THE SME LOAN FUND PLC

(Registered number 09682883)

HALF-YEARLY REPORT AND UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2016

CONTENTS

HIGHLIGHTS

31 DECEMBER 2016 (UNAUDITED)

£52,932,000

Net assets[1]

3.60p

Dividend per share declared in respect of the period[2]

100.42p

NAV per Ordinary Share

2.67%

Total return per Ordinary Share (based on NAV)

93.50p

Share price at 31 December 2016

8.19%

Total return per Ordinary Share (based on share price)

6.89%

Discount to NAV

52,660,350

Ordinary Shares in issue

£1,428,000

Profit for the period

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

[2] *On 15 February 2017, The SME Loan Fund plc (the "Company") declared a seventh monthly dividend of 0.60p per Ordinary Share for the year ending 30 June 2017. This dividend will be paid on 24 March 2017.*

CHAIRMAN'S STATEMENT

The SME Loan Fund plc was launched to provide Shareholders with a high annual income, derived primarily from a portfolio of loans to SMEs, arranged through a number of specialist platforms acting as intermediaries between the Company and the ultimate borrower.

Recent months have marked a momentous period for the United Kingdom and its relationship with its two major trading partners, the EC and the USA. Unpredicted outcomes in the UK Referendum and the US Presidential Election appear, so far, to have been treated more positively than expected by investors. However, within our area of operation there has been limited impact to date, although it is fair to say that in the United Kingdom and Europe yields on our target loans have generally fallen while in the United States there has been little change.

Performance and Markets

Over the recent half-year the Investment Manager has continued to make progress in developing a good portfolio of loans introduced from various platforms. A detailed insight into the management of the Company's portfolio and recent market conditions is provided on pages 6 and 7.

The Company has produced a net profit after tax for the period ended 31 December 2016 of £1.4 million, representing earnings per Ordinary Share of 2.71p. The Group's NAV at 31 December 2016 was £52.9 million (100.42p per Ordinary Share), compared to £51.7 million (98.15p per Ordinary Share) at launch. The total return for the Group for the period was 2.67% on the opening NAV.

The Company's portfolio at 31 December 2016 was fairly liquid with approximately 18% of loans realisable within 90 days, in normal market conditions. The Company's non-Sterling investments are fully-hedged and any liquidity risks arising from the hedging policy are considered to be low.

Growth and Corporate Activity

The Board is convinced there is a growing opportunity to provide alternative sources of capital via direct (and indirect) lending across a spectrum of end users, many of which are SMEs. To this end the board aims to establish the Company as one of the leading secured lending funds and to grow current assets significantly in the years ahead. We believe that, although interest rates in the US may increase in the next year, we are still likely to be in a low rates environment for the foreseeable future. This means that demand for alternative sources of income is expected to remain high, especially for those looking for a diversified and secured stream of dividends.

Earnings and Dividends

Total earnings per Ordinary Share from listing to 31 December 2016 were 9.65p.

The Company has elected to designate all of the dividends for the period ended 31 December 2016 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.

It is the Company's stated policy to distribute at least 85% of its distributable income by way of dividends on a monthly basis. During any year the Company may retain some of the distributable income and use these to smooth future dividend flows.

The Company announced dividends of 3.60p per Ordinary Share for the period ended 31 December 2016.

When the Company was launched in 2015, it set an annual dividend target of 8.0p per Ordinary Share (being a yield of 8.0% per annum on the issue price of 100p per Ordinary Share). At present, the Company pays a monthly dividend of 0.6p per Ordinary Share, equivalent to an annual dividend of 7.2p per Ordinary Share. As mentioned below, SQN Capital Management, LLC and its UK subsidiary SQN Asset Management Limited (together "SQN") have been appointed as the Company's investment managers with effect from 1 April 2017 and, consequently, the Directors are proposing that some changes be made to the Company's investment policy. Following discussions with SQN regarding the anticipated returns from the Company's portfolio (both in the shorter and longer terms), the Company has rebased its annual dividend target to 6.3p per Ordinary Share, increasing to at least 7.0p per Ordinary Share with effect from July 2018. The first monthly dividend of 0.525p per Ordinary Share will be declared in May 2017 and paid in June 2017.

CHAIRMAN'S STATEMENT (CONTINUED)

Discount

During the six month period the Company's Ordinary Shares traded at an average price of 94.00p and at 93.50p at 31 December 2016 - a discount of 6.89% to its NAV. At 28 February 2017, the NAV and share price was 99.94p and 91.00p respectively – a discount of 8.9% to NAV. The discount has narrowed since the major shareholder's stake was placed in March 2017 and, as at 13 March 2017, the share price was 97.00p, equivalent to a discount of 2.9% to the 28 February NAV.

Redemption Opportunity

The Company has maintained an abnormally high level of liquidity in recent weeks to ensure that sufficient funds were available to satisfy the outcome of the first potential redemption opportunity for Shareholders in March this year. Having reviewed the operation of the six-monthly redemption facility and, in particular, the need to build up cash balances in advance of a redemption date in order to be able to satisfy redemption requests, the Directors have concluded that the redemption facility is an inefficient and inflexible structure that is not well-suited to the less liquid assets that the Company invests in. Accordingly, the Directors have exercised their discretion and decided not to implement the first potential redemption opportunity at 31 March 2017 and current liquidity will now be reinvested into new loans over the coming weeks.

Significant Events

It was announced on 8 March 2017 that the shareholding of the Company's major shareholder, GLI Finance Limited ("GLIF"), had been placed with new investors and that SQN has been appointed as investment manager to the Company with effect from 1 April 2017. With the removal of this large share overhang and the appointment of a well-known and highly regarded specialist investment manager, the Directors believe that the Company will be able to attract significant new investment over the coming months, thus increasing its liquidity and attractiveness to a broad range of investors.

In conjunction with these changes, Shareholders will be given the opportunity at a general meeting in April 2017 to vote on a number of enhancements to the management of the Company, namely:

- removing any obligation on the Company to invest through SME loan origination platforms and SME finance companies in which GLIF holds strategic equity investments;
- focusing the Company's investment strategy on wholesale lending, trade and receivable finance and collateralised lending opportunities as either debt or structured notes and including equity or equity participations; and
- removing the six-monthly redemption facility.

Outlook

Following the appointment of SQN as the Company's investment manager and, subject to Shareholder approval, the enhancements to the management of the Company referred to above, the Company will be well positioned to benefit from the expected high levels of growth in its target markets. Your Board believes that this, coupled with SQN's reputation, should make it possible to raise considerable new equity in the future. This will both elevate the profile of the Company and increase the liquidity of its shares immeasurably.

