Secured Income Fund plc

(formerly SQN Secured Income Fund plc)

(Registered number 09682883)

HALF-YEARLY REPORT AND UNAUDITED CONDENSED FINANCIAL STATEMENTS

For the six months ended 31 December 2020

Contents

Key Points

NET ASSETS[1]

£41,262,000

(unaudited 31 December 2019: £48,686,000)
(audited 30 June 2020: £45,532,000)

DIVIDEND PER SHARE DECLARED IN RESPECT OF THE PERIOD

8.50p

(unaudited 31 December 2019: 3.50p)
(audited 30 June 2020: 7.00p)

NAV PER ORDINARY SHARE

78.26p

(unaudited 31 December 2019: 92.36p)
(audited 30 June 2020: 86.37p)

DIVIDEND COVER

0.15

(unaudited 31 December 2019: 0.67)
(audited 30 June 2020: 0.44)

SHARE PRICE

66.50p

(unaudited 31 December 2019: 85.25p)
(audited 30 June 2020: 76.50p)

TOTAL RETURN PER ORDINARY SHARE (BASED ON NAV)[2]

+1.8%

(unaudited 31 December 2019: +0.8%)
(audited 30 June 2020: -1.8%)

DISCOUNT TO NAV

15.03%

(unaudited 31 December 2019: 7.7%)
(audited 30 June 2020: 11.4%)

TOTAL RETURN PER ORDINARY SHARE (BASED ON SHARE PRICE)[2]

-0.4%

(unaudited 31 December 2019: -3.5%)
(audited 30 June 2020: -9.2%)

PROFIT/(LOSS) FOR THE PERIOD

£820,000

(unaudited 31 December 2019: £399,000)
(audited 30 June 2020: £(913,000))

ORDINARY SHARES IN ISSUE

52,660,350

(unaudited 31 December 2019: 52,660,350)
(audited 30 June 2020: 52,660,350)

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

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

Chairman's Statement

Introduction

I am pleased to provide Shareholders with my Chairman's statement, covering the interim results from 1 July 2020 to 31 December 2020. Over the reporting period, the Company has continued to reduce platform and third-party debt. Despite continued macro uncertainty caused by Brexit, wider geopolitical issues and the continuing Covid-19 pandemic, the target income has continued to be delivered for Shareholders and KKV Investment Management Limited (the "Investment Manager") has made a good start to returning capital as defined in the wind down plan presented to the Board. So far, the Secured Income Fund plc (the "Company") has returned 8.5p per share to Shareholders since the wind down proposals were adopted in September.

Secured Income Fund plc (LSE: SSIF) is a UK-listed specialist investment trust with a focus on secured investments that produce regular, collateralised income from investments made in a portfolio of loans to lower middle market companies in the UK and the rest of the world.

Performance

All loans underwritten since April 2017 are performing in line with expectations and there has been a marked improvement in performance over the reporting period after the initial impact of Covid-19 had been felt by our borrowers. I am pleased to observe that amortisation and general trading conditions have improved.

For the reporting period ended 31 December 2020, the Company generated a net profit of £0.8 million comprised of earnings per Ordinary Share of 1.56p (compared to loss of £0.9 million and loss per Ordinary Share of 1.73p for the year ended 30 June 2020). The Company's NAV at 31 December 2020 was £41.3 million (78.26p (cum income) per Ordinary Share) compared to £45.5 million (86.37p per Ordinary Share) as at 30 June 2020. The fall in the NAV was due to the payment of dividends of 9.67p in the period, with a total return for the reporting period of 1.8%.

Foreign exchange hedging was removed in September 2020, with details of USD and EUR exposure published in monthly factsheets allowing Shareholders to make their own hedging arrangements as appropriate. As a result of this investors should be aware that there might be some impact on the Company if FX markets move markedly.

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

Corporate Activity

As reported in the full year accounts, on 5 June 2020, the Company novated the contract to manage the portfolio to KKV Investment Management Limited, following the management team into their new entity. Continuity of management has been maintained with the same core team responsible for the portfolio, this allows for the smooth run-off of the portfolio as it starts the process of wind down.

Upon the recommendation of the Board, in June 2020, Shareholders voted for the Company to go into a managed wind down. This decision was made after the Company was unable to raise new capital and meet its original goal to increase shareholder capital to £250 million by December 2019. The Board of Directors and the Investment Manager have begun work on an orderly wind-down of the business and have made a good start on the return of capital to investors expeditiously, avoiding capital erosion where possible. No new underwriting commitments have been made and arrangements were made for loans to begin amortisation in line with contractual terms.

Costs have been monitored carefully and management fees were renegotiated to reflect the wind down status of the Company, details of which were reported in my last report and commenced on 17 September 2020.

Dividends

The Company elected to designate all dividends for the period ended 31 December 2020 as interest distributions to its Shareholders. In doing so, the Company took advantage of UK tax treatment by "streaming" income from interest-bearing investments into dividends that will be taxed in the hands of Shareholders as interest income.

As a consequence of the decision to proceed with a managed wind-down, the Board reviewed the dividend policy and decided to cease paying monthly dividends, paying quarterly dividends instead, as well as returning excess capital as and when the Company has excess cash reserves available for distribution. Since September 2020, the Company has been able to make distributions equivalent to 8.5p per share, with a total of 9.67p per share being paid in the period.

Chairman's Statement (continued)

Capital Distributions

Given the better than expected outlook for distribution of capital, the Company has considered the method used for future distributions. After careful consideration and discussions with a number of Shareholders, the Board believes that one of the fairest and most cost-efficient ways of returning substantial amounts of cash to Shareholders is by adopting a B Share Scheme, whereby the Company will be able to issue redeemable B Shares to Shareholders. These are then redeemed on a Redemption Date without further action being required by Shareholders. The Board also intends to continue to make dividend payments, where possible, in accordance with the Company's dividend policy.

The quantum and timing of a Return of Capital to Shareholders following receipt by the Company of the net proceeds of realisations of investments will be dependent on the Company's liabilities and general working capital requirements. Accordingly, any Return of Capital will be at the discretion of the Board, which will announce details of each Return of Capital, including the relevant Record Date, Redemption Price and Redemption Date, through an RNS Announcement, a copy of which will be posted to Shareholders.

The adoption of a B Share Scheme will not limit the ability of the Company to return cash to Shareholders by using other mechanisms and, if the B Share Scheme is adopted, the Board will continue to review its tax effectiveness and cost efficiency over time. The Board's proposal to adopt a B Share Scheme at this point in time should not be taken as any indication as to the likely timing or quantum of any future returns of cash to Shareholders and Shareholders should not conclude that returns of capital over the next few months are likely.

Notice of a General Meeting of Shareholders was published on 26 February 2021 and I am pleased to report that these arrangements were accepted by Shareholders.

Discount

During the reporting period, the Company traded at an average discount to NAV of 17.6%.

Board of Directors

There have been no changes to Board composition during the reporting period.

Outlook

The outlook for direct loans held in the portfolio has improved since my last report and this trend is expected to continue as businesses have adjusted to the challenges of the Covid-19 pandemic.

The Board still expects the wind-down plan will likely take two or three years to execute with the objective of delivering investors total proceeds as close to NAV as possible, less the unavoidable expenses required in the wind down process. However, as stated, we have already taken steps to reduce costs and will continue to do this over the coming months. As we have already outlined in the full year report, our goal in the managed wind-down is to achieve a balance between maximising the value received from those assets and making timely returns of capital to Shareholders.

Market conditions have continued to be challenging but the immediate risks to the portfolio, as presented at the start of the pandemic in Q1 2020, have largely dissipated which is a testament to the careful management of borrower relationships by the Investment Manager. However, the Investment Manager remains vigilant and is mindful of the challenges posed by any reduction in furlough and bounce back policies that have greatly assisted some of our counterparties. As always, we shall keep investors informed of any developments as they occur, in the months to come.

We thank investors for their continued support and hope that the consistent high level of income and the healthy start to the wind down of the Company is welcomed by Shareholders.

David Stevenson
Chairman
23 March 2021

Investment Manager's Report

Overview

KKV Investment Management Limited ("KKV") assumed investment adviser responsibility for the Company on 5 June 2020.

Following the decision by Shareholders not to support continuation, we are working hard on plans to return capital to Shareholders in as expeditious way as possible without damaging capital value. Since the wind down of the Company commenced in September 2020, we have returned 8.5 pence to Shareholders via dividend distribution and we continue to accumulate cash enabling us to continue with this policy.

We are again able to report that the Company has continued to reduce the overall legacy exposure to 14.3% with peer to peer lending making up only 0.5% of the portfolio. IFRS 9 impairment provisions have been increased on legacy investments and now stands at 7.7% of the total NAV value. We have revised our IFRS 9 policy to reflect an industry standard approach and have provided full details of this further in the report. Note that the difference in provisioning was less than 1% when implemented in November 2020.

The Company remains unlevered for investment and working capital purposes.

Despite the challenges of Brexit and the Covid pandemic, we have not had cause to impair our direct loan exposures to date and have observed a marked improvement in trading conditions for all our borrowers, particularly from our wholesale investments. Therefore, the Company has not credit impaired any direct loan exposures to date.

Business Update

KKV is owned by Kvika banki, an Iceland bank specialising in asset management with a total of £3bn assets under management with KKV representing 9% of this total.

Despite the continued disruption to business due to the Covid pandemic, we are pleased to report that the Company has been able to deliver operational management with few glitches with all employees equipped to work remotely throughout the period. All processes are functioning and business continuity has been maintained to a good level.

Fund management responsibility has been consistent since April 2017. During the reporting period, we have recruited further fund management personnel to replace and enhance our capability within the team.

Max Zorza joined the business on 1 November 2020 assuming the role of Chief Operating Officer. He previously held the role of Global Chief Risk Officer for Architas Multi-Manager (part of the AXA Group) and brings extensive operational experience to the firm. He has joined the board of KKVIM and, alongside colleagues from Kvika Securities Limited and Kvika banki hf, completes our management team reporting to Ken Hillen, executive chairman.

Portfolio

There are eleven direct loans in the portfolio with an average of £3.0m balance outstanding per loan and at an average interest rate of 10.8%. Each loan has a bespoke legal documentation and is designed to fit to the Company's and the borrower's requirements. There have been no defaults in this portion of the portfolio underwritten by KKV although we should caveat this statement with a warning that as the pandemic continues we may see cause for prudent impairment. At present and where required we have provided covenant and amortisation relief or maturity extensions to our borrowers. In accordance with IFRS 9 guidance provided by the PRA, we have not applied write downs to these loans.

There is £5.9m now held in the legacy part of the portfolio, where we have differentiated between peer to peer loans and those that are held in loan note structures with professional counterparties. These latter loans are larger in quantum and we have a closer relationship with the underlying companies (further details relating to these investments is provided later in the report). The total number of loans via third parties have been reduced from 213 to 8 (April 2017 to December 2020) with a small number of loans amortising down each month. As mentioned above, peer to peer lending now represents only 0.5% of the portfolio with the majority of the exposure impaired 100% as at the end of the reporting period.

