



Secured Income Fund Plc



# **SQN SECURED INCOME FUND PLC**

*(Registered number 09682883)*

## **HALF-YEARLY REPORT AND UNAUDITED CONDENSED FINANCIAL STATEMENTS**

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For the six months ended 31 December 2017

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## HIGHLIGHTS

## 31 DECEMBER 2017

NET ASSETS<sup>[1]</sup>**£51,893,000***(unaudited 31 December 2016: £52,932,000)  
(audited 30 June 2017: £52,048,000)*DIVIDEND PER SHARE DECLARED IN RESPECT OF THE PERIOD<sup>[2]</sup>**3.15p***(unaudited 31 December 2016: 3.60p)  
(audited 30 June 2017: 6.375p)*

## NAV PER ORDINARY SHARE

**98.45p***(unaudited 31 December 2016: 100.42p)  
(audited 30 June 2017: 98.74p)*

## TOTAL RETURN PER ORDINARY SHARE (BASED ON NAV)

**+2.9%***(unaudited 31 December 2016: +2.7%)  
(audited 30 June 2017: +4.6%)*

## SHARE PRICE

**93.625p***(unaudited 31 December 2016: 93.50p)  
(audited 30 June 2017: 97.75p)*

## TOTAL RETURN PER ORDINARY SHARE (BASED ON SHARE PRICE)

**-1.0%***(unaudited 31 December 2016: +8.2%)  
(audited 30 June 2017: +16.0%)*

## DISCOUNT TO NAV

**4.9%***(unaudited 31 December 2016: 6.9%)  
(audited 30 June 2017: 1.0%)*

## ORDINARY SHARES IN ISSUE

**52,660,350***(unaudited 31 December 2016: 52,660,350)  
(audited 30 June 2017: 52,660,350)*

## PROFIT FOR THE PERIOD

**£1,503,000***(unaudited 31 December 2016: £1,428,000)  
(audited 30 June 2017: £2,440,000)*

<sup>[1]</sup> In addition to the Ordinary Shares in issue, 50,000 Management Shares of £1 each are in issue (see note 20).

<sup>[2]</sup> Only 2.10p of the 3.15p per Ordinary Share dividends declared out of the profits for the period ended 31 December 2017 had been deducted from the 31 December 2017 NAV as the dividends of 0.525p per Ordinary Share each, which were declared on 21 December 2017 and 19 January 2018, had not been provided for at 31 December 2017 as, in accordance with IFRS, they were not deemed to be liabilities of the Company at that date.

On 20 February 2018, the Company declared a dividend of 0.525p per Ordinary Share for the period from 1 January 2018 to 31 January 2018. This dividend will be paid on 23 March 2018.

# CHAIRMAN'S STATEMENT

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### Introduction

I am pleased to update Shareholders with this interim statement for SQN Secured Income Fund plc (the "Company" or "SSIF"), covering the period from 1 July 2017 to 31 December 2017. The last six months have been more productive and more settled than recent times. SQN Asset Management Limited took over the management of the Company on 1 April 2017 and has made good progress in achieving the Board's strategic goal of rebalancing the portfolio away from investment platforms and towards direct loans.

### Performance and Markets

For the reporting period ended 31 December 2017, the Company generated a net profit of £1.5 million and earnings per ordinary share of 2.85p. The Company's NAV at 31 December 2017 was £51.8 million (98.45p (cum income) per ordinary share) compared with £52.0 million on a similar basis as at 30 June 2017. The total return for the reporting period was 2.9%.

Direct loans have increased and now represent 36% of the portfolio and I am delighted to note that the pipeline of transactions and the maturity profile of our platform loans are both consistent with the planned strategy to reduce platform exposure to 20% of the overall portfolio.

Foreign exchange exposure on the 22.5% of non-Sterling loans was fully hedged and any liquidity calls arising from the hedging strategy are considered comfortably manageable within the Company's cash flow.

### Earnings and Dividends

Dividends per Ordinary Share for the reporting period were 3.15p (see note 5).

The Board elected to designate all dividends for the period ended 31 December 2017 as interest distributions to 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.

The Board intends to distribute at least 85% of the Company's 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 Board expects the Company to achieve its annual fully covered dividend target of 6.25p by the year-end, rising to 7.00p thereafter.

### Discount

For the reporting period, the Company traded at an average discount to NAV of 2.4%. The directors would prefer to see the Company's shares trade at a premium to net asset value and we believe this is warranted given the progress made in reducing platform loan exposure coupled with the very low default and impairment performance.

### Board of Directors

I am pleased to report that we have appointed a fourth director to the Board. Gay Coley is a chartered accountant with considerable business experience including holding posts as the finance director of the University of Plymouth and Chief Executive of the Eden Project in Cornwall. She is currently a non-executive director and chair of the audit committee of the Lowland Investment Trust plc. This appointment strengthens our capability as a board and we welcome Gay's hands on experience in management and finance.

### Outlook

The Investment Manager's focus remains on Europe and the US and it will continue to rationalise both the number of platforms and the holdings within them while increasing investment in secured direct lending. The outlook for direct lending opportunities remains very promising with interest rates stable, albeit likely slowly to increase.

The Board's strategy remains in line with the Company's investment guidelines – our goal is to produce a stable income stream for our Shareholders from a diversified portfolio of loans to SME businesses.

### RICHARD HILLS

*Chairman*

15 March 2018

# INVESTMENT MANAGER'S REPORT

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SQN Secured Income Fund plc is an investment company listed on the London Stock Exchange and domiciled in the United Kingdom. It invests on a largely secured basis, both directly and indirectly through investment platforms, in small and medium sized companies in the United Kingdom and the rest of the world using fundamental credit skills to assess potential opportunities. The Company's objective is to deliver regular income and an attractive overall return to investors through a diverse portfolio of collateralized investments.

In the nine months since SQN Asset Management Limited ("SQN" or the "Manager") has had responsibility for managing the portfolio, we are pleased to report that we continue to make meaningful progress under the revised investment guidelines. Specifically, we have reduced the Company's unsecured positions, we have exited certain platform relationships which we did not believe met our more rigid underwriting standards, and renegotiated terms on other platform investments in order to enhance the level of security and/or returns on investment.

In addition to the above and most significantly, we have increased direct secured investments. Investments originated directly by the Manager have a higher degree of transparency, come with reduced intermediary costs, and are structured to maximize the security position and access to collateral. Central to our investment process is the application of a disciplined and traditional credit underwriting approach to all assets in the portfolio. We believe this is the only appropriate method to invest in this asset class and we believe by doing so, very attractive portfolios can be constructed to deliver the Company's investment objective.

As Manager, we are confident that this investment strategy is highly scalable. We are currently experiencing a great deal of demand that cannot be met by the current size of the Company. It remains our goal to support the Board in growing the Company to a multiple of today's size over the next few years. The Company's shares continue to trade at a discount, which is a consistent theme across the sector. However, we expect that following an extended period of positive performance and a growing awareness of the attractiveness of our strategy investor enthusiasm may lead to a higher share price and subsequent capital raisings.

### Progress

During the period covered by this interim report, we have achieved the following:

- Continued reinvestment of available cash in directly originated loans. Direct loans now represent 36% of the portfolio, an increase of 5% since June 2017.
- Impairments – are circa 1%, significantly lower than the sector average.
- When appropriate, SQN has re-traded loans with existing platforms, providing further opportunity for the Company to increase direct loan exposure.
- Performance of platform investments has, with a few exceptions, remained consistent and we have repositioned asset allocation in favour of those platforms that we consider have the strongest credit and origination capability combined with acceptable pricing parameters.
- Cash levels have been reduced to a practical minimum and excess cash has been committed to new direct investments.
- Risk management remains a key focus for the investment management team and we have spent significant time on improving risk reporting.
- The KID was successfully published before the regulatory year end deadline and although IFRS 9 reporting is not due until the financial year commencing on 1 July 2018, planning for this event is well under way.
- All new underwriting has been made at rates between 9.5% and 11.5%, sufficient to increase overall portfolio yield to meet the return target of 8.0% per annum.
- Our banking arrangements have been reorganised and the Company has moved its principle banking relationship to Royal Bank of Scotland International Limited.
- Upon our appointment on 1 April 2017, we agreed that the previous investment manager, Amberton Asset Management Limited, would act as our sub-manager for a period of 12 months. We have extended this contract for a further two months but will assume total control of the investment management for the portfolio from 1 June 2018. The continuity and smooth transition that was anticipated by this interim arrangement has worked well for all parties.

### Investment Outlook

We continue to see a significant demand for borrowing from the SME sector in the UK, Europe and the US at both attractive interest rates and under terms suitable for investments by the Company. We consider this environment presents a very strong opportunity to the Company.

We expect the dynamics of the alternative finance sector to change in the medium term, as the first cycle of refinancing deals start to take place and the poor quality of some previous credit underwriting becomes apparent, evidenced by published default and impairment data. We anticipate that there will be a widening of the performance achieved between sector participants. We also envisage that consolidation within the sector will accelerate. The stronger companies, backed by their shareholders and with more robust risk and credit management processes, are likely to grow at the expense of the poorly performing funds largely through corporate activity. We monitor the sector closely, in both private and public markets and remain alert to opportunities as they arise.