RICHARD HILLS
Chairman
13 March 2017

INVESTMENT MANAGER'S REPORT

Following the UK referendum result, H2 2016 actually began in a relatively calm fashion. Equity markets enjoyed decent gains whilst Fixed Income markets also rose in an orderly manner, encouraged by the actions of the Bank of England's Governor Carney who reduced the official short-term interest rate to a new low of 0.25%. The Alternative Finance markets continued their recovery in terms of origination with the Liberum AltFi Volume Index UK climbing to £7.6 billion by the end of July. Impressive statistics indeed and proof that this relatively "new" method of financing debt was becoming mainstream. To reflect its investment activity, in July 2016 the Company's name was changed to The SME Loan Fund plc. With the increased transparency of financial information from SME borrowers, exposure to this market sector has proved to be less volatile.

The traditional summer doldrums saw no let-up with loan origination continuing apace within the Company and capital was deployed into a diversified number of sectors including horticulture, leisurewear and property financing. Macro data flew in the face of expectations as worries about a downturn in economic activity proved false. Retail Sales in the UK rose strongly, perhaps encouraged by the sharp decline in the Pound which fell to 1.18 vs. the US Dollar; in mid-2015 the exchange rate stood at 1.43.

European and UK economies continued their resilient trend during the early Autumn months, and Fixed Income markets also rebounded from their lows. Within the portfolio a sharp reduction in exposure to Platform working capital loans saw exposure fall from 4.1% to just 1.5%, again in keeping with risk reduction and emphasizing the focus on lending *through* Platforms rather than lending *to* Platforms.

Traditional Fixed Income markets continued their aggressive sell-off during October with widespread falls in capital prices. The forecast slump in economic activity failed to materialise and Governor Carney began to feel the pressure after his "doom and gloom" forecast which led to the rate cut in August 2016. Within Alternative Finance markets optimism amongst the sector saw renewed enthusiasm with loan origination recovering sharply.

Possibly the biggest surprise of the reporting period was Donald Trump's US presidential win in November, which caused a significant rise in equity markets combined with sharp declines in traditional Fixed Income markets. This trend is likely to continue as inflation data in all major economies continues its upwards trend. Within the Alternative Finance sector, the principal risk is of default. The annualised impairment rate with The SME Loan Fund plc remains low, however, impairments will always feature to varying degrees within a debt fund. Nevertheless, the Investment Manager is sharply focused on this and maintains a high recovery rate on borrowers that do experience difficulties.

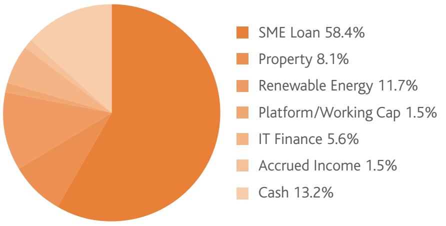
The markets in which we operate endured a difficult year with some high profile Platforms experiencing setbacks, however, as a whole, the sector is in good shape and continues to experience considerable growth.

GRAHAM GLASS
Amberton Asset Management Limited
13 March 2017

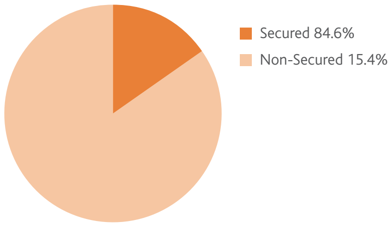
COMPANY ANALYTICS

as at 31 December 2016

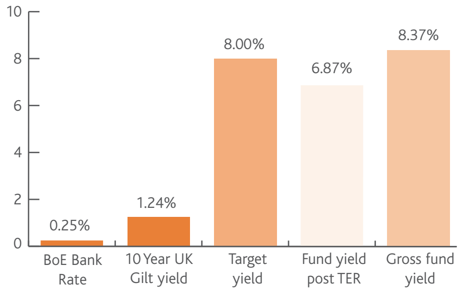
ASSET ALLOCATION



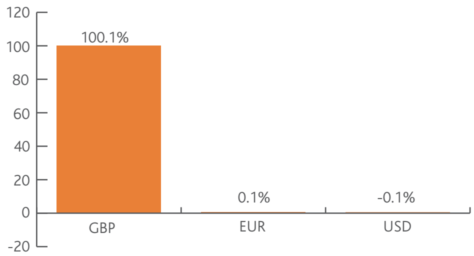
SECURED VS NON-SECURED



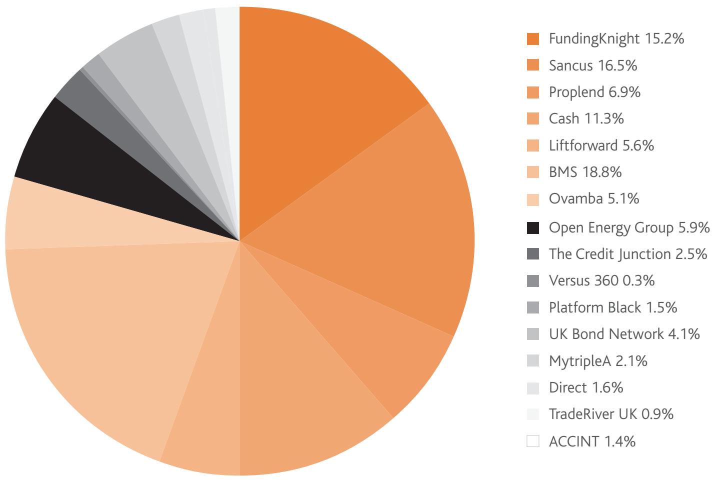
FUND YIELD VS BENCHMARK INTEREST RATES



PORTFOLIO BY CURRENCY ALLOCATION



PLATFORM EXPOSURE



All data source: Amberton Asset Management Limited, data as at 31 December 2016.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

- prepare the condensed consolidated 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 Group, 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 consolidated 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 Group.

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

On behalf of the Board.