No leverage has been used throughout the reporting period and all assets are held in their base currency after a Board decision to discontinue hedging of capital and interest in September 2020. Fluctuations in the value of Sterling during the reporting period has meant that these positions may be impacted and we have been providing a breakdown of the FX exposures in the portfolio in the factsheet publications in order to allow Shareholders the option to make their own hedging arrangements.

Investment Manager's Report (continued)

Portfolio *(continued)*

There were no breaches of investment guidelines during the reporting period.

As the portfolio in now in wind down, we have been focussed on urging our third-party borrowers to repay debt. As stated in the last full year accounts, we have begun to return capital to Shareholders via dividend payments.

Direct Loans

Borrower	*Principal Balance Outstanding at 31 December 2020 £*	*ECL provision at 31 December 2020 £*	*Loan Carrying Value at Amortised Cost[1] at 31 December 2020 £*	*Amortisation/ Bullet repayment/ other*	*Term remaining (years)*	*Asset Type*	*Currency*	*Yield*
Borrower 1	£10,000,000	£30,000	£9,970,000	Interest only during availability period, then amortisation	0.7 years	Wholesale Lending	GBP	10%
Borrower 2	£4,445,121	£13,335	£4,431,786	Bullet repayment	2.7 years	SME and Leasing Fund	EUR	Variable
Borrower 3	£4,389,173	£13,168	£4,376,006	Interest only for 12 months, then amortisation	4.0 years	Medical Services	USD	12%
Borrower 4	£2,839,217	£39,749	£2,799,468	Cash sweep	1.5 years	Film Production Financing	GBP	12%
Borrower 5	£2,650,245	£37,103	£2,613,141	Cash sweep	2.4 years	Film Production Financing	GBP	11%
Borrower 6	£2,232,343	£31,253	£2,201,091	Cash sweep	2.4 years	Film Production Financing	GBP	11%
Borrower 7	£2,018,527	£28,259	£1,990,268	Cash sweep	2.3 years	Film Production Financing	GBP	12%
Borrower 8	£1,993,637	£27,911	£1,965,726	Cash sweep	1.9 years	Film Production Financing	USD	12%
Borrower 9	£1,500,000	£4,500	£1,495,000	Interest only during availability period, then amortisation	0.7 years	Leasing Group	GBP	9.5%

Investment Manager's Report (continued)

Direct Loans *(continued)*

Borrower	Principal Balance Outstanding at 31 December 2020 £	ECL provision at 31 December 2020 £	Loan Carrying Value at Amortised Cost[1] at 31 December 2020 £	Amortisation/ Bullet repayment/ other	Term remaining (years)	Asset Type	Currency	Yield
Borrower 10	£502,186	£7,031	£495,155	Cash sweep	0.7 years	Film Production Financing	GBP	12%
Borrower 11	£385,488	£1,156	£384,332	Amortisation	2.0 years	Laser and LED Manufacturer	GBP	10%
Direct Loans Total	**£32,955,938**	**£233,466**	**£32,722,472**					

[1] The carrying values of loans at amortised cost disclosed in the table above do not include capitalised transaction fees, which totalled £66,000 at 31 December 2020.

The following provides a narrative relating to some of our direct loan investments. Names of counterparties have been omitted for commercial and business sensitivity reasons.

SME Loan company (Borrower 1) – 24.2% of NAV
This is the largest individual facility provided by the Company and has been in place since May 2017. This is a long-established lender to the SME market. The loan is an interest only and upon maturity, the debt amortises over nine months. This amortisation commenced in January 2021 and the borrower has been able to increase the capital repayments, allowing us comfort that they will be able to repay their facility in full and on time.

Irish SME and Leasing Fund investment (Borrower 2) – 11.1% of NAV
This portfolio of 26 loans has continued to perform well despite the wider economic downturn. They had positioned the portfolio for a Brexit impact with large exposures to Tech and Education. In December 2020, they were able to report a 15.6% gross IRR (12.0% net IRR), this having risen from 8% in March 2020. An independent review of their book subsequently caused an aggressive mark to market of their loans. All of this mark down has now been recovered. The majority of loans are delivering income and the manager has been able to make healthy distributions to the company during the reporting period. The fund is now in its harvest phase and we expect capital distribution to accelerate as loans mature or are refinanced.

US healthcare services company (Borrower 3) – 10.7% of NAV
This credit was underwritten in December 2019. The company specialises in ancillary medical services to a number of hospitals in the American Midwest including optometry, audiology, dentistry and podiatry. Security is provided by debenture over all assets other than accounts receivable (although considered to be of low value), a pledge over equity which may not be diluted and a parental guarantee over all scheduled interest and principal repayments. This last element is the most important given the weaker balance sheet of the underlying business. They have met all interest payments and have commenced amortisation on time.

This direct loan was considered of greatest risk of default when the pandemic started given the nature of business and so we have monitored receivables very tightly.

Media financing (Borrowers 4 through to 8 and Borrower 10) – 29.2% of NAV
Over the course of the last three years, SIF has funded 8 films, two of which have been fully repaid and loan obligations met in full. The remaining six are at various stages of filming and distribution.

At the beginning of the pandemic, as lender we recognised the risk that tax credits and distribution sales may be delayed and noted the cancellation of a number of film festivals when sales activity is at its most productive. We expected the shortfall in airline broadcast and cinema sales to be somewhat compensated by online content providers such as Sky and Netflix. In reality, we had one tax credit due during May and this was paid in time by the Mexico tax authorities.

Investment Manager's Report (continued)

Direct Loans *(continued)*

Media financing (Borrowers 4 through to 8 and Borrower 10) – 29.2% of NAV (continued)

We duly offered three months extension to the timetables originally set for these projects and monitored the progress of each films. As at July, we have further extended and fully documented the maturity dates for these loans by 12 months to allow for a longer period of repayment.

All six loans are individual facilities and are ring-fenced as individual risks. However, to mitigate the volatility of performance on individual projects, we had allowed for a waterfall structure to allow for profit share from higher performing assets to contribute to the overall repayment of the whole portfolio. It is the managers view that this mechanism will allow for all loans to be repaid in full over the extended period granted.

As at December 2020, we have noted an uptick in distributions from sales and tax credits for our portfolio of films. Three of our films have received critical acknowledgment and benefitted from significant media coverage, especially as it was one of the first feature films after the first lock down. We closed out an FX hedging facility for one of the dollar denominated films when FX rate movements allowed, reducing the administration and capital requirement associated with this position.

UK leasing company (Borrower 9) – 3.6% of NAV

This loan has been underwritten since July 2017 on a rolling twelve month basis. It is a working capital facility to be used to warehouse deals financed by block facilities already in place. The loan is supported by a debenture and the company provides quarterly management accounts and full year audited financials. The underlying portfolio comprises a basket of loans split between two types of lending; 85% asset finance/leases with a typical deal size of £15,000 and 15% professional loans to white collar industry professionals supported by personal guarantee.

Performance from the loan book has been strong and to date they have not experienced further stress during the second lock down. The borrower has commenced amortisation and they are meeting all interest calls on time.

LED manufacturer in Ireland (Borrower 11) – 0.9% of NAV

This is a secured term loan that has been in place since May 2017 and is secured by a guarantee from the parent company, a debenture over the borrower and a charge over equipment purchased via Capex portion of the facility.

Their business has operated on a business as usual basis throughout the lockdowns. The borrower changed some working practices to allow for split shifts and those who are able to work from home are doing so. The supply chain is working and customers continue to operate.

After granting a six month amortisation deferral, the borrower has recommenced repayment of capital and we are discussing an early refinance of the facility.

Legacy portfolio

Borrower	Principal Balance Outstanding at 31 December 2020 £	ECL provision at 31 December 2020 £	Loan Carrying Value at Amortised Cost at 31 December 2020 £	Currency	Yield
Borrower 12	£3,650,701	£10,952	£3,639,749	GBP	Variable
Borrower 13	£1,000,000	£20,000	£980,000	GBP	17.0%
Borrower 14	£475,494	£16,642	£458,851	USD	8.0%
Borrower 15	£415,714	£415,714	–	GBP	–
Borrower 16	£486,109	£277,028	£209,081	GBP	9.7%
Borrower 17	£340,763	£340,763	–	EUR	–
Borrower 18	£2,102,091	£2,102,091	–	USD	–
Legacy Loans Total	**£8,470,872**	**£3,183,190**	**£5,287,682**		

Investment Manager's Report (continued)

Co-Investments

We continue to separate pure peer to peer, technology platform-based lending from the three investments that are characterised by professional co-investment alongside other professional investors. After significant corporate change for all three of these latter types of investment, we provide the following narrative:

UK Venture Debt (Borrower 12) – 8.8% of NAV

This business has stabilised and made very good progress in winding down the portfolio. We are now at a stage where only three loans remain in the Loan Note structure and we are in negotiation to allow for these loans to be managed under a different corporate structure and capital to be returned to Shareholders. This will leave one loan, the largest position in the portfolio, a broadband company, which had previously been restructured. We shall arrange for the loan to be held as a direct investment and receive deferred income on a sale within the next two years.

As the portfolio runs off, we have received £3.8m cash over the last six months to December 2020, leaving a balance of £3.6m.

UK Offshore platform (Borrower 13) – 3.8% of NAV

The final credit from this platform has been in place since early 2017 and is a real estate linked loan to a developer on the island of Gibraltar. It is senior in a stack of other loans underwritten by the platform itself. After two years of careful monitoring and pressing for repayment, we have now been given notification that this will be repaid in full with accrued and penalty interest. Throughout the period of delinquency, we had not impaired the loan as to do so would have encouraged the borrower to urge us to take a haircut on final settlement. Our senior position ahead of the platform lender also gave us comfort that the loan would be repaid in full but this has required patience and perseverance. This engagement continues and we are in weekly contact with the financiers and platform to monitor progress. The platform remains confident that this loan will be repaid in full.

US business promissory note (Borrower 14) – 1.1% of NAV

This loan is a working capital facility via a promissory note with a maturity to July 2020. The borrower has been unable to settle the loan and we have since been in protracted negotiations regarding the reprofiling of the debt. At the time of writing, our expectations and those of the borrower are not the same and we shall explore other options for repayment.

Small company bond platform (Borrower 15) – 0.0% of NAV

The only outstanding debt from this platform was a recruitment business that had undergone a protracted recovery process through the courts. This loan is fully impaired.

Peer to Peer

During the reporting period, the Company has been able to reduce the number of peer to peer loans in the portfolio from 14 to 5.

UK peer to peer loan platform (Borrower 16) – 0.5% of NAV

The platform is slowly amortising down with 9 loans being repaid over the reporting period and only 5 loans remaining on the platform. Two of the largest loans are 50% and 80% impaired and represent 99.1% of the total outstanding balance.

Spanish peer to peer loan platform (Borrower 17) – 0.0% of NAV

We have assigned zero probability of any further collections on the remaining 7 loans within the portfolio. We continued to push for some return from these loans but after receiving a number of liquidation confirmations, we concluded that there was very little probability of recouping any further capital.

