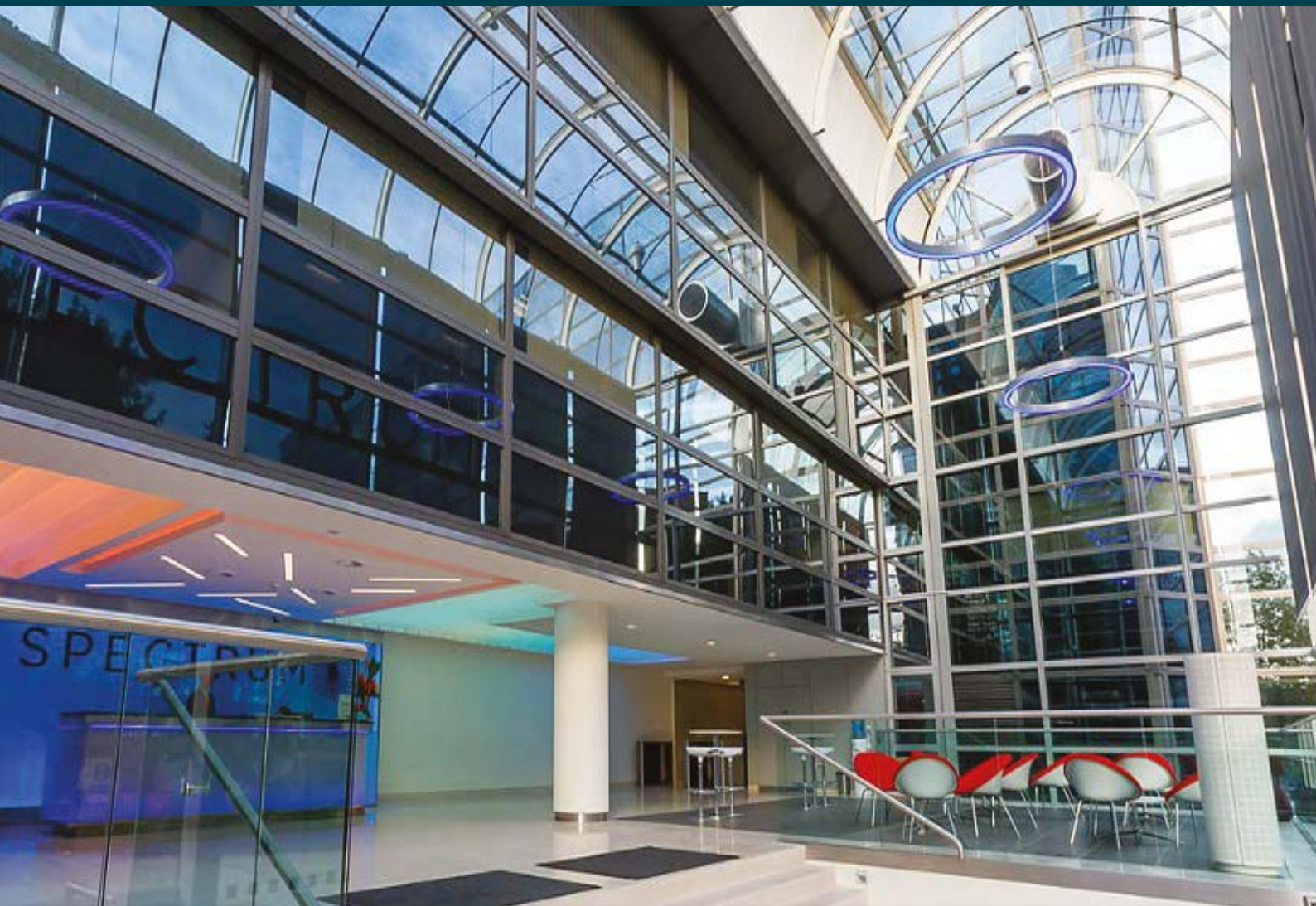


# ICG LONGBOW



## ICG-Longbow Senior Secured UK Property Debt Investments Limited

Annual Report and Consolidated  
Financial Statements

For the year ended 31 January 2019

Company Number: 55917

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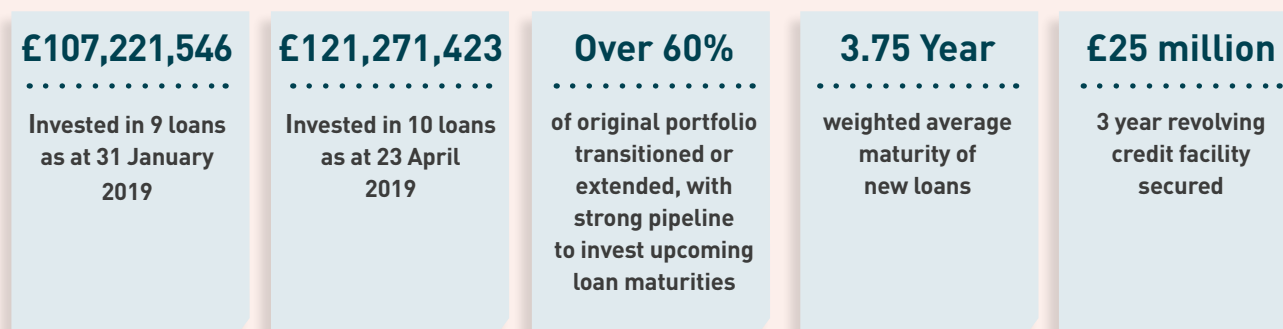
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## FINANCIAL HIGHLIGHTS

FOR THE YEAR ENDED 31 JANUARY 2019

### Portfolio



### Performance



## CORPORATE SUMMARY

### INVESTMENT OBJECTIVE

The investment objective of the Group, as approved by the shareholders of the Company, is “to construct a portfolio of UK real estate debt related investments predominantly comprising loans secured by first ranking fixed charges against commercial property investments, with the aim of providing shareholders with attractive, quarterly dividends, capital preservation and, over the longer term, a degree of capital appreciation.”

### STRUCTURE

The Company is a non-cellular company limited by shares incorporated in Guernsey on 29 November 2012 under the Companies Law. The Company’s registration number is 55917, and it has been registered with the GFSC as a registered closed-ended collective investment scheme. The Company’s ordinary shares were admitted to the premium segment of the FCA’s Official List and to trading on the Main Market of the London Stock Exchange as part of its IPO which completed on 5 February 2013. The issued capital comprises the Company’s ordinary shares denominated in Pounds Sterling. The Company makes investments in its portfolio through ICG-Longbow Senior Debt S.A., the Company’s wholly owned subsidiary.

### INVESTMENT ADVISER

The Investment Adviser (Intermediate Capital Managers Limited), which trades under the name of ICG-Longbow, is authorised and regulated by the FCA. The assets of the Company are managed by the Board after receiving advice from the Investment Adviser under the terms of the non-discretionary Investment Advisory Agreement.

## FINANCIAL SUMMARY

### PERFORMANCE

- NAV of £120.28 million as at 31 January 2019 (31 January 2018: £117.98 million).
- Total dividends paid or declared for the year ended 31 January 2019 of 6.00 pence per share (31 January 2018: 8.25 pence per share). In the prior year, total dividend paid included a special dividend of 2.25 pence per share.