RICHARD HILLS
Chairman
13 March 2017

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 31 December 2016

	Note	*Period from 1 July 2016 to 31 December 2016 (unaudited) £'000*	*Period from 13 July 2015 (incorporation) to 31 December 2015 (unaudited) £'000*	*Period from 13 July 2015 (incorporation) to 30 June 2016 (audited) £'000*
Income				
Investment income		2,601	1,226	3,764
Other income		–	–	1
Total revenue		**2,601**	**1,226**	**3,765**
Operating expenses				
Management fees	*7a*	(187)	(105)	(295)
Legal and professional fees		(84)	(7)	(71)
Directors' remuneration	*8*	(75)	(31)	(89)
Administration fees	*7b*	(69)	(51)	(129)
Other expenses	*10*	(39)	(36)	(69)
Broker fee		(33)	(16)	(61)
Audit fees		(22)	(40)	(44)
Registrar fees		(15)	(2)	(17)
Custodian fee		(13)	(7)	(19)
Auditors' non-audit and taxation fees		–	(14)	(15)
Total operating expenses		**(537)**	**(309)**	**(809)**
Investment gains and losses				
Movement in unrealised gains on loans	*14*	286	744	1,551
Movement in unrealised gain on investments at fair value through profit or loss	*15*	(45)	107	307
Movement in unrealised gain on derivative financial instruments	*17*	37	–	23
Realised loss on disposal of loans		(12)	–	–
Realised gain on disposal of investments at fair value through profit or loss		85	–	–
Realised loss on derivatives	*17*	(1,022)	–	(1,214)
Total investment gains and losses		**(671)**	**851**	**667**
Net profit from operating activities before gain on foreign currency exchange		**1,393**	**1,768**	**3,623**
Net foreign exchange gain		35	13	34
Net profit before taxation		**1,428**	**1,781**	**3,657**
Taxation				
Withholding tax	*11*	–	(2)	(2)
Profit and total comprehensive income for the period attributable to the owners of the parent		**1,428**	**1,779**	**3,655**
Earnings per Ordinary Share *(basic and diluted)*	*12*	**2.71p**	**3.38p**	**6.94p**

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

There were no other comprehensive income items in the period.

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

The accompanying notes on pages 15 to 31 form an integral part of the unaudited condensed consolidated half-yearly financial statements.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 31 December 2016

	Note	Called up share capital (unaudited) £'000	Share premium account (unaudited) £'000	Distributable reserves (unaudited) £'000	Profit and loss account (unaudited) £'000	Total (unaudited) £'000
At 1 July 2016		577	–	51,143	1,680	53,400
Profit for the period	*21*	–	–	–	1,428	1,428
Transactions with Owners in their capacity as owners:						
Dividends paid	*5, 21*	–	–	–	(1,896)	(1,896)
At 31 December 2016		**577**	**–**	**51,143**	**1,212**	**52,932**

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the period from 13 July 2015 (incorporation) to 31 December 2015

	Note	*Called up share capital (unaudited) £'000*	*Share premium account (unaudited) £'000*	*Distributable reserves (unaudited) £'000*	*Profit and loss account (unaudited) £'000*	*Total (unaudited) £'000*
Opening balance at 13 July 2015		–	–	–	–	–
Profit for the period	*21*	–	–	–	1,779	1,779
Transactions with Owners in their capacity as owners:						
Share capital issued	*20*	577	52,133	–	–	52,710
Share issue costs		–	(990)	–	–	(990)
Dividends paid	*5, 21*	–	–	–	(316)	(316)
Total transactions with Owners in their capacity as owners		577	51,143	–	(316)	51,404
At 31 December 2015		**577**	**51,143**	**–**	**1,463**	**53,183**

AUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the period from 13 July 2015 (incorporation) to 30 June 2016

	Note	*Called up share capital (audited) £'000*	*Share premium account (audited) £'000*	*Distributable reserves (audited) £'000*	*Profit and loss account (audited) £'000*	*Total (audited) £'000*
Opening balance at 13 July 2015		–	–	–	–	–
Profit for the period	*21*	–	–	–	3,655	3,655
Transactions with Owners in their capacity as owners:						
Share capital issued	*20*	577	52,133	–	–	52,710
Share issue costs		–	(990)	–	–	(990)
Dividends paid	*5, 21*	–	–	–	(1,975)	(1,975)
Cancellation of share premium account	*21*	–	(51,143)	51,143	–	–
Total transactions with Owners in their capacity as owners		577	–	51,143	(1,975)	49,745
At 30 June 2016		**577**	**–**	**51,143**	**1,680**	**53,400**

There were no other comprehensive income items in the period.

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

The accompanying notes on pages 15 to 31 form an integral part of the consolidated financial statements.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2016

	Note	31 December 2016 (unaudited) £'000	31 December 2015 (unaudited) £'000	30 June 2016 (audited) £'000
Non-current assets				
Loans	14	26,042	31,123	28,449
Investments at fair value through profit or loss	15	1,547	1,730	1,981
Total non-current assets		**27,589**	**32,853**	**30,430**
Current assets				
Loans	14	17,761	12,126	17,625
Cash held on client accounts with Platforms	14	1,059	1,899	359
Derivative financial instruments	17	60	–	23
Other receivables and prepayments	18	824	5,849	3,163
Cash and cash equivalents		6,015	723	2,192
Total current assets		**25,719**	**20,597**	**23,362**
Total assets		**53,308**	**53,450**	**53,792**
Current liabilities				
Other payables and accruals	19	(376)	(267)	(392)
Total liabilities		**(376)**	**(267)**	**(392)**
Net assets		**52,932**	**53,183**	**53,400**
Capital and reserves attributable to owners of the Company				
Called up share capital	20	577	577	577
Share premium account		–	51,143	–
Distributable reserve		51,143	–	51,143
Profit and loss account	21	1,212	1,463	1,680
Equity attributable to the owners of the Parent Company		**52,932**	**53,183**	**53,400**
Net asset value per Ordinary Share	22	**100.42p**	**100.90p**	**101.31p**

These unaudited condensed consolidated half-yearly financial statements of The SME Loan Fund plc (registered number 09682883) were approved by the Board of Directors on 13 March 2017 and were signed on its behalf by:

RICHARD HILLS
Chairman
13 March 2017

KEN HILLEN
Director
13 March 2017

The accompanying notes on pages 15 to 31 form an integral part of the unaudited condensed consolidated half-yearly financial statements.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

for the six months ended 31 December 2016

	Period from 1 July 2016 to 31 December 2016 (unaudited) £'000	*Period from 13 July 2015 (incorporation) to 31 December 2015 (unaudited) £'000*	*Period from 13 July 2015 (incorporation) to 30 June 2016 (audited) £'000*
Cash flows from operating activities			
Net profit before taxation	1,428	1,781	3,657
Adjustments for:			
Movement in unrealised gains on loans	(286)	(744)	(1,551)
Movement in unrealised gain on investment at fair value through profit or loss	45	(107)	(307)
Movement in unrealised gain on derivatives	(37)	–	(23)
Realised loss on disposal of loans	12	–	–
Realised gain on disposal of investments at fair value through profit or loss	(85)	–	–
Realised losses on derivatives	1,022	–	1,214
Interest received and reinvested by Platforms	(1,010)	(464)	(1,505)
Capitalised interest	–	–	(23)
Decrease/(increase) in investments	5,747	(11,793)	(9,439)
Net cash inflow/(outflow) from operating activities before working capital changes	6,836	(11,327)	(7,977)
Increase in other receivables and prepayments	(1,102)	(278)	(624)
(Decrease)/increase in other payables and accruals	(81)	253	260
Net cash inflow/(outflow) from operating activities	**5,653**	**(11,352)**	**(8,341)**
Cash flows from financing activities			
Proceeds from issue of Management Shares	–	50	50
Proceeds from issue of Ordinary Shares	–	12,801	12,801
Share issue costs paid	–	(473)	(473)
Dividends paid	(1,830)	(301)	(1,843)
Net cash (outflow)/inflow from financing activities	**(1,830)**	**12,077**	**10,535**
Taxation paid	–	**(2)**	**(2)**
Increase in cash and cash equivalents in the period	**3,823**	**723**	**2,192**
Cash and cash equivalents at the beginning of the period	2,192	–	–
Cash and cash equivalents at 31 December 2016	**6,015**	**723**	**2,192**
Supplemental cash flow information			
Non-cash transaction – receipt of seed portfolio for issue of Ordinary Shares	–	40,271	40,271