US peer to peer business (Borrower 18) – 0.0% of NAV

The final outstanding balance of this position has been fully impaired and we have assigned no further ability to recoup funds from the platform.

IFRS 9 Policy

In relation to IFRS 9 provisioning, KKV have implemented a revised and robust systematic grading system to reflect the need to assess risk consistently, taking into account market conditions and probability of default per credit. This uses a ten-stage categorisation methodology. We have decided to increase disclosure of our credit policy for Shareholders to achieve a clear understanding of our approach.

Investment Manager's Report (continued)

IFRS 9 Policy *(continued)*
Our credit model is designed to put each asset into a risk category based on the probability of default. Credits are then individually assigned an expected loss given default ("LGD"). Inputs include specific data describing the characteristics and attributes of each loan. Certain of those loan characteristics will be used to generate the Probability of Default ("PD") and the LGD. This provides a firm basis for comparisons across borrowers and collateral types.

KKVIM Probability of Default Grades:

Grade	KKV PD (%)
1: Virtually no risk	0.01
2: Low risk	0.10
3. Moderate risk	0.50
4. Average risk	1.50
5. Acceptable risk	4
6. Borderline Risk	10
7. High Risk	20
8. Extremely High Risk	40
9. Doubtful	60
10. Loss	100

Loans secured by realisable assets have an expected loss quantum based on the underwriting criteria for the respective collateral type. Loans that are more than 90 days in arrears will typically become Stage 2 assets unless this is for exceptional circumstances. Loans are categorised as in default, and hence Stage 3, when they are over 180 days in arrears and have no credible plan to catch up.

For LGD purposes if the assets supporting the loan are not easily realisable e.g., fixed plant, we assume on default that the business has failed and therefore the recovery will be equivalent to an unsecured loan.

KKVIM LGD (Loss Given Default) Approach:

Category	LGD Approach
Easily Realisable	Asset value less 10% haircut discounted at 10% IRR for 12 months to recovery
Realisable	Asset value less 20% discounted at 20% IRR for 2 years to recovery
Highly Specialised	70% LGD (Equivalent to unsecured)
Subordinated Debt	100% LGD Where an external 3rd party valuation is available this is used to create a bespoke LGD for that asset in priority to the Highly Specialised and Subordinated Debt categories.

The percentage provision under IFRS 9 for a facility is this LGD multiplied by the credit rating Probability of Default as allocated above.

At the time of writing, the economic effects of the pandemic seem likely to continue for some time and we will therefore keep these provisions under regular review. Having observed some improvement in debt service on our Stage 1 loans from June 2020 onwards, we have not identified any marked increase in overall volatility as the second wave of the pandemic began in Q4, 2020. However, we continue to monitor the portfolio carefully and it would be unwise for us to ignore the elevated risk that this uncertainty represents to our borrowers and to not flag the possibility of further loan loss provisions we may have to apply in the future as the global economy braces itself for further economic contraction.

Investment Manager's Report (continued)

Outlook

The reporting period has been a relatively quiet one in relation to credit events and we are confident that we will be able to return capital to Shareholders under the plan presented to the Board at the time of the EGM. In some circumstances, this timetable will be shortened by our careful management of relationships and encouragement to refinance.

All things considered, the loan book has held up very well and we have made good progress in returning capital to our Shareholders in an efficient and expeditious manner.

We would like to thank Shareholders for their support and look forward to sharing further updates on the progress made on wind down in future months.

Dawn Kendall
KKV Investment Management Ltd
23 March 2021

Company Analytics

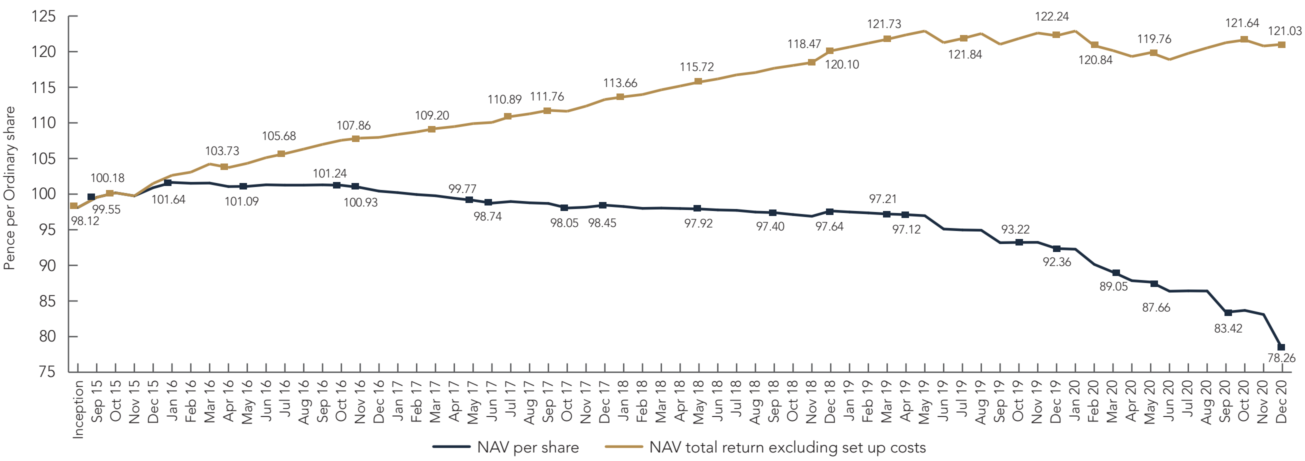
as at 31 December 2020

Performance and dividend history

		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Cumulative Total from 2017
NAV total return, including income*	2017	0.38%	0.33%	0.43%	0.26%	0.38%	0.14%	0.76%	0.34%	0.44%	-0.12%	0.64%	0.83%	**11.52%**
	2018	0.34%	0.27%	0.58%	0.47%	0.48%	0.39%	0.48%	0.28%	0.52%	0.33%	0.34%	1.38%	
	2019	0.44%	0.46%	0.44%	0.51%	0.44%	-1.32%	0.47%	0.57%	-1.23%	0.67%	0.63%	-0.31%	
	2020	0.53%	-1.67%	-0.56%	-0.70%	0.45%	-0.81%	0.74%	0.64%	0.60%	0.32%	-0.70%	0.20%	
Dividend*	2017	0.600p	0.600p	0.600p	0.600p	0.676p	0.525p	0.525p	0.525p	0.525p	0.525p	0.525p	0.525p	**33.44p**
	2018	0.525p	0.525p	0.525p	0.525p	0.525p	0.525p	0.525p	0.525p	0.583p	0.583p	0.583p	0.583p	
	2019	0.583p	0.583p	0.583p	0.583p	0.583p	0.583p	0.583p	0.583p	0.583p	0.583p	0.583p	0.583p	
	2020	0.583p	0.583p	0.583p	0.583p	0.583p	0.583p	0.583p	0.583p	3.500p	0.000p	0.000p	5.000p	
Share price performance**	2017	-0.27%	-2.41%	6.32%	1.55%	-0.51%	0.00%	-0.51%	0.00%	-0.77%	-0.78%	-0.26%	-1.96%	**-32.22%**
	2018	-1.20%	0.00%	-1.62%	2.47%	-1.88%	0.00%	-0.82%	-1.10%	0.28%	1.11%	1.37%	0.00%	
	2019	-0.27%	0.00%	-0.27%	-0.27%	0.55%	0.00%	0.27%	-0.54%	0.00%	-2.45%	-2.51%	-2.29%	
	2020	0.00%	-1.17%	-12.17%	5.07%	-1.93%	0.33%	-0.65%	-5.92%	-6.99%	-0.75%	0.76%	0.00%	

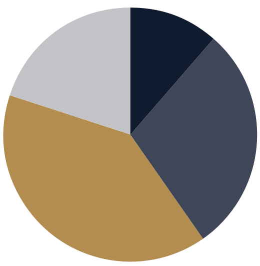
*Per Ordinary Share **Source Bloomberg

NAV/NAV Total Return[1]



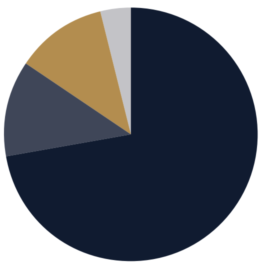
[1] The NAV and NAV total return figures in this graph are based on the NAVs announced by the Company each month.

Portfolio Exposure by Maturity



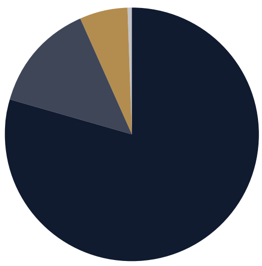
- 0 to 6 months, 11.4%
- 6 months to 18 months, 28.9%
- 18 months to 3 years, 39.7%
- >3 years, 20.0%

Portfolio Exposure by Geography



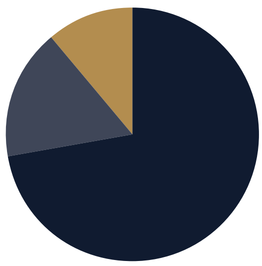
- UK, 72.4%
- Europe, 12.1%
- US, 11.7%
- Offshore Britain, 3.8%

Portfolio Exposure by Type



- Direct loans (KKV originated), 79.7%
- Co-invested and solely owned private debt, 13.8%
- Cash, 6.0%
- Peer to peer/crowdfunded, 0.5%

Portfolio Exposure by Currency



- GBP, 72.4%
- USD, 16.5%
- EUR, 11.1%

Principal Risks and Uncertainties

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

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

Further details of each of these risks and how they are mitigated are discussed in the Principal Risks and Uncertainties section of the Strategic Report within the Company's Annual Report for the year ended 30 June 2020. The Board believes that these risks are applicable to the six month period ended 31 December 2020 and the remaining six months of the current financial year.

Covid-19

The Covid-19 pandemic is a risk to the global economy. Details of the macroeconomic impact, as it may affect the Company, are provided in the Chairman's Statement and Investment Manager's Report. The Investment Manager and Administrator invoked their business continuity plans to help ensure the safety and well-being of their staff thereby retaining the ability to maintain business operations. These actions helped to ensure business resilience.

The situation is changing so rapidly that the full impact cannot yet be understood, but future cashflows and valuations are more uncertain at the current time, and may be more volatile than in recent years. Indeed, the level of estimation uncertainty and judgement for the calculation of expected credit losses has increased as a result of the economic effects of the Covid-19 pandemic. However, the impact of defaults that might occur in future under different economic scenarios has been reflected in various models to enable the Board to evaluate the Company's viability, and the Directors believe that the Company is well placed to survive the impact of the Covid-19 pandemic, thereby enabling the Company to realise its assets in an orderly manner.

On behalf of the Board.

David Stevenson
Chairman
23 March 2021

Statement of Directors' Responsibilities

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

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

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

On behalf of the Board.