- Total income excluding prepayment fees of £7.64 million (31 January 2018: £7.10 million).
- Prepayment fees of £nil (31 January 2018: £0.97 million). All loan repayments received during the year were outside their contracted income protection periods.
- Profit after tax of £5.26 million for the year ended 31 January 2019 (31 January 2018: £5.90 million), as a result of no prepayment fees earned.
- Earnings per share of 4.36 pence (31 January 2018: 5.33 pence).

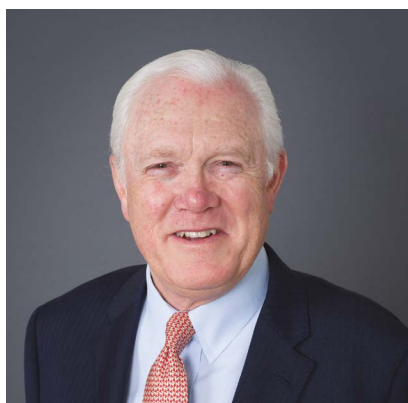
### DIVIDEND

- Total dividends paid or declared for the year ended 31 January 2019 of 6.00 pence per share (31 January 2018: 8.25 pence per share), made up as follows:
  - Interim dividend of 1.5 pence per share paid in respect of quarter ended 30 April 2018
  - Interim dividend of 1.5 pence per share paid in respect of quarter ended 31 July 2018
  - Interim dividend of 1.5 pence per share paid in respect of quarter ended 31 October 2018
  - Interim dividend of 1.5 pence per share paid in respect of quarter ended 31 January 2019

### INVESTMENT PORTFOLIO

- As at 31 January 2019, the Group's investment portfolio comprised nine loans with an aggregate principal balance of £107.22 million, representing 89.14% of the shareholders' equity (31 January 2018: ten loans with aggregate principal balance of £111.15 million, representing 94.21% of the shareholders' equity).
- The weighted average coupon was 6.23% (31 January 2018: 6.29%).
- The portfolio weighted average LTV was 62.2% (31 January 2018: 58.03%), reflecting changes to the composition of the loan portfolio. The weighted average ICR was 208% (31 January 2018: 218%).
- The portfolio weighted average residual term was 0.96 years, of which, on average, 0.42 years remains income protected (31 January 2018: residual term 1.37 years, income protected term 0.53 years).
- As a result of new investments made after the financial year end, the Group's investment portfolio as at the date of these accounts comprises ten loans with an aggregate principal balance of £121.27 million. The Group has made a £3.5 million drawdown on its revolving credit facility.
- The portfolio weighted average LTV as at 23 April 2019 is 63.0%, the weighted average residual loan term is 1.13 years, and the weighted average loan coupon is 6.32%.