The accompanying notes on pages 15 to 31 form an integral part of the unaudited condensed consolidated half-yearly financial statements.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED HALF-YEARLY FINANCIAL STATEMENTS

for the six months ended 31 December 2016

1. GENERAL INFORMATION

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

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

Investment objective

The investment objective of the Company, together with its subsidiary (the "Group"), is to provide Shareholders with attractive risk adjusted returns through investment, principally via a portfolio of Investee Platforms, in a range of SME loan assets, diversified by way of asset class, geography and duration. The Group may invest directly or indirectly into available opportunities, including by making investments in, or acquiring interests held by, third party alternative lending Platforms and other lending related opportunities as identified by Amberton Asset Management Limited (the "Investment Manager") in accordance with the Group's investment policy.

Investment policy

The Group intends to achieve its investment objective by investing in a range of loans originated principally through the Investee Platforms. The Group may also make investments through other third party alternative lending Platforms that are identified as suitable investment opportunities by Amberton Asset Management Limited.

Note: Words and expressions defined in the prospectus relating to the Company dated 1 September 2015 (a copy of which is available on the Company's website) have the same meanings when used in the "Investment objective" and "Investment policy" sections above.

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

2. STATEMENT OF COMPLIANCE

a) Basis of preparation

These unaudited condensed consolidated half-yearly financial statements present the results of the Company and its subsidiary for the six months ended 31 December 2016. These unaudited condensed consolidated half-yearly financial statements have been prepared in accordance with International Accounting Standard 34 ("IAS 34"), *Interim Financial Reporting*, as adopted by the European Union.

The unaudited condensed consolidated half-yearly financial statements for the period ended 31 December 2016 have not been audited or reviewed by the Group's auditors and do not constitute statutory financial statements, as defined in section 434 of the Companies Act 2006. The unaudited condensed consolidated half-yearly financial statements have been prepared on the same basis as the Group's annual financial statements.

b) Basis of measurement

The unaudited condensed consolidated half-yearly financial statements have been prepared on a historical cost basis, except for financial assets (including derivative instruments), which are measured at fair value through profit or loss. The unaudited condensed consolidated half-yearly financial statements have been prepared on a going concern basis (note 4i).

c) Segmental reporting

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

2. STATEMENT OF COMPLIANCE (continued)

d) Use of estimates and judgements

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

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

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

e) Basis of consolidation

The unaudited condensed consolidated half-yearly financial statements incorporate the financial statements of the Company and its wholly-owned subsidiary.

Subsidiaries are those entities, including special purpose entities, controlled by the Company. Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. In assessing control, potential voting rights that presently are exercisable are taken into account.

The financial statements of the subsidiary are included in the consolidated financial statements from the date that control commenced to the date that control ceases. The accounting policies of the subsidiary are aligned with the policies adopted by the Company.

All intercompany balances and transactions are eliminated on consolidation.

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 Consolidated Statement of Comprehensive Income. Translation differences on non-monetary financial assets and liabilities are recognised in the Unaudited Condensed Consolidated Statement of Comprehensive Income.

b) Financial assets and liabilities

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

Recognition
The Group 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 Group commits to purchase or sell the asset.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Financial assets and liabilities (continued)

Subsequent measurement

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

After initial measurement, the Group 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. Interest and dividend earned or paid on these instruments are recorded separately in interest income or expense and dividend income or expense.

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 Group 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 Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group 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 Group's continuing involvement in the asset.

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

Impairment

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

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

c) Cash and cash equivalents

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

d) Receivables and prepayments

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

e) Transaction costs

Transaction costs incurred on the acquisition of loans are capitalised upon recognition of the financial asset.

f) Income and expenses

Bank interest and loan interest are recognised on a time-proportionate basis using the effective interest rate method.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

g) Taxation

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

h) 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 consolidated half-yearly financial statements. Any standards that are not deemed relevant to the operations of the Group have been excluded. The Directors have chosen not to early adopt these standards and interpretations and they do not anticipate that they, with the exception of IFRS 9, would have a material impact on the Group's financial statements in the period of initial application. The Company has started to consider the impact of IFRS 9 and IFRS 15 on the Group's financial statements but a full assessment has not yet been completed.

		Effective date
IFRS 9	Financial Instruments	1 January 2018
IFRS 15	Revenue from Contracts with Customers	1 January 2018
IAS 7	Statement of Cash Flows	1 January 2017

4. USE OF JUDGEMENTS AND ESTIMATES

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

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, which have had the most significant effects on the amounts recognised in the unaudited condensed consolidated half-yearly financial statements:

i) Going concern

After making reasonable enquiries, and assessing all data relating to the Group's liquidity, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and do not consider there to be any threat to the going concern status of the Group. Therefore, the unaudited condensed consolidated half-yearly financial statements have been prepared on a going concern basis.

Estimates and assumptions

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

i) Recoverability of loans and other receivables

The Directors assess the recoverability of the Group's loans to determine whether any impairment provision is required. A loan is impaired when the borrower has failed to make a payment, either capital or interest, when contractually due. The Group assesses at each reporting date (and at least on a monthly basis) whether there is objective evidence that a loan, or group of loans, classified as loans at amortised cost, is impaired. As part of this process:

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

At 31 December 2016, the Group's financial instruments at fair value through profit or loss comprised unlisted preference shares, unlisted equity shares and derivative financial instruments. See note 16 for details of the bases of valuation.

ii) Valuation of unlisted preference shares

The Directors assess the fair value of the Group's unlisted preference shares, making estimates and assumptions regarding future interest and/or capital payment defaults and cost of capital in formulating Present Value calculations.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED HALF-YEARLY FINANCIAL STATEMENTS

for the six months ended 31 December 2016 (continued)

5. DIVIDENDS

The Company intends to distribute at least 85% of its distributable income earned in each financial year by way of dividends. The Company is targeting a net dividend yield of 8% per annum of the Issue Price per Ordinary Share as at Admission. The Company intends to continue to pay monthly dividends to Shareholders.