David Stevenson
Chairman
23 March 2021

Unaudited Condensed Statement of Comprehensive Income

for the six months ended 31 December 2020

	Note	Period from 1 July 2020 to 31 December 2020 (unaudited) £'000	Period from 1 July 2019 to 31 December 2019 (unaudited) £'000	Year ended 30 June 2020 (audited) £'000
Income				
Investment income		2,346	2,468	4,315
Total revenue		**2,346**	**2,468**	**4,315**
Operating expenses				
Management fees	7a	(190)	(250)	(483)
Other expenses	10	(68)	(91)	(164)
Administration fees	7b	(57)	(57)	(117)
Directors' remuneration	8	(56)	(48)	(94)
Broker fees		(37)	(69)	(197)
Transaction fees	7a	(24)	(107)	(147)
Legal and professional fees		(8)	(48)	(97)
Total operating expenses		**(440)**	**(670)**	**(1,299)**
Investment gains and losses				
Movement in unrealised gains and losses on loans due to movement in foreign exchange on non-Sterling loans	13	(977)	(490)	410
Impairment losses on financial assets (or loans)	13	1,020	(875)	(3,299)
Movement in unrealised gain on investments at fair value through profit or loss	14	4	12	19
Movement in unrealised gain on derivative financial instruments	16	6	522	345
Realised loss on disposal of loans		(1,410)	(443)	(536)
Realised gain/(loss) on derivative financial instruments	16	269	(112)	(852)
Total investment gains and losses		**(1,088)**	**(1,386)**	**(3,913)**
Net profit/(loss) from operating activities before gain/(loss) on foreign currency exchange		**818**	**412**	**(897)**
Net foreign exchange gain/(loss)		2	(13)	(16)
Profit/(loss) and total comprehensive income for the period/year attributable to the owners of the Company		**820**	**399**	**(913)**
Earnings/(loss) per Ordinary Share (basic and diluted)	12	**1.56p**	**0.76p**	**(1.73)p**

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 22 to 49 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 2020

	Note	*Called up share capital £'000*	*Special distributable reserve £'000*	*Profit and loss account £'000*	*Total £'000*
At 1 July 2020		577	48,181	(3,226)	45,532
Profit for the period	*21*	–	–	820	820
Transactions with Owners in their capacity as owners:					
Dividends paid	*5, 21*	–	(4,323)	(767)	(5,090)
At 31 December 2020		**577**	**43,858**	**(3,173)**	**41,262**

There were no other comprehensive income items in the period.

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

The accompanying notes on pages 22 to 49 form an integral part of the unaudited condensed half-yearly financial statements.

Unaudited Condensed Statement of Changes in Equity

for the six months ended 31 December 2019

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

There were no other comprehensive income items in the period.

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

The accompanying notes on pages 22 to 49 form an integral part of the unaudited condensed half-yearly financial statements.

Audited Statement of Changes in Equity

for the year ended 30 June 2020

	Note	*Called up share capital £'000*	*Special distributable reserve £'000*	*Profit and loss account £'000*	*Total £'000*
At 1 July 2019		577	50,253	(701)	50,129
Loss for the year	*21*	–	–	(913)	(913)
Transactions with Owners in their capacity as owners:					
Dividends paid	*5, 21*	–	(2,072)	(1,612)	(3,684)
At 30 June 2020		**577**	**48,181**	**(3,226)**	**45,532**

There were no other comprehensive income items in the year.

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

The accompanying notes on pages 22 to 49 form an integral part of the unaudited condensed half-yearly financial statements.

Unaudited Condensed Statement of Financial Position

as at 31 December 2020

	Note	*31 December 2020 (unaudited) £'000*	*31 December 2019 (unaudited) £'000*	*30 June 2020 (audited) £'000*
Non-current assets				
Loans at amortised cost	*13*	23,149	41,025	31,942
Investments at fair value through profit or loss	*14, 15*	255	244	251
Total non-current assets		**23,404**	**41,269**	**32,193**
Current assets				
Loans at amortised cost	*13*	14,927	3,305	10,691
Cash held on client accounts with platforms	*13*	–	25	–
Derivative financial instruments	*15, 16*	–	171	–
Other receivables and prepayments	*17*	574	1,528	1,625
Cash and cash equivalents		2,500	2,502	1,193
Total current assets		**18,001**	**7,531**	**13,509**
Total assets		**41,405**	**48,800**	**45,702**
Current liabilities				
Other payables and accruals	*18*	(143)	(114)	(164)
Derivative financial instruments	*15, 16*	–	–	(6)
Total liabilities		**(143)**	**(114)**	**(170)**
Net assets		**41,262**	**48,686**	**45,532**
Capital and reserves attributable to owners of the Company				
Called up share capital	*20*	577	577	577
Other reserves	*21*	40,685	48,109	44,955
Equity attributable to the owners of the Company		**41,262**	**48,686**	**45,532**
Net asset value per Ordinary Share	*22*	**78.26p**	**92.36p**	**86.37p**

These unaudited condensed half-yearly financial statements of Secured Income Fund plc (registered number 09682883) were approved by the Board of Directors on 23 March 2021 and were signed on its behalf by:

David Stevenson
Chairman
23 March 2021

Gaynor Coley
Director
23 March 2021

The accompanying notes on pages 22 to 49 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 2020

	Period from 1 July 2020 to 31 December 2020 (unaudited) £'000	Period from 1 July 2019 to 31 December 2019 (unaudited) £'000	Year ended 30 June 2020 (audited) £'000
Cash flows from operating activities			
Net profit/(loss) before taxation	820	399	(913)
Adjustments for:			
Movement in unrealised gains and losses on loans due to movement in foreign exchange on non-Sterling loans	977	490	(410)
Impairment losses on financial assets (or loans)	(1,020)	875	3,299
Movement in unrealised gain on investments at fair value through profit or loss	(4)	(12)	(19)
Movement in unrealised gain on derivative financial instruments	(6)	(522)	(345)
Realised loss on disposal of loans	1,410	443	536
Realised (gain)/loss on derivative financial instruments	(269)	112	852
Amortisation of transaction fees	24	107	147
Interest received and reinvested by platforms	(1)	(43)	(50)
Capitalised interest	(748)	(735)	(1,486)
Decrease in investments	4,184	1,700	1,783
Net cash inflow from operating activities before working capital changes	5,367	2,814	3,394
Decrease/(increase) in other receivables and prepayments	1,051	(387)	(484)
Decrease in other payables and accruals	(21)	(70)	(20)
Net cash inflow from operating activities	**6,397**	**2,357**	**2,890**
Cash flows from financing activities			
Dividends paid	(5,090)	(1,842)	(3,684)
Net cash outflow from financing activities	**(5,090)**	**(1,842)**	**(3,684)**
Increase/(decrease) in cash and cash equivalents in the period/year	**1,307**	**515**	**(794)**
Cash and cash equivalents at the beginning of the period/year	1,193	1,987	1,987
Cash and cash equivalents at 31 December 2020	**2,500**	**2,502**	**1,193**
Supplemental cash flow information			
Non-cash transaction – interest income	749	778	1,536

The accompanying notes on pages 22 to 49 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 2020

1. GENERAL INFORMATION

The Company is a public company (limited by shares) and was incorporated and registered in England and Wales under the Companies Act 2006 on 13 July 2015 with registered number 09682883. The Company's shares were admitted to trading on the London Stock Exchange Specialist Fund Segment on 23 September 2015 ("Admission"). The Company is domiciled in England and Wales.

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

Change of name

On 18 July 2020, the Company changed its name from SQN Secured Income Fund plc to Secured Income Fund plc.

Investment objective and policy

On 17 September 2020, the Shareholders approved the adoption of a new investment objective and policy of the Company, as follows:

The Company will be managed with the intention of realising all remaining assets in the Portfolio in a prudent manner consistent with the principles of good investment management and with a view to returning cash to Shareholders in an orderly manner.

The Company will pursue its investment objective by effecting an orderly realisation of its assets in a manner that seeks to achieve a balance between maximising the value received from those assets and making timely returns of capital to Shareholders. This process might include sales of individual assets, mainly structured as loans, or running off the Portfolio in accordance with the existing terms of the assets, or a combination of both.

As part of the realisation process, the Company may also exchange existing debt instruments for equity securities where, in the opinion of the Board, the Company is unlikely to be able to otherwise realise such debt instruments or will only be able to realise them at a material discount to the outstanding principal balance of that debt instrument.

The Company will cease to make any new investments or to undertake capital expenditure except where, in the opinion of both the Board and the Investment Manager (or, where relevant, the Investment Manager's successors):

– the investment is a follow-on investment made in connection with an existing asset in order to comply with the Company's pre-existing obligations; or

– failure to make the follow-on investment may result in a breach of contract or applicable law or regulation by the Company; or

– the investment is considered necessary to protect or enhance the value of any existing investments or to facilitate orderly disposals.

Any cash received by the Company as part of the realisation process prior to its distribution to Shareholders will be held by the Company as cash on deposit and/or as cash equivalents.

The Company will not undertake new borrowing.

Any material change to the investment policy would require Shareholder approval.

Prior to 17 September 2020, the investment objective and policy was as follows:

Investment objective – prior to 17 September 2020

The investment objective of the Company was 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 – prior to 17 September 2020

The Company achieved 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 included 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 have included (subject to the limit set out below) other types of investment (for example, equity or revenue- or profit-linked instruments). The Company may have made investments through alternative lending platforms that presented suitable investment opportunities identified by the Investment Manager.

Notes to the Unaudited Condensed Half-Yearly Financial Statements

for the six months ended 31 December 2020 (continued)

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 2020. These unaudited condensed half-yearly financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34: *Interim Financial Reporting*, as adopted by the European Union.

The unaudited condensed half-yearly financial statements for the period ended 31 December 2020 have not been audited or reviewed by the Company's auditors and do not constitute statutory financial statements, as defined in s434 of the Companies Act 2006. The unaudited condensed half-yearly financial statements have been prepared on the same basis as the Company's annual financial statements.

Non-Going Concern

On 19 June 2020, the Company held a continuation vote (the "Continuation Vote") that, in line with the Directors' recommendation, did not pass. This vote was required under the Articles as the Company did not have a Net Asset Value of at least £250 million as at 31 December 2019. As this vote did not pass, the Directors (as required under the Articles) convened a further general meeting of the Company on 17 September 2020 at which a special resolution approved the managed wind-down of the Company and the adoption of the new investment policy of the Company, as set out on page 22, to carry out an orderly realisation of the Company's portfolio of assets and distribution of cash to Shareholders.

This has had no significant impact on the accounting policies, judgements or carrying value of assets and liabilities within the financial statements as the loans are included net of their expected credit loss provision ("ECL") and are expected to be realised in an orderly manner, and the estimated costs of winding up the Company are immaterial.