### DAWN KENDALL

*Managing Director*

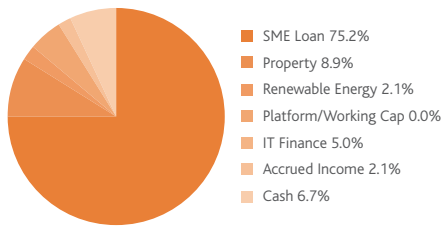
*SQN Asset Management Limited*

15 March 2018

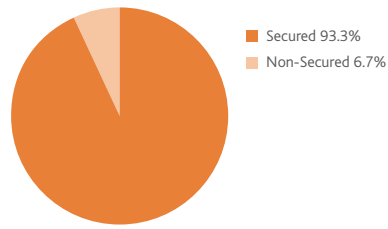
# COMPANY ANALYTICS

as at 31 December 2017

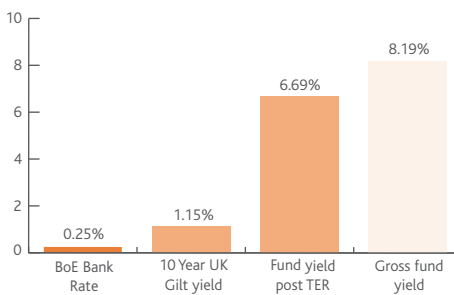
## ASSET ALLOCATION



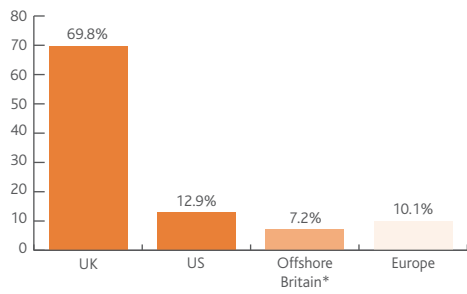
## SECURED VS NON-SECURED



## FUND YIELD VS BENCHMARK INTEREST RATES

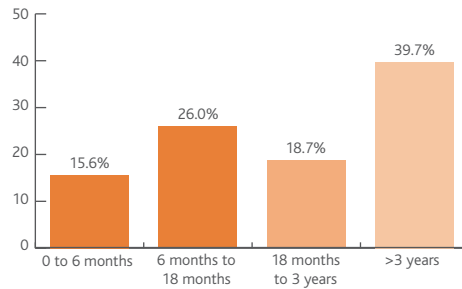


## PORTFOLIO BY GEOGRAPHY

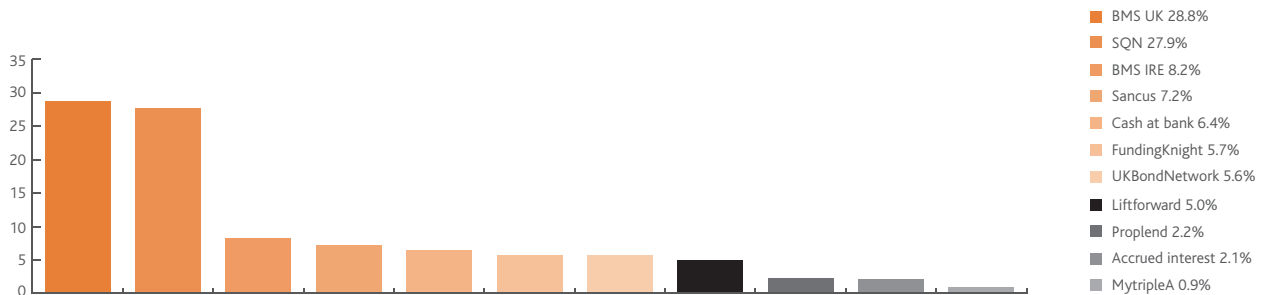


\*Offshore Britain, Channel Islands, Gibraltar & Isle of Man

## PORTFOLIO BY MATURITY BAND



## PORTFOLIO EXPOSURE BY PLATFORM



All data source: SQN Asset Management Limited, data as at 31 December 2017.



COMPANY ANALYTICS (CONTINUED)

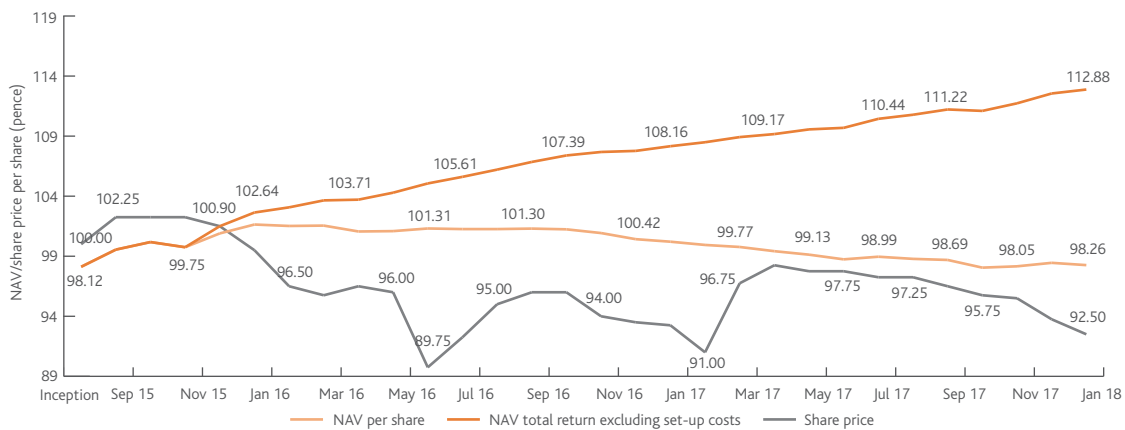
as at 31 December 2017

PERFORMANCE AND DIVIDEND HISTORY

|                   |      | Jan    | Feb    | Mar    | Apr   | May    | Jun    | Jul    | Aug    | Sep    | Oct    | Nov    | Dec    | Inception to date |
|-------------------|------|--------|--------|--------|-------|--------|--------|--------|--------|--------|--------|--------|--------|-------------------|
| NAV per share     | 2015 |        |        |        |       |        |        |        |        | 1.46%  | 0.64%  | -0.43% | 1.75%  |                   |
| total return,     | 2016 | 1.12%  | 0.42%  | 0.57%  | 0.05% | 0.55%  | 0.74%  | 0.52%  | 0.57%  | 0.60%  | 0.51%  | 0.27%  | 0.09%  | 15.04%            |
| including income* | 2017 | 0.36%  | 0.31%  | 0.40%  | 0.23% | 0.35%  | 0.13%  | 0.68%  | 0.31%  | 0.39%  | -0.10% | 0.57%  | 0.73%  |                   |
|                   | 2018 | 0.30%  |        |        |       |        |        |        |        |        |        |        |        |                   |
| Dividend per      | 2015 |        |        |        |       |        |        |        |        |        |        |        |        | 0.60p             |
| share**           | 2016 | 0.40p  | 0.55p  | 0.55p  | 0.55p | 0.55p  | 0.55p  | 0.60p  | 0.60p  | 0.60p  | 0.60p  | 0.60p  | 0.60p  | 14.65p            |
|                   | 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 |        |        |       |        |        |        |        |        |        |        |        |                   |
| Share price       | 2015 |        |        |        |       |        |        |        |        | 2.25%  | 0.00%  | 0.00%  | -0.73% |                   |
| performance***    | 2016 | -1.97% | -3.02% | -0.78% | 0.78% | -0.52% | -6.51% | 2.79%  | 2.98%  | 1.05%  | 0.00%  | -2.08% | -0.53% | -7.50%            |
|                   | 2017 | -0.26% | -2.41% | 6.32%  | 1.55% | -0.51% | 0.00%  | -0.51% | 0.00%  | -0.77% | -0.78% | -0.26% | -1.83% |                   |
|                   | 2018 | -1.33% |        |        |       |        |        |        |        |        |        |        |        |                   |

\* Per Ordinary Share excluding set-up costs \*\* Per Ordinary Share \*\*\* Source Bloomberg

NAVVS.SHARE PRICE



All data source: SQN Asset Management Limited, data as at 31 December 2017.

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

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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.