As stated in the Company's Prospectus, the Company has elected to designate all of the dividends for the period ended 31 December 2016 as an interest distribution to its Shareholders. In doing so, the Company is taking advantage of UK tax treatment by "streaming" income from interest-bearing investments into dividends that will be taxed in the hands of Shareholders as interest income.

The Company has declared the following dividends in respect of earnings for the period ended 31 December 2016:

Announcement date	*Pay date*	*Total dividend declared in respect of earnings in the period £'000*	*Amount per Ordinary Share*
24 August 2016	23 September 2016	316	0.60p
29 September 2016	28 October 2016	316	0.60p
27 October 2016	28 November 2016	316	0.60p
24 November 2016	23 December 2016	316	0.60p
28 December 2016	27 January 2017	316	0.60p
26 January 2017	24 February 2017	316	0.60p
		1,896	3.60p

In accordance with IFRS, dividends are only provided for when they become a contractual liability of the Company. Therefore, during the period, a total of £1,896,000 was incurred in respect of dividends, none of which was outstanding at the reporting date. This includes the dividends of £316,000 each announced in June and July 2016 and paid in July and August 2016, but the fourteenth and fifteenth dividends of £316,000 each, with payment dates of 27 January 2017 and 24 February 2017 respectively, had not been provided for at 31 December 2016 as, in accordance with IFRS, they were not deemed to be liabilities of the Company at that date.

On 15 February 2017, the Company declared a dividend of 0.60p per share for the period from 1 July 2016 to 31 January 2017. This dividend will be paid on 24 March 2017.

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.

Transactions with GLI Finance Limited ("GLIF")

In September 2016, the Group conducted a series of transactions with GLIF. The net effect of the transactions was a cash transfer to GLIF of £1,554,000.

Transactions with subsidiary undertaking

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

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED HALF-YEARLY FINANCIAL STATEMENTS

for the six months ended 31 December 2016 (continued)

7. KEY CONTRACTS

a) Investment Manager

The Group pays the Investment Manager a fee at the below rates expressed as a percentage of the Company Value, where the Company Value shall mean the lower of Net Asset Value and Market Capitalisation:

- 0.75% per annum of the Company Value up to £100 million; and
- 0.50% per annum of the Excess, being such part of the Company Value in excess of £100 million.

For the period from Admission until 6 November 2015 (the date on which the Investment Manager confirmed in writing that 90% of the net proceeds of the Issue had been invested or committed for investment), any cash instruments were excluded from the calculation of the Net Asset Value for the purposes of determining the management fee.

During the period, a total of £187,000 (31 December 2015: £105,000, 30 June 2016: £295,000) was incurred in respect of management fees, of which £94,000 (31 December 2015: £105,000, 30 June 2016: £93,000) was payable at the reporting date.

b) Administration fees

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 £69,000 (31 December 2015: £51,000, 30 June 2016: £129,000) was incurred in respect of administration fees, of which £33,000 (31 December 2015: £48,000, 30 June 2016: £35,000) was payable at the reporting date.

A set-up fee of £25,000 was also paid to Elysium in the period ended 30 June 2016.

8. DIRECTORS' REMUNERATION

The Directors are paid such remuneration for their services as determined by the Board. Under the terms of their appointments, the Chairman of the Company receives £37,500 per annum, with effect from 1 July 2016 (previously £35,000), the chairman of the Audit and Valuation Committee receives £31,250 per annum, with effect from 1 July 2016 (previously £30,000), and other non-executive Directors receive £25,000 per annum.

With effect from 1 July 2016, Ken Hillen, Chairman of the Audit and Valuation Committee, receives an additional £10,000 per annum as remuneration relating to a number of additional responsibilities relating specifically to the loans held within the Company's portfolio.

With effect from 1 July 2016, David Stevenson receives an additional £2,500 in recognition of his increased time commitment and additional responsibilities arising from taking over the chair of the Remuneration and Nominations Committee.

During the prior period your Directors were called upon to undertake a number of additional responsibilities relating to the Company and its operations as evidenced, in part, by the 15 Board meetings which took place during that period. As with any new company, but particularly one operating in a nascent financial area, there is always extra work to be undertaken in the early stages of its life. In the case of the Company, the workload was well above that expected. Therefore, as stated in the 30 June 2016 Directors' Remuneration Report, in recognition of this the Board has awarded both Richard Hills and David Stevenson an additional £10,000 remuneration for the period, payable in Ordinary Shares of the Company. In December 2016, £10,000 was paid to both Richard Hills and David Stevenson but they have not yet purchased Ordinary Shares in the Company as the Company has been in a close period.

During the period, a total of £75,000 (31 December 2015: £31,000, 30 June 2016: £89,000) was incurred in respect of Directors' remuneration, of which £3,000 (31 December 2015 and 30 June 2016: £nil) was payable at the reporting date. No bonus or pension contributions were paid or payable on behalf of the Directors.

9. KEY MANAGEMENT AND EMPLOYEES

The Group had no employees during the period (31 December 2015 and 30 June 2016: none). Therefore, there were no key management (except for the Directors) or employees during the period (31 December 2015 and 30 June 2016: none).

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED HALF-YEARLY FINANCIAL STATEMENTS

for the six months ended 31 December 2016 (continued)

10. OTHER EXPENSES

	Period from 1 July 2016 to 31 December 2016 (unaudited) £'000	*Period from 13 July 2015 (incorporation) to 31 December 2015 (unaudited) £'000*	*Period from 13 July 2015 (incorporation) to 30 June 2016 (audited) £'000*
Website costs	14	13	18
Listing fees	9	4	14
Other expenses	7	11	15
Travel costs	3	–	13
Directors' liability insurance	3	2	6
Printing costs	3	6	3
	39	36	69

11. 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".

During the period ended 30 June 2016, withholding tax of £2,000 was incurred by the Company's Guernsey subsidiary as a result of interest on certain loans to UK individuals/entities. The Company only owned the Guernsey subsidiary from Admission and all loans made by the subsidiary were transferred to the Company on 1 October 2015, so withholding tax only arose for a short period of time. It is intended that all future loans in the UK will be made by the Company and therefore, unless tax laws change, it is not expected that UK withholding tax will be suffered by the Company in the future.

12. EARNINGS PER ORDINARY SHARE

The earnings per Ordinary Share of 2.71p (31 December 2015: 3.38p, 30 June 2016: 6.94p) is based on a profit attributable to the owners of the Company of £1,428,000 (31 December 2015: £1,779,000, 30 June 2016: £3,655,000) and on a weighted average number of 52,660,350 (31 December 2015 and 30 June 2016: 52,660,350) Ordinary Shares in issue. There is no difference between the basic and diluted earnings per share.