The Covid-19 pandemic is a risk to the global economy. Details of the macroeconomic impact and the impact on credit risk are provided in the Chairman's Statement and the Investment Manager's Report. The Investment Manager and Administrator invoked their business continuity plans to help ensure the safety and well-being of their staff thereby retaining the ability to maintain business operations. These actions helped to ensure business resilience. The situation is changing so rapidly that the full impact cannot yet be understood, but the Company will continue to monitor the situation closely.

b) Basis of measurement

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

Given the Company's investment policy to carry out an orderly realisation of the Company's portfolio of assets and distribution of cash to Shareholders, the financial statements have been prepared on a non-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 ("IFRS") requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

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

Notes to the Unaudited Condensed Half-Yearly Financial Statements

for the six months ended 31 December 2020 (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, derivative instruments and other payables.

Classification

IFRS 9 requires the classification of financial assets to be determined on both the business model used for managing the financial assets and the contractual cash flow characteristics of the financial assets. Loans have been classified at amortised cost as:

- they are held within a "hold to collect" business model with the objective to hold the assets to collect contractual cash flows; and
- the contractual terms of the loans give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Company's unquoted investments have been classified as held at fair value through profit or loss as they are held to realise cash flows from the sale of the investments.

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.

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.

Initial measurement

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

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

Notes to the Unaudited Condensed Half-Yearly Financial Statements

for the six months ended 31 December 2020 (continued)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Financial assets and liabilities *(continued)*

Subsequent measurement

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

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

The carrying value of cash and cash equivalents and other receivables and payables equals fair value due to their short-term nature.

Impairment

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

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

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

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

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

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

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

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

Notes to the Unaudited Condensed Half-Yearly Financial Statements

for the six months ended 31 December 2020 (continued)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Financial assets and liabilities *(continued)*

Impairment (continued)

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

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

For more details in relation to judgements, estimates and uncertainty see note 4, and see pages 10 and 11 of the Investment Manager's Report for details of the Investment Manager's credit model that was implemented during the period.

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.

The carrying values of cash and cash equivalents are deemed to be a reasonable approximation of their fair values.

d) Receivables and prepayments

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

The carrying values of the accrued interest and other receivables are deemed to be reasonable approximations of their fair values.

e) Transaction costs

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

f) Income and expenses

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

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

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

g) Taxation

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

Notes to the Unaudited Condensed Half-Yearly Financial Statements

for the six months ended 31 December 2020 (continued)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h) Changes in accounting policy and disclosures

New and amended standards and interpretations

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

IFRS 7	Financial Instruments: Disclosures – *amendments regarding pre-replacement issues in the context of the IBOR reform*
IFRS 9	Financial Instruments – *amendments regarding pre-replacement issues in the context of the IBOR reform*
IAS 1	Presentation of Financial Statements – *amendments regarding the definition of materiality*
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors – *amendments regarding the definition of materiality*

The adoption of these accounting standards did not have any impact on the Company's Unaudited Condensed Statement of Comprehensive Income, Unaudited Condensed Statement of Financial Position or equity.

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 would have a material impact on the Company's financial statements in the period of initial application.

		Effective date
IFRS 7	Financial Instruments: Disclosures – *amendments regarding replacement issues in the context of the IBOR reform*	1 January 2021
IFRS 9	Financial Instruments – *Amendments regarding replacement issues in the context of the IBOR reform*	1 January 2021
IFRS 9	Financial Instruments – *Amendments resulting from Annual Improvements to IFRS Standards 2018-2020 (fees in the "10 per cent" test for derecognition of financial liabilities)*	1 January 2022
IAS 1	Presentation of Financial Statements – *amendments regarding the classification of liabilities*	1 January 2023
IAS 37	Provisions, Contingent Liabilities and Contingent Assets – *Amendments regarding the costs to include when assessing whether a contract is onerous*	1 January 2022

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. 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.

Judgements

In the process of applying the Company's accounting policies, management made the following judgement, which has had a significant effect on the amounts recognised in the unaudited condensed half-yearly financial statements:

Covid-19

The Covid-19 pandemic is impacting virtually all businesses and the Board expects that it will continue to impact economies over the coming months. The Board and Investment Manager are monitoring any impact this may have on the Company, its investments and income. The situation continues to change rapidly so the full impact cannot yet be understood, a result of which is that future cashflows and valuations are more uncertain at the current time, and may be more volatile than in recent years. Indeed, the level of estimation uncertainty and judgement for the calculation of expected credit losses has increased as a result of the economic effects of the Covid-19 pandemic. However, the impact of defaults that might occur in future under different economic scenarios has been reflected in various models to enable the Board to evaluate the Company's viability, and the Directors believe that the Company is well placed to survive the impact of the Covid-19 pandemic, thereby enabling the Company to realise its assets in an orderly manner.

Notes to the Unaudited Condensed Half-Yearly Financial Statements

for the six months ended 31 December 2020 (continued)

4. USE OF JUDGEMENTS AND ESTIMATES (CONTINUED)

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.

The current economic uncertainty (and the frequent changes in outlook for different economic sectors) has created increased volatility and uncertainty (as mentioned above and in the Investment Manager's Report). In such circumstances the level of estimation uncertainty and judgement of expected credit losses has increased. As noted in the Investment Manager's Report, there are uncertainties about the need for future provisions that may need to be made against individual loans and receivables. Notwithstanding the best endeavours of management to obtain full repayment there is a material uncertainty in relation to the level of provisioning made in these unaudited condensed half-yearly financial statements. Due to this material uncertainty the Directors are unable to update the expected credit loss assessment (as set out in note 3b) to reflect the likely impact on the Company's loan portfolio.

i) Recoverability of loans and other receivables

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

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

The analysis of credit risk is based on a number of factors and a degree of uncertainty is inherent in the estimation process. As mentioned above, due to the Covid-19 pandemic future cashflows and valuations are more uncertain at the current time, and may be more volatile than in recent years. Indeed, the level of estimation uncertainty and judgement for the calculation of expected credit losses has increased as a result of the economic effects of the Covid-19 pandemic.

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

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

Although it may not always be the case (e.g. if discussions with a borrower are ongoing), generally a loan is deemed to be in default if the borrower has missed a payment of principal or interest by more than 180 days, unless the Company has good reason not to apply this rule. If the Company has evidence to the contrary, it may make an exception to the 180 day rule to deem that a borrower is, or is not, in default. Therefore, the definitions of credit impaired and default are aligned as far as possible so that stage 3 represents all loans that are considered defaulted or otherwise credit impaired.

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

IFRS 9 confirms that a Probability of Default ("PD") must never be zero as everything is deemed to have a risk of default; this has been incorporated by the Company. All PDs will be assessed against historic data as well as the prevailing economic conditions at the reporting date, adjusted to account for estimates of future economic conditions that are likely to impact the risk of default.

Notes to the Unaudited Condensed Half-Yearly Financial Statements

for the six months ended 31 December 2020 (continued)

4. USE OF JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimates and assumptions *(continued)*

i) Recoverability of loans and other receivables (continued)

Since November 2020, 12-month PD has been calculated based on the Investment Manager's 10 level grading system (see pages 10 and 11 of the Investment Manager's Report), where:

- levels 1 to 6 fall into Stage 1, with 12-month PD ranging from 0.01% to 10%;
- levels 7 to 9 fall into Stage 2, with 12-month PD ranging from 20% to 60%, and
- level 10 falls into Stage 3, with a 12-month PD of 100%.

Prior to November 2020, 12-month PD was applied across the collective as a cumulative in Stage 1, set at 2% in line with the Investment Manager's historic performance data, market knowledge, and credit enhancements (that was equivalent to there being 1 default for an average portfolio of 50 unique borrowers). Once an investment moved to Stage 2 then PD was calculated on an individual basis (and adjusted for Stage 3 if appropriate).

All assessment is based on reasonable and supportive information available at the time.

Since November 2020, 12-month ECL has been calculated based on the Investment Manager's categorisation, as follows:

Category	*KKV LGD approach*
Easily Realisable	Asset value less 10% haircut discounted at 10% IRR for 12 months to recovery
Realisable	Asset value less 20% discounted at 20% IRR for 2 years to recovery
Highly Specialised/Unsecured	70% LGD
Subordinated Debt	100% LGD

Prior to November 2020, 12-month ECL was applied across the collective as a cumulative in Stage 1, split according to the investment's classification. For direct loan investments this was calculated as 2% of the individual investment's Contracted Cash Flows ("CCF"), and 2% of the investment's CCF for platform investments. Those Stage 1 12-month ECL amounts were taken to be the investments' floor amounts – the Lifetime ECL for any investment could never be less than its floor amount. Once an investment moved to Stage 2, Lifetime ECL was calculated on an individual basis.

Lifetime ECL is reviewed at each reporting date based on reasonable and supportive information available at the time.

The following borrower information should be read in conjunction with the current economic environment and, in particular, the impact of Covid-19.

US Peer to Peer business (Borrower 18) impairment

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

In June 2019, having observed slow progress, the Former Investment Manager began a series of meetings to agree interaction mooted in the previous quarter. Two executives from the Former Investment Manager visited Borrower 18 in New York in July 2019 and August 2019, to agree a process for the way forward and to have an update on the sale of the business. At the time, they were in the middle of a two stage due diligence, which caused delays to the provision of information. With effect from 30 June 2020, the Company has impaired this platform exposure by 100% with a 100% expectation of write-down for this part of the portfolio. This is a pre-emptive move and takes into account a best estimate of loans that are now being managed out by attorneys. The decision to use a 100% impairment rate is based upon the Investment Manager's past experience of platform performance.

Whilst a 100% impairment is based on past experience, the amount finally received may be higher than this. A 10% decrease in the impairment on this loan would result in a £210,000 increase in the net asset value of the Company.

Notes to the Unaudited Condensed Half-Yearly Financial Statements

for the six months ended 31 December 2020 (continued)

4. USE OF JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimates and assumptions *(continued)*

i) Recoverability of loans and other receivables (continued)

UK Venture Debt (Borrower 12) impairment

In September 2019, this platform made the Company aware that a loan was to be sold at a discount to the price originally expected, due to a series of potential acquirers falling away. This resulted in an impairment provision in the previous year. After the turbulence of two of the three principals leaving the company and triggering a clause in the Loan Note agreement that allowed us to take closer control of the process of managing the portfolio, the business has stabilised and made very good progress in winding down the portfolio.

The previous largest position in the portfolio, a broadband company, was restructured and removed from the portfolio. The reorganisation of the business has progressed well and a new CEO employed. Its order book has increased and it has been able to operate throughout the current pandemic crisis. The Investment Manager, therefore, expects some improvement in recovery.

Small Company Bond Platform (Borrower 15) impairment

The only outstanding debt from this platform had undergone a protracted recovery process through the courts. In Q1 2020, the Investment Manager took the decision to fully impair the loan due to slow progress and the increased risk that fees and expenses would erode any repayment to the Company.

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

Collateral

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

Loans written off

Financial assets (and the related impairment allowances) are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, this is generally after receipt of any proceeds from the realisation of security. In circumstances where the net realisable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier. Platform loans of £1,410,000 were written off in the period (31 December 2019: £179,000; 30 June 2020: £268,000).

Renegotiated loans

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

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

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

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

Please see note 3b, note 13 and note 23 for further information on the loans at amortised cost and credit risk.