**RICHARD HILLS**

*Chairman*

15 March 2018



## UNAUDITED CONDENSED STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 31 December 2017

|  | Note | Period from<br>1 July 2017 to<br>31 December 2017<br>(unaudited)<br>£'000 | Period from<br>1 July 2016 to<br>31 December 2016<br>(unaudited)<br>£'000 | Year ended<br>30 June 2017<br>(audited)<br>£'000 |
|--|------|---|---|--|
| <b>Income</b>  |      |   |   |  |
| Investment income  |      | 2,363   | 2,601   | 4,462  |
| Other income   |      | 2   | –   | 4  |
| <b>Total revenue</b>   |      | <b>2,365</b>  | <b>2,601</b>  | <b>4,466</b>                                     |
| <b>Operating expenses</b>  |      |   |   |  |
| Management fees  | 7a   | (262)   | (187)   | (408)  |
| Other expenses   | 10   | (96)  | (119)   | (209)  |
| Broker fees  |      | (80)  | (33)  | (119)  |
| Administration fees  | 7b   | (60)  | (69)  | (144)  |
| Directors' remuneration  | 8    | (54)  | (75)  | (128)  |
| Legal and professional fees  |      | (53)  | (54)  | (172)  |
| Transaction fees   |      | (23)  | –   | –  |
| <b>Total operating expenses</b>  |      | <b>(628)</b>  | <b>(537)</b>  | <b>(1,180)</b>                                   |
| <b>Investment gains and losses</b>   |      |   |   |  |
| Movement in unrealised (loss)/gain on loans  | 14   | (254)   | 286   | (718)  |
| Movement in unrealised gain on investments at fair value through profit or loss                            | 15   | 20  | (45)  | (193)  |
| Movement in unrealised gain on investment in subsidiary  |      | –   | –   | (677)  |
| Movement in unrealised gain on derivative financial instruments  | 17   | (141)   | 37  | 127  |
| Realised (loss)/gain on disposal of loans  |      | (40)  | (12)  | 782  |
| Realised gain on disposal of investments at fair value through profit or loss                              |      | –   | 85  | 260  |
| Realised gain on disposal of subsidiary  |      | –   | –   | 673  |
| Realised gain/(loss) on derivative financial instruments   | 17   | 227   | (1,022)   | (1,008)  |
| <b>Total investment gains and losses</b>   |      | <b>(188)</b>  | <b>(671)</b>  | <b>(754)</b>                                     |
| <b>Net profit from operating activities before (loss)/gain on foreign currency exchange</b>                |      | <b>1,549</b>  | <b>1,393</b>  | <b>2,532</b>                                     |
| Net foreign exchange (loss)/gain   |      | (46)  | 35  | (87)   |
| <b>Net profit before taxation</b>  |      | <b>1,503</b>  | <b>1,428</b>  | <b>2,445</b>                                     |
| <b>Taxation</b>  |      |   |   |  |
| Corporation tax  | 11   | –   | –   | (5)  |
| <b>Profit and total comprehensive income for the period/year attributable to the owners of the Company</b> |      | <b>1,503</b>  | <b>1,428</b>  | <b>2,440</b>                                     |
| <b>Earnings per Ordinary Share (basic and diluted)</b>   | 12   | <b>2.85p</b>  | <b>2.71p</b>  | <b>4.63p</b>                                     |

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 15 to 32 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 2017

| <i>Unaudited</i>   | <i>Note</i> | <i>Called up<br/>share capital<br/>£'000</i> | <i>Special<br/>distributable<br/>reserve<br/>£'000</i> | <i>Profit and<br/>loss account<br/>£'000</i> | <i>Total<br/>£'000</i> |
|--|-------------|--|--|--|------------------------|
| At 1 July 2017   |             | 577  | 50,942   | 529  | 52,048                 |
| Profit for the period  | 21          | –  | –  | 1,503  | 1,503                  |
| <i>Transactions with Owners in their capacity as owners:</i> |             |  |  |  |                        |
| Dividends paid   | 5, 21       | –  | –  | (1,658)                                      | (1,658)                |
| Total transactions with Owners in their capacity as owners   |             | –  | –  | (1,658)                                      | (1,658)                |
| <b>At 31 December 2017</b>                                   |             | <b>577</b>                                   | <b>50,942</b>  | <b>374</b>                                   | <b>51,893</b>          |

## UNAUDITED CONDENSED STATEMENT OF CHANGES IN EQUITY

for the six months ended 31 December 2016

| <i>Unaudited</i>   | <i>Note</i> | <i>Called up<br/>share capital<br/>£'000</i> | <i>Special<br/>distributable<br/>reserve<br/>£'000</i> | <i>Profit and<br/>loss account<br/>£'000</i> | <i>Total<br/>£'000</i> |
|--|-------------|--|--|--|------------------------|
| At 1 July 2016   |             | 577  | 50,942   | 1,881  | 53,400                 |
| Profit for the period  | 21          | –  | –  | 1,428  | 1,428                  |
| <i>Transactions with Owners in their capacity as owners:</i> |             |  |  |  |                        |
| Dividends paid   | 5, 21       | –  | (746)  | (1,150)                                      | (1,896)                |
| Total transactions with Owners in their capacity as owners   |             | –  | (746)  | (1,150)                                      | (1,896)                |
| <b>At 31 December 2016</b>                                   |             | <b>577</b>                                   | <b>50,196</b>  | <b>2,159</b>                                 | <b>52,932</b>          |

## AUDITED STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2017

| <i>Audited</i>   | <i>Note</i> | <i>Called up<br/>share capital<br/>£'000</i> | <i>Special<br/>distributable<br/>reserve<br/>£'000</i> | <i>Profit and<br/>loss account<br/>£'000</i> | <i>Total<br/>£'000</i> |
|--|-------------|--|--|--|------------------------|
| At 1 July 2016   |             | 577  | 50,942   | 1,881  | 53,400                 |
| Profit for the year  | 21          | –  | –  | 2,440  | 2,440                  |
| <i>Transactions with Owners in their capacity as owners:</i> |             |  |  |  |                        |
| Dividends paid   | 5, 21       | –  | –  | (3,792)                                      | (3,792)                |
| Total transactions with Owners in their capacity as owners   |             | –  | –  | (3,792)                                      | (3,792)                |
| <b>At 30 June 2017</b>                                       |             | <b>577</b>                                   | <b>50,942</b>  | <b>529</b>                                   | <b>52,048</b>          |

*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 15 to 32 form an integral part of the unaudited condensed half-yearly financial statements.*

## UNAUDITED CONDENSED STATEMENT OF FINANCIAL POSITION

as at 31 December 2017

|   |      | 31 December<br>2017<br>(unaudited)<br>£'000 | 31 December<br>2016<br>(unaudited)<br>£'000 | 30 June<br>2017<br>(audited)<br>£'000 |
|---|------|---|---|---------------------------------------|
|   | Note |   |   |                                       |
| <b>Non-current assets</b>   |      |   |   |                                       |
| Loans at amortised cost   | 14   | 39,684                                      | 26,042                                      | 32,450                                |
| Investments at fair value through profit or loss                  | 15   | 278   | 1,547                                       | 258                                   |
| <b>Total non-current assets</b>                                   |      | <b>39,962</b>                               | <b>27,589</b>                               | <b>32,708</b>                         |
| <b>Current assets</b>   |      |   |   |                                       |
| Loans at amortised cost   | 14   | 7,748                                       | 17,761                                      | 7,008                                 |
| Cash held on client accounts with platforms                       | 14   | 149   | 1,059                                       | 1,144                                 |
| Investment in subsidiary  | 13   | –   | 41,088                                      | –                                     |
| Derivative financial instruments                                  | 17   | 9   | 60  | 150                                   |
| Other receivables and prepayments                                 | 18   | 1,159                                       | 824   | 733                                   |
| Cash and cash equivalents   |      | 3,343                                       | 6,015                                       | 13,376                                |
| <b>Total current assets</b>                                       |      | <b>12,408</b>                               | <b>66,807</b>                               | <b>22,411</b>                         |
| <b>Total assets</b>   |      | <b>52,370</b>                               | <b>94,396</b>                               | <b>55,119</b>                         |
| <b>Current liabilities</b>  |      |   |   |                                       |
| Amount due to subsidiary  | 13   | –   | (41,088)                                    | –                                     |
| Other payables and accruals                                       | 19   | (477)                                       | (376)                                       | (3,071)                               |
| <b>Total liabilities</b>  |      | <b>(477)</b>                                | <b>(41,464)</b>                             | <b>(3,071)</b>                        |
| <b>Net assets</b>   |      | <b>51,893</b>                               | <b>52,932</b>                               | <b>52,048</b>                         |
| <b>Capital and reserves attributable to owners of the Company</b> |      |   |   |                                       |
| Called up share capital   | 20   | 577   | 577   | 577                                   |
| Other reserves  | 21   | 51,316                                      | 52,355                                      | 51,471                                |
| <b>Equity attributable to the owners of the Company</b>           |      | <b>51,893</b>                               | <b>52,932</b>                               | <b>52,048</b>                         |
| <b>Net asset value per Ordinary Share</b>                         | 22   | <b>98.45p</b>                               | <b>100.42p</b>                              | <b>98.74p</b>                         |

These unaudited condensed half-yearly financial statements of SQN Secured Income Fund plc (registered number 09682883) were approved by the Board of Directors on 15 March 2018 and were signed on its behalf by:

**RICHARD HILLS**

Chairman

15 March 2018

**KEN HILLEN**

Director

15 March 2018

The accompanying notes on pages 15 to 32 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 2017

|  | <i>Period from<br/>1 July 2017<br/>to 31 December<br/>2017<br/>(unaudited)<br/>£'000</i> | <i>Period from<br/>1 July 2016<br/>to 31 December<br/>2016<br/>(unaudited)<br/>£'000</i> | <i>Year ended<br/>30 June<br/>2017<br/>(audited)<br/>£'000</i> |
|--|--|--|--|
| <b>Cash flows from operating activities</b>  |  |  |  |
| Net profit before taxation   | 1,503  | 1,428  | 2,445  |
| <i>Adjustments for:</i>  |  |  |  |
| Movement in unrealised loss/(gain) on loans  | 254  | (286)  | 718  |
| Movement in unrealised gain on investment at fair value through profit or loss     | (20)   | 45   | 193  |
| Movement in unrealised gain on investment in subsidiary                            | –  | –  | 677  |
| Movement in unrealised gain on derivative financial instruments                    | 141  | (37)   | (127)  |
| Realised loss/(gain) on disposal of loans  | 40   | 12   | (782)  |
| Realised gain on disposal of investments at fair value through profit or loss      | –  | (85)   | (260)  |
| Realised gain on disposal of subsidiary  | –  | –  | (673)  |
| Realised (gain)/loss on derivative financial instruments                           | (227)  | 1,022  | 1,008  |
| Amortisation of transaction fees   | 23   | –  | –  |
| Interest received and reinvested by platforms                                      | (320)  | (1,010)  | (1,596)  |
| Capitalised interest   | (47)   | –  | –  |
| (Increase)/decrease in investments   | (6,702)  | 5,747  | 11,710   |
| Net cash (outflow)/inflow from operating activities before working capital changes | (5,355)  | 6,836  | 13,313   |
| Increase in other receivables and prepayments                                      | (426)  | (1,102)  | (1,011)  |
| (Decrease)/increase in other payables and accruals                                 | (2,589)  | (81)   | 2,806  |
| <b>Net cash (outflow)/inflow from operating activities</b>                         | <b>(8,370)</b>   | <b>5,653</b>   | <b>15,108</b>  |
| <b>Cash flows from financing activities</b>  |  |  |  |
| Dividends paid   | (1,658)  | (1,830)  | (3,924)  |
| <b>Net cash outflow from financing activities</b>                                  | <b>(1,658)</b>   | <b>(1,830)</b>   | <b>(3,924)</b>   |
| <b>Taxation paid</b>   | <b>(5)</b>   | <b>–</b>   | <b>–</b>   |
| <b>(Decrease)/increase in cash and cash equivalents in the period/year</b>         | <b>(10,033)</b>  | <b>3,823</b>   | <b>11,184</b>  |
| Cash and cash equivalents at the beginning of the period/year                      | 13,376   | 2,192  | 2,192  |
| <b>Cash and cash equivalents at 31 December 2017</b>                               | <b>3,343</b>   | <b>6,015</b>   | <b>13,376</b>  |
| <b>Supplemental cash flow information</b>  |  |  |  |
| Non-cash transaction – interest received   | 367  | 1,010  | 1,596  |

The accompanying notes on pages 15 to 32 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 2017

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## 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 listed 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 23) other types of investment (for example, equity or revenue-linked 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 2017. These unaudited condensed half-yearly financial statements have been prepared in accordance with International Accounting Standard 34 ("IAS 34"), *Interim Financial Reporting*, as adopted by the European Union.

The unaudited condensed half-yearly financial statements for the period ended 31 December 2017 have not been audited or reviewed by the Company's auditors and do not constitute statutory financial statements, as defined in section 434 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 financial assets (including derivative instruments), which are measured at fair value through profit or loss. The unaudited condensed half-yearly financial statements have been prepared on a going concern basis.

### 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.

### d) Use of estimates and judgements

The preparation of unaudited condensed half-yearly financial statements in conformity with International Financial Reporting Standards ("IFRSs") requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expense. 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 IFRSs 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.



## NOTES TO THE UNAUDITED CONDENSED HALF-YEARLY FINANCIAL STATEMENTS

for the six months ended 31 December 2017 (continued)

### 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 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 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 designated as loans and receivables, 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 interest 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.

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 impaired when the recoverable amount is estimated to be less than its carrying amount.

An impairment loss is recognised immediately in the Unaudited Condensed Statement of Comprehensive Income, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment is treated as a revaluation decrease.

#### 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.

## NOTES TO THE UNAUDITED CONDENSED HALF-YEARLY FINANCIAL STATEMENTS

for the six months ended 31 December 2017 (continued)

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### d) Receivables and prepayments

Receivables are carried at the original invoice amount, less allowance for doubtful receivables. Provision is made when there is objective evidence that the Company will be unable to recover balances in full. Balances are written-off when the probability of recovery is assessed as being remote.

#### 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

Bank interest and loan 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. The Company adopted the following new and amended relevant IFRS in the period:

##### IAS 7 Statement of Cash Flows – *Disclosure initiative*

The Company has applied these amendments for the first time in the current period. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes.

Apart from the additional disclosure in note 19, the application of these amendments has had no impact on the Company's unaudited condensed half-yearly financial statements.

#### i) 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, with the exception of IFRS 9, would have a material impact on the Company's financial statements in the period of initial application.

|          |   | <i>Effective date</i> |
|----------|---|-----------------------|
| IFRS 2   | Share-based payments                                    | 1 January 2018        |
| IFRS 9   | Financial Instruments                                   | 1 January 2018        |
| IFRS 15  | Revenue from Contracts with Customers                   | 1 January 2018        |
| IFRIC 22 | Foreign Currency Transactions and Advance Consideration | 1 January 2018        |

In July 2014, the IASB issued the final version of IFRS 9, *Financial Instruments* that replaces IAS 39, *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

## NOTES TO THE UNAUDITED CONDENSED HALF-YEARLY FINANCIAL STATEMENTS

for the six months ended 31 December 2017 (continued)

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)****i) Accounting standards issued but not yet effective (continued)**

The Company plans to adopt the new standard with effect from 1 July 2018. The Company has performed a high-level impact assessment of all three aspects of IFRS 9. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Company in the future. Overall, the Company expects no significant impact on its Statement of Financial Position or equity, and will finalise its assessment in the first half of 2018, in readiness for the adoption of the standard on 1 July 2018.

*i) Classification and measurement*

The classification of financial assets will be based on the Company's business model and the contractual cash flow characteristics of its investments. The Company does not expect a significant impact on its Statement of Financial Position or equity on applying the classification and measurement requirements of IFRS 9. The Board will continue to measure loans and receivables at amortised cost, and at fair value for all financial assets and liabilities currently held at fair value.

*ii) Impairment*

IFRS 9 changes the basis of recognition of impairment on financial assets from an incurred loss to an expected credit loss approach for assets held at amortised cost. This introduces a number of new concepts and changes to the approach to provisioning compared with the current methodology under IAS 39:

- Expected credit losses are based on an assessment of the probability of default, loss given default and exposure at default, discounted to give a net present value. The expected credit loss should be probability weighted and take into account all reasonable and supportable information.

*iii) Hedge accounting*

The Company does not currently designate any hedges as effective hedging relationships which qualify for hedge accounting. Therefore, the Company does not expect there to be any impact with respect to hedge accounting on the Company as a result of applying IFRS 9.

The Directors will continue to evaluate the impact of IFRS 9 upon the Company. However, it is noted that the measurement of impairment will involve increased complexity and judgement, including estimation of probabilities of default. The use of security on a large (and increasing) proportion of the Company's loans will limit the impact of adopting IFRS 9. Therefore, it is not expected to have a material financial impact. However, it will not be practical to disclose reliable financial impact estimates until the implementation programme is further advanced.

The impact that IFRS 15 will have on the Company's financial statements is also considered to be immaterial because the Company does not have any contracts with customers which meet the definition under IFRS 15.

**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*

The Directors assess the recoverability of the Company's loans to determine whether any impairment provision is required. There is an indicator of impairment for a loan when the borrower has failed to make a payment, either capital or interest, when contractually due and, upon assessment, the Company feels that full recovery is not expected. The Company assesses at each reporting date (and at least on a monthly basis) whether there is objective evidence that a loan, or group of loans, classified as loans at amortised cost, is impaired. As part of this process:

- Platforms are contacted to determine default and delinquency levels of individual loans;
- Consideration is given as to whether payment has been received after the balance sheet date or whether loans are secured; and
- Recovery rates are estimated.

At 31 December 2017, the Company's financial instruments at fair value through profit or loss comprised unlisted equity shares and derivative financial instruments. See note 16 for details of the bases of valuation.