13. INVESTMENT IN SUBSIDIARY UNDERTAKING

Details of the subsidiary undertaking held by the Company at 31 December 2016 were as follows:

Name of subsidiary undertaking	*Country of incorporation*	*Principal activity*	*% of ordinary shares held*
GLI Alternative Finance Guernsey Limited	Guernsey	Dormant (previously lending)	100%

At 31 December 2016, the investment in the subsidiary comprised an investment at fair value through profit or loss of £41,088,000 less an amount of £41,088,000 due by the Company to the subsidiary (31 December 2015 and 30 June 2016: An investment at fair value through profit or loss of £41,088,000 less an amount of £41,088,000 due by the Company to the subsidiary).

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED HALF-YEARLY FINANCIAL STATEMENTS

for the six months ended 31 December 2016 (continued)

14. LOANS

	31 December 2016 (unaudited) £'000	*31 December 2015 (unaudited) £'000*	*30 June 2016 (audited) £'000*
Amortised cost	43,025	44,404	44,882
Unrealised gain*	1,837	744	1,551
Balance at period end	**44,862**	**45,148**	**46,433**
Loans: Current	17,761	12,126	17,625
Non-current	26,042	31,123	28,449
Cash held on client accounts with Platforms	1,059	1,899	359
	44,862	**45,148**	**46,433**
*Unrealised gain			
Foreign exchange on non-Sterling loans	2,523	744	1,946
Impairments	(686)	–	(395)
Unrealised gain	1,837	744	1,551

The weighted average interest rate of the loans as at 31 December 2016 was 9.31% (31 December 2015: 9.86%, 30 June 2016: 9.49%).

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

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

At 31 December 2016, repayments of £2,759,000 (31 December 2015: £847,000, 30 June 2016: £181,000) were past due but not impaired, aged as follows:

	31 December 2016 (unaudited) £'000	*31 December 2015 (unaudited) £'000*	*30 June 2016 (audited) £'000*
Less than 30 days overdue	–	–	16
More than 30 days but less than 90 days overdue	145	219	165
More than 90 days but less than a year overdue	2,614	628	–
	2,759	847	181

At 31 December 2016, the Board considered £686,000 (31 December 2015: £nil, 30 June 2016: £395,000) of loans to be impaired as, following routine investigation of loan performance, Amberton received evidence of delayed and missed interest payments in respect of the below loans. This evidence indicated that the loans' recoverability would be less than their carrying value and by liaising directly with the platforms to establish a recovery rate, Amberton had estimated a recoverable amount as at 31 December 2016.

	31 December 2016 (unaudited) £'000	*31 December 2015 (unaudited) £'000*	*30 June 2016 (audited) £'000*
FundingKnight	338	–	285
Liftforward	238	–	110
UK Bond Network	104	–	–
MytripleA	6	–	–
Total impairment	686	–	395

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED HALF-YEARLY FINANCIAL STATEMENTS

for the six months ended 31 December 2016 (continued)

15. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Period from 1 July 2016 to 31 December 2016 (unaudited) £'000	*Period from 13 July 2015 (incorporation) to 31 December 2015 (unaudited) £'000*	*Period from 13 July 2015 (incorporation) to 30 June 2016 (audited) £'000*
Balance brought forward	1,981	–	–
Additions in the period	141	1,623	1,674
Disposals in the period	(615)	–	–
Realised gain on disposal of investments at fair value through profit or loss	85	–	–
Movement in unrealised gain in the period	(45)	107	307
Balance at period end	**1,547**	**1,730**	**1,981**

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

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

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

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

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

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

At 31 December 2015, the financial assets designated at fair value through profit or loss were as follows:

	31 December 2015 (unaudited)			
Financial assets	*Level 1 £'000*	*Level 2 £'000*	*Level 3 £'000*	*Total £'000*
Unlisted preference shares	–	–	1,730	1,730
Total financial assets designated as at fair value through profit or loss	**–**	**–**	**1,730**	**1,730**

At 30 June 2016, the financial assets designated at fair value through profit or loss were as follows:

	30 June 2016 (audited)			
Financial assets	*Level 1 £'000*	*Level 2 £'000*	*Level 3 £'000*	*Total £'000*
Unlisted preference shares	–	–	1,940	1,940
Unlisted equity shares	–	–	41	41
Derivative financial instruments *(note 17)*	–	23	–	23
Total financial assets designated as at fair value through profit or loss	**–**	**23**	**1,981**	**2,004**

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

The Group holds unlisted 25% preference shares, unlisted equity shares and derivative financial instruments. The fair value of the unlisted preference shares has been calculated using a present value formula, based on estimates and assumptions regarding future interest and/or capital payment defaults and cost of capital. The unlisted equity shares are carried at the net asset value of the underlying entity, and derivative financial instruments, being foreign currency forward contracts, are valued at the exchange rate at the reporting date.

The Group's holding of unlisted 25% preference shares is categorised as Level 3. The valuation of the investment is subject to certain unobservable inputs used in the fair value measurement and valuation process. At 31 December 2016, the unobservable input and sensitivity of this input was as follows:

- *Impairment of investment's underlying loan portfolio*
  If the impairment of the investment's underlying loan portfolio, which directly affects the return of the 25% preference shares and was applied in the valuation, increased from 4% per annum to 8% per annum, the valuation of the investment would decrease by £23,197 (31 December 2015: n/a, 30 June 2016: £38,793). A 4% decrease in the impairment would increase the valuation by £23,197 (31 December 2015: n/a, 30 June 2016: £38,793).

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

Transfers between levels

There were no transfers between levels in the period (31 December 2015 and 30 June 2016: none).

17. DERIVATIVE FINANCIAL INSTRUMENTS

During the period, the Group entered into foreign currency forward contracts to hedge against foreign exchange fluctuations. The Group realised a loss of £1,022,000 (31 December 2015: n/a, 30 June 2016: £1,214,000) on forward foreign exchange contracts that settled during the period.

As at 31 December 2016, the open forward foreign exchange contracts were valued at £60,000 (31 December 2015: n/a, 30 June 2016: £23,000).