Notes to the Unaudited Condensed Half-Yearly Financial Statements

for the six months ended 31 December 2020 (continued)

5. DIVIDENDS

The Company distributes at least 85% of its distributable income earned in each financial year by way of dividends.

The Company elected to designate all of the dividends for the period ended 31 December 2020 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 2020:

Announcement date	*Pay date*	*Total dividend declared in respect of earnings in the period £'000*	*Amount per Ordinary Share*
26 August 2020	25 September 2020	1,843	3.50p
26 November 2020	23 December 2020	2,633	5.00p
Dividends declared (to date) for the period		4,476	8.50p
Less, dividends paid after the period end		–	–
Add, dividends paid in the period in respect of the prior year		614	1.17p
Dividends paid in the period		5,090	9.67p

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 £5,090,000 (31 December 2019: £1,842,000, 30 June 2020: £3,684,000) was incurred in respect of dividends, none of which was outstanding at the reporting date (31 December 2019 and 30 June 2020: none).

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

Mechanics for returning cash to Shareholders

The Board carefully considered the potential mechanics for returning cash to Shareholders and the Company's ability to do so. The Board believes it is in the best interests of Shareholders as a whole to make distributions to Shareholders without a significant delay following realisations of a material part of the Portfolio (whether in a single transaction or through multiple, smaller transactions concluded on similar timing), whether by dividend or other method.

After careful consideration and discussions with a number of Shareholders, the Board believes that one of the fairest and most cost-efficient ways of returning substantial amounts of cash to Shareholders is by adopting a B Share Scheme, whereby the Company will be able to issue redeemable B Shares to Shareholders. These are then redeemed on a Redemption Date without further action being required by Shareholders.

Notice of a General Meeting of Shareholders was published on 26 February 2021 and these arrangements were accepted by Shareholders.

The Board also intends to make quarterly dividend payments, where possible, in accordance with the Company's dividend policy and to maintain investment trust status for so long as the Company remains listed.

Notes to the Unaudited Condensed Half-Yearly Financial Statements

for the six months ended 31 December 2020 (continued)

6. RELATED PARTIES

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

Loan to Medical Equipment Solutions Limited ("MESL")

In June 2017, the Company loaned £1,380,000 to MESL, whose Chairman was Neil Roberts, who was chairman of SQN Capital Management, LLC at that time. The loan bore interest at 10.0% per annum and was for a period of five years from the date of drawdown. The loan was to be repaid via 60 monthly payments. The loan was repaid early in March 2020.

No loan interest was earned in the period (31 December 2019: £43,000, 30 June 2020: £57,000), and no loan interest was outstanding at 31 December 2020 (31 December 2019: £2,000, 30 June 2020: £nil).

At 31 December 2020, the balance of the loan was £nil (31 December 2019: £775,000; 30 June 2020 £nil).

7. KEY CONTRACTS

a) Investment Manager

On 5 June 2020, the Company novated the contract to manage the portfolio to KKV Investment Management Limited, following the management team into their new entity from the Former Investment Manager (SQN UK).

The Investment Manager has responsibility for managing the Company's portfolio. For their services, until 16 September 2020, the Investment Manager was entitled to a management fee (on the same terms as the Former Investment Manager) 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.

From 17 September 2020, the 1.0% per annum base management fee was reduced as follows:

- for 12 months from 17 September 2020 to 16 September 2021, to 0.75% per annum of the Company's NAV; and
- from 17 September 2021, to 0.55% of the Company's NAV.

The management fee is payable monthly in arrears on the last calendar day of each month.

During the period, a total of £190,000 (all to KKV) (31 December 2019: £250,000 (all to SQN UK), 30 June 2020: £483,000 (SQN UK, £452,000 and KKV, £31,000)) was incurred in respect of management fees, of which £53,000 was payable at the reporting date (31 December 2019: £41,000, 30 June 2020: £37,000).

Performance fee

From 17 September 2020, the Investment Manager is entitled to a performance fee. The performance fee will be calculated using the most recent NAV prior to the Company failing the June 2020 Continuation Vote (being the NAV as at 31 May 2020) as the benchmark NAV (the "Benchmark NAV"). If 99% of the Benchmark NAV is returned to Shareholders by way of dividend, share buy backs or other methods of return of capital within 12 months from 17 September 2020 then a performance fee of 0.6% of the value returned to Shareholders would be payable to KKV. This will be reduced by 0.1% for every 1% less than 99% of Benchmark NAV that is returned to Shareholders.

Should the time taken to realise the Portfolio exceed 12 months from 17 September 2020, then for the period from 17 September 2021 to 17 September 2022, the incentive fee would reduce by 33% (so that, for example if 99% of Benchmark NAV is returned by month 17, the performance fee would be two-thirds of 0.6%).

Notes to the Unaudited Condensed Half-Yearly Financial Statements

for the six months ended 31 December 2020 (continued)

7. KEY CONTRACTS (CONTINUED)

a) Investment Manager *(continued)*

Performance fee (continued)

The introduction of an outperformance fee, under the terms of the amended Investment Management Agreement, states that KKV will be entitled to 10% of all funds returned to Shareholders in excess of the Benchmark NAV within 12 months from 17 September 2020, reducing to 5% within 12-24 months.

Effective from 17 September 2021, the notice period applicable to termination of the Investment Management Agreement by either party will reduce from 12 months to 4 months.

During the period, no performance fee was paid, or payable, to the Investment Manager.

Transaction costs

Prior to the change in the investment policy, the Company incurred transaction costs for the purposes of structuring investments for the Company. These costs formed part of the overall transaction costs that were capitalised at the point of recognition and were taken into account by the Former Investment Manager when pricing a transaction. When structuring services were provided by the Former Investment Manager or an affiliate of them, they were 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 was not charged in respect of assets acquired from the Former Investment Manager, the funds they managed or where they or their affiliates did not provide such structuring advice.

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

During the period, transaction costs of £24,000 (31 December 2019: £107,000; 30 June 2020 £147,000) were amortised.

b) Administration fees

Elysium Fund Management Limited ("Elysium") is entitled to an administration fee of £100,000 per annum in respect of the services provided in relation to the administration of the Company, together with time based fees in relation to work on investment transactions. During the period, a total of £57,000 (31 December 2019: £57,000, 30 June 2020: £117,000) was incurred in respect of administration fees, of which £28,000 (31 December 2019: £29,000, 30 June 2020: £28,000) was payable at the reporting date.

8. DIRECTORS' REMUNERATION

The Directors are paid such remuneration for their services as determined by the Remuneration and Nomination Committee, which comprises all of the Directors of the Company and is chaired by Gaynor Coley. Under the terms of their appointments, with effect from 17 September 2020, the Chairman of the Company receives £45,000 (prior to 17 September 2020: £37,500) per annum, the chairman of the Audit and Valuation Committee receives £40,000 (prior to 17 September 2020: £31,250) per annum, and other non-executive Directors receive £40,000 (prior to 17 September 2020: £27,500) per annum.

During the period, a total of £56,000 (31 December 2019: £48,000, 30 June 2020: £94,000) was incurred in respect of Directors' remuneration, none of which was payable at the reporting date (31 December 2019 and 30 June 2020: none). No bonus or pension contributions were paid or payable on behalf of the Directors.

Notes to the Unaudited Condensed Half-Yearly Financial Statements

for the six months ended 31 December 2020 (continued)

9. KEY MANAGEMENT AND EMPLOYEES

The Company had no employees during the period (31 December 2019 and 30 June 2020: none). Therefore, there were no key management (except for the Directors) or employees during the period (31 December 2019 and 30 June 2020: none).

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

David Stevenson	£1,958 (31 December 2019: £709; 30 June 2020: £1,417)
Gaynor Coley	£206 (31 December 2019: £70; 30 June 2020: £143)
Ken Hillen *(resigned 26 May 2020)*	£0 (31 December 2019: £175; 30 June 2020: £291)

10. OTHER EXPENSES

	Period from 1 July 2020 to 31 December 2020 (unaudited) £'000	*Period from 1 July 2019 to 31 December 2019 (unaudited) £'000*	*Year ended 30 June 2020 (audited) £'000*
Audit fees	20	20	40
Registrar fees	17	13	36
Other expenses	11	20	33
Listing fees	10	7	18
Directors' national insurance	7	23	26
Accountancy and taxation fees	3	8	11
	68	**91**	**164**

11. TAXATION

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

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

	Period from 1 July 2020 to 31 December 2020 (unaudited) £'000	*Period from 1 July 2019 to 31 December 2019 (unaudited) £'000*	*Year ended 30 June 2020 (audited) £'000*
Reconciliation of tax charge:			
Profit/(loss) before taxation	820	399	(913)
Tax at the standard UK corporation tax rate of 19%	156	76	(173)
Effects of:			
– Non-taxable investment gains and losses	207	263	743
– Interest distributions	(51)	(339)	(570)
Total tax expense	–	–	–

Notes to the Unaudited Condensed Half-Yearly Financial Statements

for the six months ended 31 December 2020 (continued)

11. TAXATION (CONTINUED)

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

	Period from 1 July 2020 to 31 December 2020 (unaudited)	*Period from 1 July 2019 to 31 December 2019 (unaudited)*	*Year ended 30 June 2020 (audited)*
United Kingdom	19%	19%	19%
Guernsey	nil	nil	nil

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

12. EARNINGS/(LOSS) PER ORDINARY SHARE

The earnings/(loss) per Ordinary Share of 1.56p (31 December 2019: 0.76p, 30 June 2020: loss of (1.73)p) is based on a profit/(loss) attributable to the owners of the Company of £820,000 (31 December 2019: £399,000, 30 June 2020: £(913,000)) and on a weighted average number of 52,660,350 (31 December 2019 and 30 June 2020: 52,660,350) Ordinary Shares in issue since Admission. There is no difference between the basic and diluted earnings per share.

13. LOANS AT AMORTISED COST

	31 December 2020 (unaudited) £'000	*31 December 2019 (unaudited) £'000*	*30 June 2020 (audited) £'000*
Loans	41,344	46,142	45,944
Unrealised loss*	(3,268)	(1,787)	(3,311)
Balance at period/year end	**38,076**	**44,355**	**42,633**
Loans: Non-current	23,149	41,025	31,942
Current	14,927	3,305	10,691
Cash held on client accounts with platforms	–	25	–
Loans at amortised cost and cash held on client accounts with platforms	**38,076**	**44,355**	**42,633**
*Unrealised loss:			
Foreign exchange on non-Sterling loans	148	225	1,125
Impairments of financial assets	(3,416)	(2,012)	(4,436)
Unrealised loss	**(3,268)**	**(1,787)**	**(3,311)**

The movement in unrealised gain/loss on loans comprises:

	31 December 2020 (unaudited) £'000	*31 December 2019 (unaudited) £'000*	*30 June 2020 (audited) £'000*
Movement in foreign exchange on non-Sterling loans	(977)	(490)	410
Movement in impairments	1,020	(875)	(3,299)
Movement in unrealised gains and losses on loans	**43**	**(1,365)**	**(2,889)**

The weighted average interest rate of the direct loans as at 31 December 2020 was 10.55% (31 December 2019: 9.67%, 30 June 2020: 10.44%).