## NOTES TO THE UNAUDITED CONDENSED HALF-YEARLY FINANCIAL STATEMENTS

for the six months ended 31 December 2017 (continued)

## 5. DIVIDENDS

The Company distributes at least 85% of its distributable income earned in each financial year by way of dividends. Following discussions with the Investment Manager regarding the anticipated returns from the Company's portfolio (both in the shorter and longer terms), with effect from May 2017, the Company rebased its annual dividend target to 6.25p per Share, increasing to at least 7.00p per Share with effect from July 2018. The monthly dividend at the new rate of 0.525p per Share was first paid in June 2017. 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 2017 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 2017:

| <i>Announcement date</i>                                       | <i>Pay date</i>   | <i>Total dividend declared in respect of earnings in the period<br/>£'000</i> | <i>Amount per Ordinary Share</i> |
|--|-------------------|---|----------------------------------|
| 21 August 2017   | 29 September 2017 | 276   | 0.525p                           |
| 22 September 2017  | 27 October 2017   | 276   | 0.525p                           |
| 23 October 2017  | 24 November 2017  | 276   | 0.525p                           |
| 22 November 2017   | 29 December 2017  | 276   | 0.525p                           |
| 21 December 2017   | 26 January 2018   | 276   | 0.525p                           |
| 19 January 2018  | 23 February 2018  | 276   | 0.525p                           |
| Dividends declared (to date) for the period                    |                   | 1,658   | 3.15p                            |
| Less, dividends paid after the period end                      |                   | (553)   | (1.05)p                          |
| Add, dividends paid in the period in respect of the prior year |                   | 553   | 1.05p                            |
| Dividends paid in the period                                   |                   | 1,658   | 3.15p                            |

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 £1,658,000 (31 December 2016: £1,896,000, 30 June 2017: £3,792,000) was incurred in respect of dividends, none of which was outstanding at the reporting date (31 December 2016 and 30 June 2017: none). The dividends of £276,000 each, which were declared on 21 December 2017 and 19 January 2018, had not been provided for at 31 December 2017 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 20 February 2018, the Company declared a dividend of 0.525p per Share for the period from 1 July 2017 to 31 January 2018. This dividend will be paid on 23 March 2018.

## 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, Amberton Asset Management Limited ("Amberton" or the "Sub-Investment Adviser") 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 £67,000 was earned in the period (31 December 2016: none, 30 June 2017: £3,000), £4,000 of which was outstanding at 31 December 2017 (31 December 2016: none, 30 June 2017: £3,000). 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 2017, the balance of the loan was £1,271,000 (31 December 2016: none; 30 June 2017 £1,380,000).

## Transactions with subsidiary undertaking

Details of the transactions with the Company's subsidiary undertaking are disclosed in note 13.

## NOTES TO THE UNAUDITED CONDENSED HALF-YEARLY FINANCIAL STATEMENTS

for the six months ended 31 December 2017 (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.

With effect from 1 April 2017, the former Investment Manager, Amberton, was appointed as Sub-Investment Adviser to the Investment Manager. From that date, Amberton was no longer directly appointed by the Company and was not entitled to a fee from the Company. The fees of the Sub-Investment Adviser are borne by the Investment Manager.

During the period, a total of £262,000 (31 December 2016: £187,000, 30 June 2017: £408,000) was incurred in respect of management fees (£262,000 to SQN UK (31 December 2016: £187,000 to Amberton, 30 June 2017: £278,000 to Amberton and £130,000 to SQN UK)), of which £44,000 was payable to SQN UK at the reporting date (31 December 2016: £94,000 to Amberton, 30 June 2017: £43,000 to SQN UK).

**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 £60,000 (31 December 2016: £69,000, 30 June 2017: £144,000) was incurred in respect of administration fees, of which £28,000 (31 December 2016: £33,000, 30 June 2017: £38,000) was payable at the reporting date.

**8. DIRECTORS' REMUNERATION**

The Directors are paid such remuneration for their services as determined by the Remuneration and Nominations 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.

For the period from 1 July 2016 to 31 August 2017, Ken Hillen, Chairman of the Audit and Valuation Committee, received an additional £10,000 per annum as remuneration relating to a number of additional responsibilities, undertaken during that period, relating specifically to the loans held within the Company's portfolio.

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

During the period, a total of £54,000 (31 December 2016: £75,000, 30 June 2017: £128,000) was incurred in respect of Directors' remuneration, none of which was payable at the reporting date (31 December 2016: £3,000, 30 June 2017: £9,000). 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 2017 (continued)

## 9. KEY MANAGEMENT AND EMPLOYEES

The Company had no employees during the period (31 December 2016 and 30 June 2017: none). Therefore, there were no key management (except for the Directors) or employees during the period (31 December 2016 and 30 June 2017: none).

## 10. OTHER EXPENSES

|                                       | <i>Period from<br/>1 July 2017 to<br/>31 December 2017<br/>(unaudited)<br/>£'000</i> | <i>Period from<br/>1 July 2016 to<br/>31 December 2016<br/>(unaudited)<br/>£'000</i> | <i>Year ended<br/>30 June 2017<br/>(audited)<br/>£'000</i> |
|---------------------------------------|--|--|--|
| Audit fees                            | 21   | 22   | 42   |
| Website costs                         | 18   | 14   | 17   |
| Registrar fees                        | 15   | 15   | 30   |
| Custodian fee                         | 13   | 13   | 25   |
| Accountancy and taxation fees         | 7  | 30   | 37   |
| Travel costs                          | 6  | 3  | 6  |
| Other expenses                        | 5  | 7  | 15   |
| Listing fees                          | 4  | 9  | 22   |
| Printing costs                        | 4  | 3  | 6  |
| Directors' liability insurance        | 3  | 3  | 6  |
| Auditors' non-audit and taxation fees | –  | –  | 3  |
|                                       | <b>96</b>  | <b>119</b>   | <b>209</b>   |

## 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 or 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".

|  | <i>Period from<br/>1 July 2017 to<br/>31 December 2017<br/>(unaudited)<br/>£'000</i> | <i>Period from<br/>1 July 2016 to<br/>31 December 2016<br/>(unaudited)<br/>£'000</i> | <i>Year ended<br/>30 June 2017<br/>(audited)<br/>£'000</i> |
|--|--|--|--|
| Corporation tax:                             |  |  |  |
| – Current year                               | –  | –  | –  |
| – Adjustments in relation to prior period    | –  | –  | 5  |
| <b>Total tax expense for the period/year</b> | <b>–</b>   | <b>–</b>   | <b>5</b>   |

## NOTES TO THE UNAUDITED CONDENSED HALF-YEARLY FINANCIAL STATEMENTS

for the six months ended 31 December 2017 (continued)

## 11. TAXATION (continued)

|   | <i>Period from<br/>1 July 2017 to<br/>31 December 2017<br/>(unaudited)<br/>£'000</i> | <i>Period from<br/>1 July 2016 to<br/>31 December 2016<br/>(unaudited)<br/>£'000</i> | <i>Year ended<br/>30 June 2017<br/>(audited)<br/>£'000</i> |
|---|--|--|--|
| <b>Reconciliation of tax charge:</b>                                    |  |  |  |
| Profit before taxation  | 1,503  | 1,428  | 2,445  |
| Tax at the standard UK corporation tax rate of 19% (2016 and 2017: 20%) | 286  | 286  | 489  |
| Effects of:   |  |  |  |
| – Non-taxable investment gains and losses                               | 36   | 134  | 150  |
| – Interest distributions  | (315)  | (379)  | (671)  |
| – Tax losses brought forward  | (32)   | –  | –  |
| – Tax losses/(gains) carried forward                                    | 25   | (41)   | 32   |
| – Adjustments in relation to prior period                               | –  | –  | 5  |
| <b>Total tax expense</b>  | <b>–</b>   | <b>–</b>   | <b>5</b>   |

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

|                | <i>Period from<br/>1 July 2017 to<br/>31 December 2017<br/>(unaudited)</i> | <i>Period from<br/>1 July 2016 to<br/>31 December 2016<br/>(unaudited)</i> | <i>Year ended<br/>30 June 2017<br/>(audited)</i> |
|----------------|--|--|--|
| United Kingdom | 19%  | 20%  | 20%  |
| 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 2.85p (31 December 2016: 2.71p, 30 June 2017: 4.63p) is based on a profit attributable to the owners of the Company of £1,503,000 (31 December 2016: £1,428,000, 30 June 2017: £2,440,000) and on a weighted average number of 52,660,350 (31 December 2016 and 30 June 2017: 52,660,350) Ordinary Shares in issue. There is no difference between the basic and diluted earnings per share.

## 13. INVESTMENT IN SUBSIDIARY UNDERTAKING

The Company's previously wholly-owned subsidiary, GLI Alternative Finance Guernsey Limited, was liquidated on 16 May 2017. Before this date, the subsidiary, which had been incorporated in Guernsey, had been dormant for several months.

As at 31 December 2016, the investment in the subsidiary, carried at fair value through profit or loss, was held at £41,088,000, and the Company owed £41,088,000 to the subsidiary.



## NOTES TO THE UNAUDITED CONDENSED HALF-YEARLY FINANCIAL STATEMENTS

for the six months ended 31 December 2017 (continued)

## 14. LOANS AT AMORTISED COST

|   | 31 December 2017<br>(unaudited)<br>£'000 | 31 December 2016<br>(unaudited)<br>£'000 | 30 June 2017<br>(audited)<br>£'000 |
|---|--|--|------------------------------------|
| Loans                                       | 47,614                                   | 43,025                                   | 40,381                             |
| Unrealised (loss)/gain*                     | (33)                                     | 1,837                                    | 221                                |
| <b>Balance at period/year end</b>           | <b>47,581</b>                            | <b>44,862</b>                            | <b>40,602</b>                      |
| Loans: Non-current                          | 39,684                                   | 26,042                                   | 32,450                             |
| Current                                     | 7,748                                    | 17,761                                   | 7,008                              |
| Cash held on client accounts with platforms | 149                                      | 1,059                                    | 1,144                              |
| <b>Loans at amortised cost</b>              | <b>47,581</b>                            | <b>44,862</b>                            | <b>40,602</b>                      |
| *Unrealised (loss)/gain                     |  |  |                                    |
| Foreign exchange on non-Sterling loans      | 504                                      | 2,523                                    | 651                                |
| Impairments                                 | (537)                                    | (686)                                    | (430)                              |
| <b>Unrealised (loss)/gain</b>               | <b>(33)</b>                              | <b>1,837</b>                             | <b>221</b>                         |

The weighted average interest rate of the loans as at 31 December 2017 was 9.07% (31 December 2016: 9.31%, 30 June 2017: 8.58%).