18. OTHER RECEIVABLES AND PREPAYMENTS

	31 December 2016 (unaudited) £'000	*31 December 2015 (unaudited) £'000*	*30 June 2016 (audited) £'000*
Accrued interest	724	489	651
Other receivables	90	74	102
Prepayments	10	34	18
Due from GLI Finance Limited *(note 6)*	–	5,252	2,392
	824	**5,849**	**3,163**

19. OTHER PAYABLES AND ACCRUALS

	31 December 2016 (unaudited) £'000	*31 December 2015 (unaudited) £'000*	*30 June 2016 (audited) £'000*
Deferred investment income	131	43	62
Management fee	94	105	93
Withholding taxation on dividends	66	15	131
Administration fee	33	48	35
Broker fee	20	–	23
Audit fee	15	40	23
Other payables and accruals	14	16	12
Directors' fees	3	–	–
Travel costs	–	–	13
	376	**267**	**392**

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED HALF-YEARLY FINANCIAL STATEMENTS

for the six months ended 31 December 2016 (continued)

20. SHARE CAPITAL

	31 December 2016 (unaudited) £'000	*31 December 2015 (unaudited) £'000*	*30 June 2016 (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, which are held by the Investment Manager, 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. RESERVES

The Profit and loss account is made up as follows:

	31 December 2016 (unaudited) £'000	*31 December 2015 (unaudited) £'000*	*30 June 2016 (audited) £'000*
Realised revenue profit	5,087	928	2,988
Investment gains and losses	(4)	851	667
Dividends paid	(3,871)	(316)	(1,975)
	1,212	**1,463**	**1,680**
Distributable reserves	1,216	612	1,013
Non-distributable reserves	(4)	851	667
	1,212	**1,463**	**1,680**

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

The two £316,000 dividends (see note 5), which were declared on 28 December 2016 and 26 January 2017 respectively, will be paid out of the £1,216,000 remaining realised revenue profit.

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 Parent Company of £52,932,000 (31 December 2015: £53,183,000, 30 June 2016: £53,400,000), less £50,000 (31 December 2015 and 30 June 2016: £50,000), being amounts owed in respect of Management Shares, and on 52,660,350 (31 December 2015 and 30 June 2016: 52,660,350) Ordinary Shares in issue at the period end.

23. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Investment Manager manages the Group's portfolio to provide Shareholders with attractive risk adjusted returns through investment, principally via a portfolio of Investee Platforms, in a range of SME loan assets, diversified by way of asset class, geography and duration. The Group may invest directly or indirectly into available opportunities, including by making investments in, or acquiring interests held by, third party alternative lending Platforms and other lending related opportunities as identified by the Investment Manager in accordance with the Group's investment policy.

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

Risk is inherent in the Group's activities, but it is managed through a process of ongoing identification, measurement and monitoring. The Group 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 Group'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 Group.

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

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

Risk concentration

Concentration indicates the relative sensitivity of the Group'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 Group has a significant net open position in a single foreign currency, or aggregate net open positions in several currencies that tend to move together.

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

On 3 August 2016, the Group changed its investment restrictions, following a General Meeting, as per the Circular dated 7 July 2016. In summary, the changes were that:

- No more than 70% of the Company's Gross Assets will be invested in UK loan assets, with at least 30 per cent, of Gross Assets being invested in loan assets from other jurisdictions around the World;
- The Group will invest at least 20% of Gross Assets in loan assets where the duration to maturity of the loan asset is less than six months. The Group will invest no more than 40% of Gross Assets in loan assets where the duration to maturity of the loan asset is between six months and 18 months. The Group will invest no more than 40% of Gross Assets in loan assets where the duration to maturity is greater than 18 months but less than 36 months. The Group will invest no more than 40% of Gross Assets in loan assets where the duration to maturity is 36 months or longer;
- No more than 50% of Gross Assets will be held in unsecured loan assets;
- At any time, the total amount of working capital loans will be limited to 5% of Gross Assets in aggregate;
- The Group will invest no more than 2.5% of Gross Assets into an individual credit risk for the Group's top ten investments and no more than 2% of Gross Assets for investments outside the top ten;
- The Group may employ borrowings of up to 150% of net asset value; and
- The Group's un-invested or surplus capital or assets may be invested in cash instruments for cash management purposes.

23. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Risk concentration (continued)

Geographical

The Group makes loans to SMEs in a broad spread of jurisdictions, but weighted towards the UK. The Group intends to comply with the following restrictions on its percentage holdings of loan assets in the following jurisdictions:

- UK: no more than 70% of Gross Assets; and
- Rest of the World (being any jurisdiction outside the UK): at least 30% of Gross Assets.

Duration

The Group diversifies its risk portfolio by limiting the allocation of investments in terms of duration to maturity, although weighted towards short-term financing to ensure a degree of liquidity. The Group limits the investment of Gross Assets (based on the duration to maturity of the loans), as follows:

- Six months or less: at least 20% of Gross Assets;
- Six to 18 months: no more than 40% of Gross Assets;
- 18 to 36 months: no more than 40% of Gross Assets; and
- 36 months or more: no more than 40% of Gross Assets.

Security

Loan assets have a range of different types of security. However, no more than 50% of Gross Assets will be held in unsecured loan assets.

Other restrictions

From time to time, the Group provides loans to the Platforms themselves, to fund the general working capital requirements of the Platform, rather than for onward deployment in SME loan assets. At any time, the provision of such working capital loans will be limited to 5% of Gross Assets in aggregate (calculated at the time of investment).

To avoid a concentration of risk, for the Group's top ten investments (measured by Gross Assets), the Group will invest no more than 2.5% of Gross Assets (calculated at the time of investment) into an individual credit risk. For investments outside the top ten, the Group will invest no more than 2% of Gross Assets (calculated at the time of investment) into an individual credit risk.

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 Group may suffer through holding market positions in the face of price movements. The investment at fair value through profit or loss (see notes 15 and 16) is exposed to price risk and it is not the intention to mitigate the price risk.

At 31 December 2016, if the valuation of the investment at fair value through profit or loss had moved by 5% with all other variables remaining constant, the change in net assets would amount to approximately +/- £77,000 (31 December 2015: +/- £87,000, 30 June 2016: +/- £99,000). The maximum price risk resulting from financial instruments is equal to the £1,547,000 carrying value of the investment at fair value through profit or loss (31 December 2015: £1,730,000, 30 June 2016: £1,981,000).

(ii) Foreign currency risk

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

23. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Market risk (continued)

(ii) Foreign currency risk (continued)

As at 31 December 2016, a proportion of the net financial assets/(liabilities) of the Group, excluding the foreign currency forward contracts, were denominated in currencies other than Sterling as follows:

	Investments at fair value through profit or loss £'000	*Loans and receivables £'000*	*Cash and cash equivalents £'000*	*Net exposure £'000*
31 December 2016 (unaudited)				
US Dollars	1,341	7,310	737	9,388
Euros	54	6,269	686	7,009
	1,395	**13,579**	**1,423**	**16,397**
31 December 2015 (unaudited)				
US Dollars	1,730	5,802	7	7,539
Euros	–	3,560	1	3,561
	1,730	**9,362**	**8**	**11,100**
30 June 2016 (audited)				
US Dollars	1,940	7,144	318	9,402
Euros	25	5,467	10	5,502
	1,965	**12,611**	**328**	**14,904**

In order to limit the exposure to foreign currency risk, the Group entered into hedging contracts during the period. At 31 December 2016, the Group held foreign currency forward contracts to sell US$12,000,000 and €8,200,000 (31 December 2015: none, 30 June 2016: US$12,100,000 and €6,300,000) with a settlement date of 31 January 2017.