Notes to the Unaudited Condensed Half-Yearly Financial Statements

for the six months ended 31 December 2020 (continued)

13. LOANS AT AMORTISED COST (CONTINUED)

The table below details expected credit loss provision ("ECL") of financial assets in each stage at 31 December 2020:

	Stage 1 *£'000*	*Stage 2* *£'000*	*Stage 3* *£'000*	*Total* *£'000*
31 December 2020				
Direct loans [1]	32,956	–	–	32,956
ECL on direct loans	(233)	–	–	(233)
Direct loans net of the ECL	32,723	–	–	32,723
Platform loans [1]	5,128	–	3,342	8,470
ECL on platform loans	(48)	–	(3,135)	(3,183)
Platform loans net of the ECL	5,080	–	207	5,287
Accrued interest	547	–	–	547
Total loans [1]	38,084	–	3,342	41,426
Total ECL	(281)	–	(3,135)	(3,416)
Total net of the ECL	37,803	–	207	38,010

[1] These are the principal amounts outstanding at 31 December 2020 and do not include the capitalised transaction fees, which are not subject to credit risk. At 31 December 2020, the amortised cost of the capitalised transaction fees totalled £66,000.

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

	Non-credit impaired				*Credit impaired*			
	Stage 1		*Stage 2*		*Stage 3*		*Total*	
	Principal outstanding[1] £'000	*Allowance for ECL £'000*	*Principal outstanding[1] £'000*	*Allowance for ECL £'000*	*Principal outstanding[1] £'000*	*Allowance for ECL £'000*	*Principal outstanding[1] £'000*	*Allowance for ECL £'000*
At 1 July 2020	41,633	(24)	–	–	5,346	(4,412)	46,979	(4,436)
Net new and further lending/ repayments, and foreign exchange movements	(3,549)	(257)	–	–	(594)	(133)	(4,143)	(390)
Loans written-off in the period	–	–	–	–	(1,410)	1,410	(1,410)	1,410
At 31 December 2020	38,084	(281)	–	–	3,342	(3,135)	41,426	(3,416)

[1] These are the principal amounts outstanding at 31 December 2020 and do not include the capitalised transaction fees, which are not subject to credit risk. At 31 December 2020, the amortised cost of the capitalised transaction fees totalled £66,000.

Notes to the Unaudited Condensed Half-Yearly Financial Statements

for the six months ended 31 December 2020 (continued)

13. LOANS AT AMORTISED COST (CONTINUED)

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

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

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

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

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

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

Notes to the Unaudited Condensed Half-Yearly Financial Statements

for the six months ended 31 December 2020 (continued)

13. LOANS AT AMORTISED COST (CONTINUED)

The table below details expected credit loss provision ("ECL") of financial assets in each stage at 30 June 2020:

	Stage 1 *£'000*	*Stage 2* *£'000*	*Stage 3* *£'000*	*Total* *£'000*
30 June 2020				
Direct loans [1]	34,419	–	–	34,419
ECL on direct loans	(17)	–	–	(17)
Direct loans net of the ECL	34,402	–	–	34,402
Platform loans [1]	7,214	–	5,346	12,560
ECL on platform loans	(7)	–	(4,412)	(4,419)
Platform loans net of the ECL	7,207	–	934	8,141
Accrued interest	1,585	–	–	1,585
Total loans [1]	41,633	–	5,346	46,979
Total ECL	(24)	–	(4,412)	(4,436)
Total net of the ECL	41,609	–	934	42,543

[1] These are the principal amounts outstanding at 30 June 2020 and do not include the capitalised transaction fees, which are not subject to credit risk. At 30 June 2020, the amortised cost of the capitalised transaction fees totalled £90,000.

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

	Non-credit impaired				*Credit impaired*			
	Stage 1		*Stage 2*		*Stage 3*		*Total*	
	Principal outstanding[1] £'000	*Allowance for ECL £'000*	*Principal outstanding[1] £'000*	*Allowance for ECL £'000*	*Principal outstanding[1] £'000*	*Allowance for ECL £'000*	*Principal outstanding[1] £'000*	*Allowance for ECL £'000*
At 1 July 2019	44,617	(28)	3,117	(735)	426	(374)	48,160	(1,137)
Transfers from:								
– stage 1 to stage 3	(2,066)	2	–	–	2,066	(2)	–	–
– stage 2 to stage 3	–	–	(3,117)	735	3,117	(735)	–	–
Net re-measurement of ECL arising from transfer of stage	–	–	–	–	–	(3,584)	–	(3,584)
Net new and further lending/ repayments, and foreign exchange movements	(918)	2	–	–	5	15	(913)	17
Loans written-off in the year	–	–	–	–	(268)	268	(268)	268
At 30 June 2020	41,633	(24)	–	–	5,346	(4,412)	46,979	(4,436)

[1] These are the principal amounts outstanding at 30 June 2020 and do not include the capitalised transaction fees, which are not subject to credit risk. At 30 June 2020, the amortised cost of the capitalised transaction fees totalled £90,000.

Notes to the Unaudited Condensed Half-Yearly Financial Statements

for the six months ended 31 December 2020 (continued)

13. LOANS AT AMORTISED COST (CONTINUED)

An increase of 1% of total gross exposure into stage 2 (from stage 1) would result in an increase in ECL impairment allowance of £43,000 (31 December 2019: £96,000; 30 June 2020: £11,000) based on applying the difference in average impairment coverage ratios to the movement in gross exposure.

At 31 December 2020, the Board considered £3,416,000 (31 December 2019: £2,012,000; 30 June 2020: £4,436,000) of loans to be impaired:

	31 December 2020 (unaudited) £'000	*31 December 2019 (unaudited) £'000*	*30 June 2020 (audited) £'000*
Borrowers 14 and 18	2,118	542	2,318
Borrower 15	416	15	416
Borrower 17	341	71	345
Borrower 16	277	292	280
Direct SME loans	233	17	17
Other	20	1	–
Borrower 12	11	1,074	1,060
Total impairment	**3,416**	**2,012**	**4,436**

During the period, £1,410,000 (31 December 2019: £175,000, 30 June 2020: £268,000) of loans were written off and included within realised (loss)/gain on disposal of loans in the Unaudited Condensed Statement of Comprehensive Income.

See note 3b and note 4i regarding the process of assessment of loan impairment.

The carrying values of the loans at amortised cost (excluding capitalised transaction costs) are deemed to be a reasonable approximation of their fair values.

14. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Period from 1 July 2020 to 31 December 2020 (unaudited) £'000	*Period from 1 July 2019 to 31 December 2019 (unaudited) £'000*	*Year ended 30 June 2020 (audited) £'000*
Balance brought forward	251	232	232
Movement in unrealised gain on investments at fair value through profit or loss	4	12	19
Balance at period/year end	**255**	**244**	**251**
Cost at period/year end	**159**	**159**	**159**

The £255,000 (31 December 2019: £244,000, 30 June 2020: £251,000) investment at fair value through profit or loss relates to an investment in a Luxembourg fund. For further information on the investments at fair value through profit or loss, see note 15.

Notes to the Unaudited Condensed Half-Yearly Financial Statements

for the six months ended 31 December 2020 (continued)

15. FAIR VALUE OF FINANCIAL INSTRUMENTS

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).

Financial assets and liabilities designated as at fair value through profit or loss

At 31 December 2020, the financial instruments designated at fair value through profit or loss were as follows:

		31 December 2020 (unaudited)		
Financial assets	*Level 1 £'000*	*Level 2 £'000*	*Level 3 £'000*	*Total £'000*
Unlisted equity shares	–	–	255	255
Total financial assets designated as at fair value through profit or loss	**–**	**–**	**255**	**255**

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

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

At 30 June 2020, the financial instruments designated at fair value through profit or loss were as follows:

		30 June 2020 (audited)		
Financial assets/(liabilities)	*Level 1 £'000*	*Level 2 £'000*	*Level 3 £'000*	*Total £'000*
Unlisted equity shares	–	–	251	251
Derivative financial instruments *(note 16)*	–	(6)	–	(6)
Total financial assets/(liabilities) designated as at fair value through profit or loss	**–**	**(6)**	**251**	**245**

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

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

Transfers between levels

There were no transfers between levels in the period (31 December 2019 and 30 June 2020: none).

The carrying values of the loans at amortised cost (excluding capitalised transaction costs) are deemed to be a reasonable approximation of their fair values. The carrying values of all other assets and liabilities not designated as at fair value through profit or loss are deemed to be a reasonable approximation of their fair values due to their short duration.

Notes to the Unaudited Condensed Half-Yearly Financial Statements

for the six months ended 31 December 2020 (continued)

16. DERIVATIVE FINANCIAL INSTRUMENTS

During the period, the Company entered into foreign currency forward contracts to hedge against foreign exchange fluctuations. The Company realised a gain of £269,000 (31 December 2019: loss of £112,000, 30 June 2020: loss of £852,000) on forward foreign exchange contracts that settled during the period.

As at 31 December 2020, there were no open forward foreign exchange contracts (31 December 2019: £171,000, 30 June 2020: £(6,000)).

17. OTHER RECEIVABLES AND PREPAYMENTS

	31 December 2020 (unaudited) £'000	*31 December 2019 (unaudited) £'000*	*30 June 2020 (audited) £'000*
Accrued interest	547	1,498	1,585
Other receivables	16	–	13
Prepayments	11	30	27
	574	**1,528**	**1,625**

The carrying values of the accrued interest and other receivables are deemed to be reasonable approximations of their fair values.

18. OTHER PAYABLES AND ACCRUALS

	31 December 2020 (unaudited) £'000	*31 December 2019 (unaudited) £'000*	*30 June 2020 (audited) £'000*
Management fee	53	41	37
Audit fee	36	20	40
Administration fee	28	29	28
Accountancy and taxation fees	10	10	–
Other payables and accruals	10	7	21
Directors' national insurance	6	5	2
Broker fee	–	2	–
Legal fees	–	–	36
	143	**114**	**164**

The carrying values of the other payables and accruals are deemed to be reasonable approximations of their fair values.

19. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

As at 31 December 2020, the Company had no liabilities that would give rise to cash flows from financing activities (31 December 2019 and 30 June 2020: none).