There is an indicator of impairment for a loan when the borrower has failed to make a payment, either capital or interest, when contractually due. The Company assesses at each reporting date (and at least on a monthly basis) whether there is objective evidence that a loan or group of loans, classified as loans at amortised cost, is impaired. As part of this process:

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

At 31 December 2017, repayments of £1,410,000 (31 December 2016: £2,759,000, 30 June 2017: £1,031,000) were past due, aged as below. However, the Company assessed the recoverability of the loans and did not consider any impairment necessary.

|   | 31 December 2017<br>(unaudited)<br>£'000 | 31 December 2016<br>(unaudited)<br>£'000 | 30 June 2017<br>(audited)<br>£'000 |
|---|--|--|------------------------------------|
| Less than 30 days overdue                       | 174                                      | –  | 385                                |
| More than 30 days but less than 90 days overdue | 184                                      | 145                                      | –                                  |
| More than 90 days but less than a year overdue  | 140                                      | 2,614                                    | 646                                |
| More than one year overdue                      | 912                                      | –  | –                                  |
|   | <b>1,410</b>                             | <b>2,759</b>                             | <b>1,031</b>                       |

At 31 December 2017, the Board considered £537,000 (31 December 2016: £686,000, 30 June 2017: £430,000) of loans to be impaired as, following routine investigation of loan performance, the Investment Manager received evidence of delayed and missed interest payments in respect of the below loans. This evidence indicated that the loans' recoverability would be less than their carrying value and by liaising directly with the platforms to establish a recovery rate, Amberton had estimated a recoverable amount as at 31 December 2017.

|                         | 31 December 2017<br>(unaudited)<br>£'000 | 31 December 2016<br>(unaudited)<br>£'000 | 30 June 2017<br>(audited)<br>£'000 |
|-------------------------|--|--|------------------------------------|
| Funding Knight          | 367                                      | 338                                      | 307                                |
| UK Bond Network         | 104                                      | 104                                      | 104                                |
| MyTripleA               | 66                                       | 6  | 19                                 |
| Liftforward             | –  | 238                                      | –                                  |
| <b>Total impairment</b> | <b>537</b>                               | <b>686</b>                               | <b>430</b>                         |

During the period, £40,000 (31 December 2016: £nil, 30 June 2017: £454,000) of loans were written off and included within realised (loss)/gain on disposal of loans in the Unaudited Condensed Statement of Comprehensive Income.

## NOTES TO THE UNAUDITED CONDENSED HALF-YEARLY FINANCIAL STATEMENTS

for the six months ended 31 December 2017 (continued)

## 15. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

|   | Period from<br>1 July 2017 to<br>31 December 2017<br>(unaudited)<br>£'000 | Period from<br>1 July 2016 to<br>31 December 2016<br>(unaudited)<br>£'000 | Year ended<br>30 June 2017<br>(audited)<br>£'000 |
|---|---|---|--|
| Balance brought forward   | 258   | 1,981   | 1,981  |
| Additions in the period/year  | –   | 141   | 181  |
| Disposals in the period/year  | –   | (615)   | (1,971)  |
| Realised gain on disposal of investments at fair value through profit or loss   | –   | 85  | 260  |
| Movement in unrealised gain on investments at fair value through profit or loss | 20  | (45)  | (193)  |
| <b>Balance at period/year end</b>   | <b>278</b>  | <b>1,547</b>  | <b>258</b>                                       |

For further information on the investments at fair value through profit or loss, see note 16.

## 16. 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 2017, the financial instruments designated at fair value through profit or loss were as follows:

| Financial assets   | 31 December 2017 (unaudited) |                  |                  | Total<br>£'000 |
|--|------------------------------|------------------|------------------|----------------|
|  | Level 1<br>£'000             | Level 2<br>£'000 | Level 3<br>£'000 |                |
| Unlisted equity shares   | –                            | –                | 278              | 278            |
| Derivative financial instruments (note 17)                                       | –                            | 9                | –                | 9              |
| <b>Total financial assets designated as at fair value through profit or loss</b> | <b>–</b>                     | <b>9</b>         | <b>278</b>       | <b>287</b>     |

At 31 December 2016, the financial assets designated at fair value through profit or loss were as follows:

| Financial assets   | 31 December 2016 (unaudited) |                  |                  | Total<br>£'000 |
|--|------------------------------|------------------|------------------|----------------|
|  | Level 1<br>£'000             | Level 2<br>£'000 | Level 3<br>£'000 |                |
| Unlisted preference shares   | –                            | –                | 1,341            | 1,341          |
| Unlisted equity shares   | –                            | –                | 206              | 206            |
| Derivative financial instruments (note 17)                                       | –                            | 60               | –                | 60             |
| <b>Total financial assets designated as at fair value through profit or loss</b> | <b>–</b>                     | <b>60</b>        | <b>1,547</b>     | <b>1,607</b>   |

At 30 June 2017, the financial assets designated at fair value through profit or loss were as follows:

| Financial assets   | 30 June 2017 (audited) |                  |                  | Total<br>£'000 |
|--|------------------------|------------------|------------------|----------------|
|  | Level 1<br>£'000       | Level 2<br>£'000 | Level 3<br>£'000 |                |
| Unlisted equity shares   | –                      | –                | 258              | 258            |
| Derivative financial instruments (note 17)                                       | –                      | 150              | –                | 150            |
| <b>Total financial assets designated as at fair value through profit or loss</b> | <b>–</b>               | <b>150</b>       | <b>258</b>       | <b>408</b>     |

## NOTES TO THE UNAUDITED CONDENSED HALF-YEARLY FINANCIAL STATEMENTS

for the six months ended 31 December 2017 (continued)

**16. FAIR VALUE OF FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)**

At 31 December 2017, the Company held unlisted equity shares and derivative financial instruments. The unlisted equity shares are carried at the net asset value of the underlying entity, and derivative financial instruments, being foreign currency forward contracts, are valued at the forward foreign currency exchange rate at the reporting date.

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

**Transfers between levels**

There were no transfers between levels in the period (31 December 2016 and 30 June 2017: none).

**17. DERIVATIVE FINANCIAL INSTRUMENTS**

During the period, the Company entered into foreign currency forward contracts to hedge against foreign exchange fluctuations. The Company realised a gain of £227,000 (31 December 2016: loss of £1,022,000, 30 June 2017: loss of £1,008,000) on forward foreign exchange contracts that settled during the period.

As at 31 December 2017, the open forward foreign exchange contracts were valued at £9,000 (31 December 2016: £60,000, 30 June 2017: £150,000).

**18. OTHER RECEIVABLES AND PREPAYMENTS**

|                   | <i>31 December 2017</i><br><i>(unaudited)</i><br>£'000 | <i>31 December 2016</i><br><i>(unaudited)</i><br>£'000 | <i>30 June 2017</i><br><i>(audited)</i><br>£'000 |
|-------------------|--|--|--|
| Accrued interest  | 1,122  | 724  | 711  |
| Prepayments       | 37   | 10   | 14   |
| Other receivables | –  | 90   | 8  |
|                   | <b>1,159</b>   | <b>824</b>   | <b>733</b>                                       |

**19. OTHER PAYABLES AND ACCRUALS**

|                                   | <i>31 December 2017</i><br><i>(unaudited)</i><br>£'000 | <i>31 December 2016</i><br><i>(unaudited)</i><br>£'000 | <i>30 June 2017</i><br><i>(audited)</i><br>£'000 |
|-----------------------------------|--|--|--|
| Deferred investment income        | 354  | 131  | 124  |
| Management fee                    | 44   | 94   | 43   |
| Administration fee                | 28   | 33   | 31   |
| Other payables and accruals       | 19   | 14   | 18   |
| Audit fee                         | 18   | 15   | 35   |
| Accountancy and taxation fees     | 13   | –  | 8  |
| Legal and professional fees       | 1  | –  | 53   |
| Withholding taxation on dividends | –  | 66   | –  |
| Broker fee                        | –  | 20   | 13   |
| Directors' remuneration           | –  | 3  | 9  |
| Other payable <sup>(1)</sup>      | –  | –  | 2,692  |
| Transaction fees                  | –  | –  | 40   |
| Taxation                          | –  | –  | 5  |
|                                   | <b>477</b>   | <b>376</b>   | <b>3,071</b>                                     |

<sup>(1)</sup> At 30 June 2017, the Company had entered into a fully signed agreement for a loan to a borrower. However, the funds left the Company's bank account on 4 July 2017, creating a payable at 30 June 2017.