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 2016, 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 2016 would have decreased/increased by £(17,000)/£15,000 (31 December 2015: £(529,000)/£584,000, 30 June 2016: £(27,000)/£29,000).

(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 Group 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 £6,015,000 and loans of £873,000 (31 December 2015: £723,000 and £899,000 respectively, 30 June 2016: £2,192,000 and £1,700,000 respectively) were the only interest bearing financial instruments subject to variable interest rates at 31 December 2016. 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 £34,000 (31 December 2015: £8,000, 30 June 2016: £19,000).

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED HALF-YEARLY FINANCIAL STATEMENTS

for the six months ended 31 December 2016 (continued)

23. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (contInued)

Market risk (continued)

(iii) Interest rate risk (continued)

31 December 2016 (unaudited)	*Fixed interest £'000*	*Variable interest £'000*	*Non-interest bearing £'000*	*Total £'000*
Financial Assets				
Loans	42,930	873	–	43,803
Cash held on client accounts with Platforms	–	–	1,059	1,059
Investments at fair value through profit or loss	–	–	1,547	1,547
Derivative financial instruments	–	–	60	60
Other receivables	–	–	814	814
Cash and cash equivalents	–	6,015	–	6,015
Total financial assets	**42,930**	**6,888**	**3,480**	**53,298**
Financial Liabilities				
Other payables	–	–	(245)	(245)
Total financial liabilities	**–**	**–**	**(245)**	**(245)**
Total interest sensitivity gap	**42,930**	**6,888**	**3,235**	**53,053**

31 December 2015 (unaudited)	*Fixed interest £'000*	*Variable interest £'000*	*Non-interest bearing £'000*	*Total £'000*
Financial Assets				
Loans	42,350	899	–	43,249
Cash held on client accounts with Platforms	–	–	1,899	1,899
Investments at fair value through profit or loss	–	–	1,730	1,730
Other receivables	4,870	–	945	5,815
Cash and cash equivalents	–	723	–	723
Total financial assets	**47,220**	**1,622**	**4,574**	**53,416**
Financial Liabilities				
Other payables	–	–	(267)	(267)
Total financial liabilities	**–**	**–**	**(267)**	**(267)**
Total interest sensitivity gap	**47,220**	**1,622**	**4,307**	**53,149**

23. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (contInued)

Market risk (continued)

(iii) Interest rate risk (continued)

30 June 2016 (audited)	*Fixed interest £'000*	*Variable interest £'000*	*Non-interest bearing £'000*	*Total £'000*
Financial Assets				
Loans	44,374	1,700	–	46,074
Cash held on client accounts with Platforms	–	–	359	359
Investments at fair value through profit or loss	–	–	1,981	1,981
Derivative financial instruments	–	–	23	23
Other receivables	2,317	–	828	3,145
Cash and cash equivalents	–	2,192	–	2,192
Total financial assets	**46,691**	**3,892**	**3,191**	**53,774**
Financial Liabilities				
Other payables	–	–	(330)	(330)
Total financial liabilities	**–**	**–**	**(330)**	**(330)**
Total interest sensitivity gap	**46,691**	**3,892**	**2,861**	**53,444**

The Investment Manager manages the Group'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 Group 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 Group. The Group 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 Group, resulting in a financial loss to the Group.

At 31 December 2016, credit risk arose principally from cash and cash equivalents of £6,015,000 (31 December 2015: £723,000, 30 June 2016: £2,192,000) and balances due from the Platforms of £44,862,000 (31 December 2015: £45,148,000, 30 June 2016: £46,433,000). The Group seeks to trade only with reputable counterparties that the Investment Manager believes to be creditworthy.

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

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

The Group 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 Group. The Group 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.

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED HALF-YEARLY FINANCIAL STATEMENTS

for the six months ended 31 December 2016 (continued)

23. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (contInued)

Liquidity risk

Liquidity risk is defined as the risk that the Group 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 2016 was low since the ratio of cash and cash equivalents to unmatched liabilities was 16:1 (31 December 2015: 3:1, 30 June 2016: 6:1).

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

	31 December 2016 (unaudited) Percentage	*31 December 2015 (unaudited) Percentage*	*30 June 2016 (audited) Percentage*
0 to 6 months	42.9	19.6	24.1
6 months to 18 months	14.1	27.8	21.8
18 months to 3 years	17.6	34.0	30.1
Greater than 3 years	25.4	18.6	24.0
	100.0	**100.0**	**100.0**

Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the Group. 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 Shares and/or C Shares, buy back shares for cancellation or buy back shares to be held in treasury. During the period ended 31 December 2016, 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 2015 and 30 June 2016: none, other than those shares issued at launch).

The Company is subject to externally imposed capital requirements in relation to its statutory requirement relating to dividend distributions to Shareholders.

24. CONTINGENT ASSETS AND CONTINGENT LIABILITIES

There were no contingent assets or contingent liabilities in existence at the period end (31 December 2015 and 30 June 2016: none).

25. EVENTS AFTER THE REPORTING PERIOD

It was announced on 8 March 2017 that the shareholding of the Company's major shareholder, GLI Finance Limited ("GLIF") had been placed with new investors and subject to the outcome of the forthcoming EGM that SQN Investment Management Ltd ("SQN") will be appointed as investment manager to the Company.

Shareholders will be given the opportunity at the forthcoming EGM to vote on a number of enhancements to the management of the Company, namely:

- removing any obligation on the Company to invest through SME loan origination platforms and SME finance companies in which GLIF holds strategic equity investments;
- focus the Company's investment strategy on wholesale lending, trade and receivable finance and collateralised lending opportunities as either debt or structured notes and including equity or equity participations; and
- remove the requirement to hold a bi-annual tender offer.

There were no other significant events after the reporting period.

26. PARENT AND ULTIMATE PARENT COMPANY

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

DIRECTORS

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

ADVISERS

Investment Manager and AIFM
Until 31 March 2017
Amberton Asset Management Limited
Sarnia House
Le Truchot
St Peter Port
Guernsey
GY1 4NA

UK Investment Manager and AIFM
From 1 April 2017
SQN Asset Management Limited
Melita House
124 Bridge Road
Chertsey
Surrey
KT16 8LH

US Investment Manager
From 1 April 2017
100 Wall Street
28th Floor
New York
NY10005

Registered Office
1 Finsbury Circus
London
EC2M 7SH

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

English Legal Adviser
Stephenson Harwood LLP
1 Finsbury Circus
London
EC2M 7SH

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

Registrar
Capita Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

Bankers
Butterfield Bank (Guernsey) Limited
Regency Court
Glategny Esplanade
St Peter Port
Guernsey
GY1 3AP

Auditors
RSM UK Audit LLP
25 Farringdon Street
London
EC4A 4AB

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

www.thesmeloanfund.com

theSMEloanfund

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

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