Notes to the Unaudited Condensed Half-Yearly Financial Statements

for the six months ended 31 December 2020 (continued)

20. SHARE CAPITAL

	31 December 2020 (unaudited) £'000	*31 December 2019 (unaudited) £'000*	*30 June 2020 (audited) £'000*
Authorised share capital:			
Unlimited number of Ordinary Shares of 1 pence each	–	–	–
Unlimited C Shares of 10 pence each	–	–	–
Unlimited Deferred Shares of 1 pence each	–	–	–
50,000 Management Shares of £1 each	50	50	50
Called up share capital:			
52,660,350 Ordinary Shares of 1 pence each	527	527	527
50,000 Management Shares of £1 each	50	50	50
	577	**577**	**577**

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

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

21. OTHER RESERVES

		Profit and loss account[2]		
	Special distributable reserve[1] £'000	*Distributable £'000*	*Non-distributable £'000*	*Total £'000*
Period ended 31 December 2020 (unaudited)				
At 30 June 2020	48,181	–	(3,226)	44,955
Realised revenue profit	–	1,908	–	1,908
Realised investment gains and losses	–	(1,141)	–	(1,141)
Unrealised investment gains and losses	–	–	53	53
Dividends paid	(4,323)	(767)	–	(5,090)
At 31 December 2020	**43,858**	**–**	**(3,173)**	**40,685**
Period ended 31 December 2019 (unaudited)				
At 30 June 2019	50,253	–	(701)	49,552
Realised revenue profit	–	1,785	–	1,785
Realised investment gains and losses	–	(555)	–	(555)
Unrealised investment gains and losses	–	–	(831)	(831)
Dividends paid	(612)	(1,230)	–	(1,842)
At 31 December 2019	**49,641**	**–**	**(1,532)**	**48,109**

Notes to the Unaudited Condensed Half-Yearly Financial Statements

for the six months ended 31 December 2020 (continued)

21. OTHER RESERVES (CONTINUED)

	Special distributable reserve[1] £'000	Profit and loss account[2] Distributable £'000	Profit and loss account[2] Non-distributable £'000	Total £'000
Year ended 30 June 2019 (audited)				
At 30 June 2019	50,253	–	(701)	49,552
Realised revenue profit	–	3,000	–	3,000
Realised investment gains and losses	–	(1,388)	–	(1,388)
Unrealised investment gains and losses	–	–	(2,525)	(2,525)
Dividends paid	(2,072)	(1,612)	–	(3,684)
At 30 June 2020	**48,181**	**–**	**(3,226)**	**44,955**

[1] During the period ended 30 June 2016, and following the approval of the Court, the Company cancelled the share premium account and transferred £51,143,000 to a special distributable reserve, being premium on issue of shares of £52,133,000 less share issue costs of £990,000. The special distributable reserve is available for distribution to Shareholders.

[2] The profit and loss account comprises both distributable and non-distributable elements, as defined by Company Law. Realised elements of the Company's profit and loss account are classified as "distributable", whilst unrealised investment gains and losses are classified as "non-distributable".

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.

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 £41,262,000 (31 December 2019: £48,686,000, 30 June 2020: £45,532,000), less £50,000 (31 December 2019 and 30 June 2020: £50,000), being amounts owed in respect of Management Shares, and on 52,660,350 (31 December 2019 and 30 June 2020: 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.

Prior to the change in investment policy on 17 September 2020, the Company sought to ensure that diversification of its portfolio was maintained, with the aim of spreading investment risk.

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

Risk management structure

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

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

The market in which the Company participates is competitive and rapidly changing. The risks have not changed from those detailed on pages 20 to 30 in the Company's Prospectus, which is available on the Company's website, and as updated in the circular of 20 August 2020.

Notes to the Unaudited Condensed Half-Yearly Financial Statements

for the six months ended 31 December 2020 (continued)

23. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

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.

In a Managed Wind-Down, the value of the Portfolio will be reduced as investments are realised and concentrated in fewer holdings, and the mix of asset exposure will be affected accordingly.

With the aim of maintaining a diversified investment portfolio, and thus mitigating concentration risks, the Company had established (prior to the change in the investment policy on 17 September 2020) the following investment restrictions in respect of the general deployment of assets:

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

The Company complied with the investment restrictions throughout the period and up to the change in investment policy on 17 September 2020, except that, on 9 September 2020, in preparation for the upcoming change in investment policy, additional foreign currency forward contracts were entered into in order to equally and oppositely match the open contracts at that date.

Market risk

(i) Price risk

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

At 31 December 2020, 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 and profit/(loss) would amount to approximately +/- £13,000 (31 December 2019: +/- £12,000, 30 June 2020: +/- £13,000). The maximum price risk resulting from financial instruments is equal to the £255,000 carrying value of the investments at fair value through profit or loss (31 December 2019: £244,000, 30 June 2020: £251,000).

Notes to the Unaudited Condensed Half-Yearly Financial Statements

for the six months ended 31 December 2020 (continued)

23. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Market risk *(continued)*

(ii) Foreign currency risk

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

As at 31 December 2020, a proportion of the net financial assets of the Company, excluding the foreign currency forward contracts (where applicable for 31 December 2019 and 30 June 2020), were denominated in currencies other than Sterling as follows:

	Investments at fair value through profit or loss £'000	*Loans and receivables £'000*	*Cash and cash equivalents £'000*	*Other payables and accruals £'000*	*Exposure £'000*	*Foreign currency forward contracts £'000*	*Net exposure £'000*
31 December 2020 (unaudited)							
US Dollars	–	6,825	–	–	6,825	–	6,825
Euros	–	4,600	–	–	4,600	–	4,600
	–	**11,425**	**–**	**–**	**11,425**	**–**	**11,425**
31 December 2019 (unaudited)							
US Dollars	–	8,850	–	–	8,850	(8,523)	327
Euros	–	4,376	–	–	4,376	(4,358)	18
	–	**13,226**	**–**	**–**	**13,226**	**(12,881)**	**345**
30 June 2020 (audited)							
US Dollars	–	7,552	–	–	7,552	(7,531)	21
Euros	–	4,316	1	–	4,317	(4,121)	196
	–	**11,868**	**1**	**–**	**11,869**	**(11,652)**	**217**

In order to limit the exposure to foreign currency risk, the Company had previously entered into hedging contracts. However, in September 2020, the Company closed out its foreign currency forward contracts and it is not intended to enter into foreign exchange hedging contracts in the future.

At 31 December 2020, the Company held no open foreign currency forward contracts (31 December 2019: foreign currency forward contracts to sell US$11,330,000 and €5,120,000, 30 June 2020: foreign currency forward contracts to sell US$9,340,000 and €4,550,000).

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 2020, 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 2020 would have increased/(decreased) by £601,000/£(544,000) (31 December 2019: £17,000/£(17,000), 30 June 2020: £11,000/£(10,000)), 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 £2,500,000 (31 December 2019: £2,502,000, 30 June 2020: £1,193,000) were the only interest bearing financial instruments subject to variable interest rates at 31 December 2020. Therefore, if interest rates had increased/decreased by 50 basis points, with all other variables held constant, the change in value of interest cash flows of these assets in the period would have been £13,000 (31 December 2019: £13,000, 30 June 2020: £6,000).

Notes to the Unaudited Condensed Half-Yearly Financial Statements

for the six months ended 31 December 2020 (continued)

23. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Market risk *(continued)*

(iii) Interest rate risk (continued)

31 December 2020 (unaudited)	*Fixed interest £'000*	*Variable interest £'000*	*Non-interest bearing £'000*	*Total £'000*
Financial assets				
Loans[1]	38,076	–	–	38,076
Investments at fair value through profit or loss	–	–	255	255
Other receivables	–	–	563	563
Cash and cash equivalents	–	2,500	–	2,500
Total financial assets	**38,076**	**2,500**	**818**	**41,394**
Financial liabilities				
Other payables	–	–	(143)	(143)
Total financial liabilities	**–**	**–**	**(143)**	**(143)**
Total interest sensitivity gap	**38,076**	**2,500**	**675**	**41,251**

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

Notes to the Unaudited Condensed Half-Yearly Financial Statements

for the six months ended 31 December 2020 (continued)

23. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Market risk *(continued)*

(iii) Interest rate risk (continued)

30 June 2020 (audited)	*Fixed interest £'000*	*Variable interest £'000*	*Non-interest bearing £'000*	*Total £'000*
Financial assets				
Loans[1]	42,633	–	–	42,633
Investments at fair value through profit or loss	–	–	251	251
Other receivables	–	–	1,598	1,598
Cash and cash equivalents	–	1,193	–	1,193
Total financial assets	**42,633**	**1,193**	**1,849**	**45,675**
Financial liabilities				
Other payables	–	–	(164)	(164)
Derivative financial instruments	–	–	(6)	(6)
Total financial liabilities	**–**	**–**	**(170)**	**(170)**
Total interest sensitivity gap	**42,633**	**1,193**	**1,679**	**45,505**

[1] Of the loans of £38,076,000 (31 December 2019: £44,330,000, 30 June 2020: £42,633,000), two loans amounting to £8,072,000 (31 December 2019: £10,350,000, 30 June 2020: £10,527,000) included both fixed elements and variable elements, based on the performance of the borrowers' underlying portfolios of loans.

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 2020, credit risk arose principally from cash and cash equivalents of £2,500,000 (31 December 2019: £2,502,000, 30 June 2020: £1,193,000) and balances due from the platforms and SMEs (including accrued interest) of £38,623,000 (31 December 2019: £45,853,000, 30 June 2020: £44,218,000). 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.

Notes to the Unaudited Condensed Half-Yearly Financial Statements

for the six months ended 31 December 2020 (continued)

23. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Credit risk *(continued)*

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

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

Please see note 3b and note 4 for further information on credit risk and note 13 for information on the loans at amortised cost.

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 2020 was low since the ratio of cash and cash equivalents to unmatched liabilities was 17:1 (31 December 2019: 22:1, 30 June 2020: 7:1).

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

	31 December 2020 (unaudited) Percentage	*31 December 2019 (unaudited) Percentage*	*30 June 2020 (audited) Percentage*
0 to 6 months	11.4	16.7	5.4
6 months to 18 months	28.9	5.0	30.1
18 months to 3 years	39.7	46.0	35.5
Greater than 3 years	20.0	32.3	29.0
	100.0	100.0	100.0

Capital management

During the period, the Board's policy was 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. In addition, the Company intends to return capital to Shareholders in future through the use of a B Share Scheme, which was approved by Shareholders on 23 March 2021 (see note 5).

During the period ended 31 December 2020, 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 2019 and 30 June 2020: 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.

Following the Shareholders' approval of the change to investment policy and the managed wind-down of the Company, the Board manages the Company's capital to enable it to make quarterly dividend payments for the time being (instead of the previous monthly dividends), although this will be kept under review. The Company will also look to structure its dividend payments to maintain investment trust status for so long as it remains listed.

Notes to the Unaudited Condensed Half-Yearly Financial Statements

for the six months ended 31 December 2020 (continued)

24. CONTINGENT ASSETS AND CONTINGENT LIABILITIES

There were no contingent assets or contingent liabilities in existence at the period end (31 December 2019 and 30 June 2020: none).

25. EVENTS AFTER THE REPORTING PERIOD

Notice of a General Meeting of Shareholders was published on 26 February 2021 proposing the adoption of a B Share Scheme and these arrangements were accepted by Shareholders on 23 March 2021.

There were no other significant events after the reporting period.

26. PARENT AND ULTIMATE PARENT

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

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David Stevenson *(non-executive Chairman)*
Gaynor Coley *(non-executive Director)*
Brett Miller *(non-executive Director)*

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