**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 2017, the Company had no liabilities classified as cash flows from financing activities (31 December 2016 and 30 June 2017: none).

NOTES TO THE UNAUDITED CONDENSED HALF-YEARLY FINANCIAL STATEMENTS

for the six months ended 31 December 2017 (continued)

20. SHARE CAPITAL

|   | 31 December 2017<br>(unaudited)<br>£'000 | 31 December 2016<br>(unaudited)<br>£'000 | 30 June 2017<br>(audited)<br>£'000 |
|---|--|--|------------------------------------|
| <b>Authorised share capital:</b>                    |  |  |                                    |
| 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                                 |
| <b>Called up share capital:</b>                     |  |  |                                    |
| 52,660,350 Ordinary Shares of 1 pence each          | 527                                      | 527                                      | 527                                |
| 50,000 Management Shares of £1 each                 | 50                                       | 50                                       | 50                                 |
|   | <b>577</b>                               | <b>577</b>                               | <b>577</b>                         |

The Management Shares, which are held by Amberton, 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.

21. OTHER RESERVES

|  | <i>Special<br/>distributable<br/>reserve<br/>£'000</i> | <i>Profit and loss account</i> |   | <i>Total<br/>£'000</i> |
|--|--|--------------------------------|---|------------------------|
|  |  | <i>Distributable<br/>£'000</i> | <i>Non-<br/>distributable<br/>£'000</i> |                        |
| <b>Period ended 31 December 2017</b>   |  |                                |   |                        |
| Brought forward                        | 50,942   | 109                            | 420                                     | 51,471                 |
| Realised revenue profit                | –  | 1,691                          | –                                       | 1,691                  |
| Realised investment gains and losses   | –  | 187                            | –                                       | 187                    |
| Unrealised investment gains and losses | –  | –                              | (375)                                   | (375)                  |
| Dividends paid                         | –  | (1,658)                        | –                                       | (1,658)                |
| <b>At 31 December 2017</b>             | <b>50,942</b>  | <b>329</b>                     | <b>45</b>                               | <b>51,316</b>          |
| <b>Period ended 31 December 2016</b>   |  |                                |   |                        |
| Brought forward                        | 50,942   | –                              | 1,881                                   | 52,823                 |
| Realised revenue profit                | –  | 2,099                          | –                                       | 2,099                  |
| Realised investment gains and losses   | –  | (949)                          | –                                       | (949)                  |
| Unrealised investment gains and losses | –  | –                              | 278                                     | 278                    |
| Dividends paid                         | (746)  | (1,150)                        | –                                       | (1,896)                |
| <b>At 31 December 2016</b>             | <b>50,196</b>  | <b>–</b>                       | <b>2,159</b>                            | <b>52,355</b>          |
| <b>Year ended 30 June 2017</b>         |  |                                |   |                        |
| Brought forward                        | 50,942   | –                              | 1,881                                   | 52,823                 |
| Realised revenue profit                | –  | 3,194                          | –                                       | 3,194                  |
| Realised investment gains and losses   | –  | 707                            | –                                       | 707                    |
| Unrealised investment gains and losses | –  | –                              | (1,461)                                 | (1,461)                |
| Dividends paid                         | –  | (3,792)                        | –                                       | (3,792)                |
| <b>At 30 June 2017</b>                 | <b>50,942</b>  | <b>109</b>                     | <b>420</b>                              | <b>51,471</b>          |

# NOTES TO THE UNAUDITED CONDENSED HALF-YEARLY FINANCIAL STATEMENTS

for the six months ended 31 December 2017 (continued)

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### 21. OTHER RESERVES (continued)

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 £276,000 dividends (see note 5), which were declared on 21 December 2017 and 19 January 2018 respectively, will be partly paid from the £329,000 remaining realised revenue profit with the remaining amount being paid from 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 £51,893,000 (31 December 2016: £52,932,000, 30 June 2017: £52,048,000), less £50,000 (31 December 2016 and 30 June 2017: £50,000), being amounts owed in respect of Management Shares, and on 52,660,350 (31 December 2016 and 30 June 2017: 52,660,350) Ordinary Shares in issue at the period end.

### 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, Custodian, 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.

## NOTES TO THE UNAUDITED CONDENSED HALF-YEARLY FINANCIAL STATEMENTS

for the six months ended 31 December 2017 (continued)

## 23. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

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.

| <i>Investment Restriction</i>   | <i>Investment Policy</i> |
|---|--------------------------|
| <b>Geography</b>  |                          |
| – Exposure to UK loan assets  | Minimum of 60%           |
| – Minimum exposure to non-UK loan assets  | 20%                      |
| <b>Duration to maturity</b>   |                          |
| – 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%                      |
| <b>Maximum single investment</b>  |                          |
| Maximum exposure to single borrower or group  | 10%                      |
| Maximum exposure to loan assets sourced through single alternative lending platform or other third party originator                                       | 10%                      |
| Maximum exposure to any individual wholesale loan arrangement   | 25%                      |
| Maximum exposure to loan assets which are neither sterling-denominated nor hedged back to sterling  | 25%                      |
| Maximum exposure to unsecured loan assets   | 15%                      |
| Maximum exposure to assets (excluding cash and cash-equivalent investments) which are not loans or investments with loan-based investment characteristics | 25%                      |
|   | 10%                      |

The Company complied with the investment restrictions throughout the period from 1 July 2017 to 31 December 2017 and up to the date of signing this report.

**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 15 and 16) are exposed to price risk. However, the Company does not mitigate the price risk.

At 31 December 2017, 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 +/- £14,000 (31 December 2016: +/- £77,000, 30 June 2017: +/- £13,000). The maximum price risk resulting from financial instruments is equal to the £278,000 carrying value of the investments at fair value through profit or loss (31 December 2016: £1,547,000, 30 June 2017: £258,000).

*(ii) Foreign currency risk*

Foreign currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign 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.

## NOTES TO THE UNAUDITED CONDENSED HALF-YEARLY FINANCIAL STATEMENTS

for the six months ended 31 December 2017 (continued)

## 23. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

## Market risk (continued)

## (ii) Foreign currency risk (continued)

As at 31 December 2017, 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<br>at fair value<br>through<br>profit or loss<br>£'000 | Loans and<br>receivables<br>£'000 | Cash and<br>cash<br>equivalents<br>£'000 | Other<br>payables<br>and<br>accruals<br>£'000 | Exposure<br>£'000 | Foreign<br>currency<br>forward<br>contract<br>£'000 | Net<br>exposure<br>£'000 |
|-------------------------------------|--|-----------------------------------|--|---|-------------------|---|--------------------------|
| <b>31 December 2017 (unaudited)</b> |  |                                   |  |   |                   |   |                          |
| US Dollars                          | –  | 5,344                             | 1,412                                    | –   | 6,756             | (6,693)   | 63                       |
| Euros                               | 64   | 4,928                             | 304                                      | (1)   | 5,295             | (5,320)   | (25)                     |
|                                     | <b>64</b>  | <b>10,272</b>                     | <b>1,716</b>                             | <b>(1)</b>                                    | <b>12,051</b>     | <b>(12,013)</b>                                     | <b>38</b>                |
| <b>31 December 2016 (unaudited)</b> |  |                                   |  |   |                   |   |                          |
| US Dollars                          | 1,341  | 7,310                             | 737                                      | –   | 9,388             | (9,782)   | (394)                    |
| Euros                               | 54   | 6,269                             | 686                                      | –   | 7,009             | (6,992)   | 17                       |
|                                     | <b>1,395</b>   | <b>13,579</b>                     | <b>1,423</b>                             | <b>–</b>                                      | <b>16,397</b>     | <b>(16,774)</b>                                     | <b>(377)</b>             |
| <b>30 June 2017 (audited)</b>       |  |                                   |  |   |                   |   |                          |
| US Dollars                          | –  | 5,467                             | 1,413                                    | (29)  | 6,851             | (6,854)   | (3)                      |
| Euros                               | 59   | 4,775                             | 87                                       | (2)   | 4,919             | (4,925)   | (6)                      |
|                                     | <b>59</b>  | <b>10,242</b>                     | <b>1,500</b>                             | <b>(31)</b>                                   | <b>11,770</b>     | <b>(11,779)</b>                                     | <b>(9)</b>               |

In order to limit the exposure to foreign currency risk, the Company entered into hedging contracts during the period. At 31 December 2017, the Company held foreign currency forward contracts to sell US\$9,000,000 and €6,000,000 (31 December 2016: US\$12,000,000 and €8,200,000, 30 June 2017: US\$8,800,000 and €5,550,000) with a settlement date of 31 January 2018.

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 2017, 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 2017 would have decreased/increased by £(3,000)/£3,000 (31 December 2016: £(17,000)/£15,000, 30 June 2017: £(7,000)/£8,000), after accounting for the effects of the hedging contracts mentioned above.

