634**	**9,265**	**1,051**	**50,950**

NOTES TO THE UNAUDITED CONDENSED HALF-YEARLY FINANCIAL STATEMENTS

for the six months ended 31 December 2019 (continued)

23. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (contInued)

Market risk (continued)

(iii) Interest rate risk (continued)

30 June 2019 *(audited)*	*Fixed interest £'000*	*Variable interest £'000*	*Non-interest bearing £'000*	*Total £'000*
Financial assets				
Loans	47,256	–	–	47,256
Cash held on client accounts with Platforms	–	–	48	48
Investments at fair value through profit or loss	–	–	232	232
Other receivables	–	–	1,114	1,114
Cash and cash equivalents	–	1,987	–	1,987
Total financial assets	**47,256**	**1,987**	**1,394**	**50,637**
Financial liabilities				
Other payables	–	–	(184)	(184)
Derivative financial instruments	–	–	(351)	(351)
Total financial liabilities	**–**	**–**	**(535)**	**(535)**
Total interest sensitivity gap	**47,256**	**1,987**	**859**	**50,102**

The Investment Manager manages the Company's exposure to interest rate risk, paying heed to prevailing interest rates and economic conditions, market expectations and its own views as to likely moves in interest rates.

Although it has not done so to date, the Company may implement hedging and derivative strategies designed to protect investment performance against material movements in interest rates. Such strategies may include (but are not limited to) interest rate swaps and will only be entered into when they are available in a timely manner and on terms acceptable to the Company. The Company may also bear risks that could otherwise be hedged where it is considered appropriate. There can be no certainty as to the efficacy of any hedging transactions.

Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company, resulting in a financial loss to the Company.

At 31 December 2019, credit risk arose principally from cash and cash equivalents of £2,502,000 (31 December 2018: £9,265,000, 30 June 2019: £1,987,000) and balances due from the platforms and SMEs of £44,355,000 (31 December 2018 *(as restated)*: £40,906,000, 30 June 2019: £47,304,000). The Company seeks to trade only with reputable counterparties that the Investment Manager believes to be creditworthy.

The Company's credit risks principally arise through exposure to loans provided by the Company, either directly or through platforms. These loans are subject to the risk of borrower default. Where a loan has been made by the Company through a platform, the Company will only receive payments on those loans if the corresponding borrower through that platform makes payments on that loan. The Investment Manager has sought to reduce the credit risk by obtaining security on the majority of the loans and by investing across various platforms, geographic areas and asset classes, thereby ensuring diversification and seeking to mitigate concentration risks, as stated in the "risk concentration" section earlier in this note.

The cash pending investment or held on deposit under the terms of an Investment Instrument may be held without limit with a financial institution with a credit rating of "single A" (or equivalent) or higher to protect against counterparty failure.

The Company may implement hedging and derivative strategies designed to protect against credit risk. Such strategies may include (but are not limited to) credit default swaps and will only be entered into when they are available in a timely manner and on terms acceptable to the Company. The Company may also bear risks that could otherwise be hedged where it is considered appropriate. There can be no certainty as to the efficacy of any hedging transactions.

Please see note 3b and note 4 for further information on credit risk.

NOTES TO THE UNAUDITED CONDENSED HALF-YEARLY FINANCIAL STATEMENTS

for the six months ended 31 December 2019 (continued)

23. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (contInued)

Liquidity risk

Liquidity risk is defined as the risk that the Company will encounter difficulties in realising assets or otherwise raising funds to meet financial commitments. The principal liquidity risk is contained in unmatched liabilities. The liquidity risk at 31 December 2019 was low since the ratio of cash and cash equivalents to unmatched liabilities was 22:1 (31 December 2018: 20:1, 30 June 2019: 4:1).

The Investment Manager manages the Company's liquidity risk by investing primarily in a diverse portfolio of loans, in line with the Prospectus and as stated in the "risk concentration" section earlier in this note. The maturity profile of the portfolio, as detailed in the Investment Manager's Report, is as follows:

	31 December 2019 (unaudited) Percentage	*31 December 2018 (unaudited) Percentage*	*30 June 2019 (audited) Percentage*
0 to 6 months	16.7	26.1	11.6
6 months to 18 months	5.0	14.4	31.2
18 months to 3 years	46.0	22.0	24.8
Greater than 3 years	32.3	37.5	32.4
	100.0	**100.0**	**100.0**

Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the Company. The Company's capital comprises issued share capital, retained earnings and a distributable reserve created from the cancellation of the Company's share premium account.

To maintain or adjust the capital structure, the Company may issue new Ordinary and/or C Shares, buy back shares for cancellation or buy back shares to be held in treasury. During the period ended 31 December 2019, the Company did not issue any new Ordinary or C shares, nor did it buy back any shares for cancellation or to be held in treasury (31 December 2018 and 30 June 2019: none).

The Company is subject to externally imposed capital requirements in relation to its statutory requirement relating to dividend distributions to Shareholders. The Company meets the requirement by ensuring it distributes at least 85% of its distributable income by way of dividend.

24. CONTINGENT ASSETS AND CONTINGENT LIABILITIES

There were no contingent assets or contingent liabilities in existence at the period end (31 December 2018 and 30 June 2019: none).

25. EVENTS AFTER THE REPORTING PERIOD

Two dividends of 0.583p per Ordinary Share, which (in accordance with IFRS) were not provided for at 31 December 2019, have been declared out of the profits for the period ended 31 December 2019 (see note 5).

On 27 February 2020, the Company declared a dividend of 0.583p per Ordinary Share for the period from 1 July 2019 to 31 January 2020. This dividend was paid on 27 March 2020.

The coronavirus outbreak is a new emerging risk to the global economy. The Company's business is likely to be materially impacted by loan losses and crystallising losses on foreign currency hedges. The Company currently has sufficient resources to cover margin calls on foreign currency hedges, and the economic impact of coronavirus has led to a significant increase in the loss allowance at the end of February, resulting in a decrease in the NAV per share to 90.14p, compared to 92.36p at 31 December 2019. The Investment Manager and Administrator have invoked their business continuity plans to help ensure the safety and well-being of their staff thereby retaining the ability to maintain business operations. These actions help to ensure business resilience. The situation is changing so rapidly that the full impact cannot yet be understood, but the Company will continue to monitor the situation closely.

There were no other significant events after the reporting period.

26. PARENT AND ULTIMATE PARENT COMPANY

The Directors do not believe that the Company has an individual Parent or Ultimate Parent.

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Ken Hillen *(non-executive Chairman)*
Gaynor Coley *(non-executive Director)*
David Stevenson *(non-executive Director)*

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