## (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 £3,343,000 (31 December 2016: £6,015,000 and loans of £873,000, 30 June 2017: £13,376,000) were the only interest bearing financial instruments subject to variable interest rates at 31 December 2017. 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 £17,000 (31 December 2016: £34,000, 30 June 2017: £67,000).



## NOTES TO THE UNAUDITED CONDENSED HALF-YEARLY FINANCIAL STATEMENTS

for the six months ended 31 December 2017 (continued)

## 23. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

## Market risk (continued)

## (iii) Interest rate risk (continued)

|  | <i>Fixed<br/>interest<br/>£'000</i> | <i>Variable<br/>interest<br/>£'000</i> | <i>Non-interest<br/>bearing<br/>£'000</i> | <i>Total<br/>£'000</i> |
|--|-------------------------------------|--|---|------------------------|
| <b>31 December 2017 (unaudited)</b>              |                                     |  |   |                        |
| <b>Financial Assets</b>                          |                                     |  |   |                        |
| Loans  | 47,432                              | –                                      | –   | 47,432                 |
| Cash held on client accounts with platforms      | –                                   | –                                      | 149                                       | 149                    |
| Investments at fair value through profit or loss | –                                   | –                                      | 278                                       | 278                    |
| Derivative financial instruments                 | –                                   | –                                      | 9   | 9                      |
| Other receivables                                | –                                   | –                                      | 1,122                                     | 1,122                  |
| Cash and cash equivalents                        | –                                   | 3,343                                  | –   | 3,343                  |
| <b>Total financial assets</b>                    | <b>47,432</b>                       | <b>3,343</b>                           | <b>1,558</b>                              | <b>52,333</b>          |
| <b>Financial Liabilities</b>                     |                                     |  |   |                        |
| Other payables                                   | –                                   | –                                      | (123)                                     | (123)                  |
| <b>Total financial liabilities</b>               | <b>–</b>                            | <b>–</b>                               | <b>(123)</b>                              | <b>(123)</b>           |
| <b>Total interest sensitivity gap</b>            | <b>47,432</b>                       | <b>3,343</b>                           | <b>1,435</b>                              | <b>52,210</b>          |
|  |                                     |  |   |                        |
| <b>31 December 2016 (unaudited)</b>              |                                     |  |   |                        |
| <b>Financial Assets</b>                          |                                     |  |   |                        |
| Loans  | 42,930                              | 873                                    | –   | 43,803                 |
| Cash held on client accounts with platforms      | –                                   | –                                      | 1,059                                     | 1,059                  |
| Investments at fair value through profit or loss | –                                   | –                                      | 1,547                                     | 1,547                  |
| Investment in subsidiary                         | –                                   | –                                      | 41,088                                    | 41,088                 |
| Derivative financial instruments                 | –                                   | –                                      | 60  | 60                     |
| Other receivables                                | –                                   | –                                      | 814                                       | 814                    |
| Cash and cash equivalents                        | –                                   | 6,015                                  | –   | 6,015                  |
| <b>Total financial assets</b>                    | <b>42,930</b>                       | <b>6,888</b>                           | <b>44,568</b>                             | <b>94,386</b>          |
| <b>Financial Liabilities</b>                     |                                     |  |   |                        |
| Amount due to subsidiary                         | –                                   | –                                      | (41,088)                                  | (41,088)               |
| Other payables                                   | –                                   | –                                      | (245)                                     | (245)                  |
| <b>Total financial liabilities</b>               | <b>–</b>                            | <b>–</b>                               | <b>(41,333)</b>                           | <b>(41,333)</b>        |
| <b>Total interest sensitivity gap</b>            | <b>42,930</b>                       | <b>6,888</b>                           | <b>3,235</b>                              | <b>53,053</b>          |

## NOTES TO THE UNAUDITED CONDENSED HALF-YEARLY FINANCIAL STATEMENTS

for the six months ended 31 December 2017 (continued)

## 23. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

## Market risk (continued)

## (iii) Interest rate risk (continued)

| 30 June 2017 (audited)                           | Fixed<br>interest<br>£'000 | Variable<br>interest<br>£'000 | Non-interest<br>bearing<br>£'000 | Total<br>£'000 |
|--|----------------------------|-------------------------------|----------------------------------|----------------|
| <b>Financial Assets</b>                          |                            |                               |                                  |                |
| Loans  | 39,458                     | –                             | –                                | 39,458         |
| Cash held on client accounts with platforms      | –                          | –                             | 1,144                            | 1,144          |
| Investments at fair value through profit or loss | –                          | –                             | 258                              | 258            |
| Derivative financial instruments                 | –                          | –                             | 150                              | 150            |
| Other receivables                                | –                          | –                             | 719                              | 719            |
| Cash and cash equivalents                        | –                          | 13,376                        | –                                | 13,376         |
| <b>Total financial assets</b>                    | <b>39,458</b>              | <b>13,376</b>                 | <b>2,271</b>                     | <b>55,105</b>  |
| <b>Financial Liabilities</b>                     |                            |                               |                                  |                |
| Other payables                                   | –                          | –                             | (2,947)                          | (2,947)        |
| <b>Total financial liabilities</b>               | <b>–</b>                   | <b>–</b>                      | <b>(2,947)</b>                   | <b>(2,947)</b> |
| <b>Total interest sensitivity gap</b>            | <b>39,458</b>              | <b>13,376</b>                 | <b>(676)</b>                     | <b>52,158</b>  |

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 2017, credit risk arose principally from cash and cash equivalents of £3,343,000 (31 December 2016: £6,015,000, 30 June 2017: £13,376,000) and balances due from the platforms and SMEs of £47,581,000 (31 December 2016: £44,862,000, 30 June 2017: £40,602,000). 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.

## 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 2017 was low since the ratio of cash and cash equivalents to unmatched liabilities was 7:1 (31 December 2016: 16:1, 30 June 2017: 4:1).

## NOTES TO THE UNAUDITED CONDENSED HALF-YEARLY FINANCIAL STATEMENTS

for the six months ended 31 December 2017 (continued)

## 23. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

## Liquidity risk (continued)

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:

|                       | <i>31 December 2017</i><br><i>(unaudited)</i><br><i>Percentage</i> | <i>31 December 2016</i><br><i>(unaudited)</i><br><i>Percentage</i> | <i>30 June 2017</i><br><i>(audited)</i><br><i>Percentage</i> |
|-----------------------|--|--|--|
| 0 to 6 months         | 15.6   | 42.9   | 32.6   |
| 6 months to 18 months | 26.0   | 14.1   | 11.0   |
| 18 months to 3 years  | 18.7   | 17.6   | 19.7   |
| Greater than 3 years  | 39.7   | 25.4   | 36.7   |
|                       | <b>100.0</b>   | <b>100.0</b>   | <b>100.0</b>   |

## 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 2017, 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 2016 and 30 June 2017: 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 2016 and 30 June 2017: none).

## 25. EVENTS AFTER THE REPORTING PERIOD

Two dividends of 0.525p per Ordinary Share, which (in accordance with IFRS) were not provided for at 31 December 2017, have been declared out of the profits for the period ended 31 December 2017 (see note 5).

On 20 February 2018, the Company declared a dividend of 0.525p per Ordinary Share for the period from 1 January 2018 to 31 January 2018. This dividend will be paid on 23 March 2018.

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.

## DIRECTORS

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

## ADVISERS

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### Registered Office

1 Finsbury Circus  
London  
EC2M 7SH

### UK Investment Manager

SQN Asset Management Limited  
Melita House  
124 Bridge Road  
Chertsey  
Surrey  
KT16 8LH

### US Investment Manager and AIFM

SQN Capital Management, LLC  
100 Wall Street  
28th Floor  
New York  
NY 10005

### Sub-Investment Adviser to the Investment Manager

Amberton Asset Management Limited  
Sarnia House  
Le Truchot  
St Peter Port  
Guernsey  
GY1 4NA

### Administrator and Secretary

Elysium Fund Management Limited  
PO Box 650  
1st Floor  
Royal Chambers  
St Julian's Avenue  
St Peter Port  
Guernsey  
GY1 3JX

### Auditors

RSM UK Audit LLP  
25 Farringdon Street  
London  
EC4A 4AB

### English Legal Adviser

Stephenson Harwood LLP  
1 Finsbury Circus  
London  
EC2M 7SH

### Guernsey Legal Adviser

Carey Olsen  
PO Box 98  
Carey House  
Les Banques  
St Peter Port  
Guernsey  
GY1 4BZ

### Registrar

Link Asset Services  
34 Beckenham Road  
Beckenham  
Kent  
BR3 4TU

### Bankers

Royal Bank of Scotland International Limited  
PO Box 62  
Royal Bank Place  
1 Glatigny Esplanade  
St Peter Port  
Guernsey  
GY1 4BQ

### Broker

Cantor Fitzgerald Europe  
One Churchill Place  
Canary Wharf  
London  
E14 5RD

### Public Relations Consultant

Buchanan Communications Limited  
107 Cheapside  
London  
EC2V 6DN



Secured Income Fund Plc

SQN Asset Management Limited  
Melita House  
124 Bridge Road  
Chertsey  
Surrey  
KT16 8LH