## CHAIRMAN'S STATEMENT



**JACK PERRY CHAIRMAN**

“Continued portfolio and dividend stability lays the foundation for future growth”

### INTRODUCTION

On behalf of the Board, it is my pleasure to present the sixth Annual Report for the Group, for the year ended 31 January 2019.

The Company continues to make strong progress against its key objectives. Following shareholder approval, the Board adopted the revised Investment Policy in March 2017 to facilitate the reinvestment of the maturing loan portfolio and to grow the Company. A significant proportion of the investment portfolio has now been transitioned and the Board is greatly encouraged by the increasingly attractive pipeline of new lending opportunities. The new Revolving Credit Facility is contributing to effective deployment of capital in new loans in anticipation of loan redemptions. The existing investment portfolio has performed in line with expectations, producing a total income of £7.6 million for the financial year [£8.1 million for year to 31 January 2018] delivering earnings per share, after costs, of 4.36 pence [5.33 pence in 2018]. The reduction in earnings per share reflects the lower income due to the timing of the redeployment of capital under the new investment mandate following the repayment of certain original loans and the exceptional prepayment fees received in 2018 not being repeated.

The momentum in the financial year to 31 January 2019 has been continued during the first quarter of this year. In addition to new loans completed, the Investment Adviser has agreed terms on three new loans and extended the terms on original high coupon loans with an aggregate committed balance in excess of £45 million, which, if completed, will increase the weighted average investment coupon and loan duration.

As a consequence of the positive transition of the investments, supported by the confidence in the pipeline, the Board expects to progress towards providing a fully covered dividend later in the year. Accordingly, and as discussed further below, the annual dividend has been maintained at 6 pence per share.

### PORTFOLIO

Over the past year the Group successfully continued the process of repositioning its investment portfolio as and when loans are repaid. The Company issued new share capital during the year, however the volume of new issuance was affected by market sentiment in the period. Further, the Group recently secured a £25 million revolving credit facility with OakNorth Bank plc which has enabled the Investment Adviser to proactively seek new investment opportunities ahead of loan maturities so as to reduce the impact of cash drag on the Group's performance.

At 31 January 2019, the portfolio comprised nine loans of which three, including the increase and extension to the Meadow loan, were under the new investment policy, with one further loan completed since year end. Overall, since its IPO the Company has seen over £65 million of investments redeem, and has completed over £80 million of new investment commitments.

The weighted average maturity of the loans completed under the new policy, at over 3.75 years, and IRR returns, at over 8.2%, compare favourably to the overall book and will support income generation in the longer term.

As discussed in the Investment Adviser's Report which follows, an increasingly favourable pipeline of investment opportunities is now being assembled to replace the older, maturing loans which will repay through 2019. The loan maturity profile of the portfolio should extend accordingly.

During the year, in light of the volatile political environment and uncertainty around Brexit, the Group maintained its disciplined investment process and exercised a greater degree of caution in considering new investments for the portfolio. The Board would highlight that, subject to the approval of the change of use in respect of the Meadow property, the portfolio has a negligible exposure to the highly challenging retail property sector. As a result of the Group's prudent risk management practices and investment selection, all loans continue to perform in line with their respective business plans and are in compliance with financial covenants.

### SHARE PLACEMENT & WORKING CAPITAL FACILITY

The Company raised new capital in the year under its share placement programme. However market circumstances at the time were not favourable and only 4.26 million new shares were issued. The Board remains keen to grow the Company further when the time is ripe, and has continued to monitor market conditions with a view to raising further capital.

In October 2018 the Company entered into the three year revolving credit facility with OakNorth Bank plc. The Board is pleased by the flexibility this facility brings to the Company in transitioning the loan book and growing the investment portfolio. Given the added certainty of liquidity, the Investment Adviser has accordingly now been able to complete one new investment, ahead of anticipated loan repayments in April, and expects to utilise the facility further to convert the pipeline opportunities referred to above.

## CHAIRMAN'S STATEMENT (CONTINUED)

### SHARE PLACEMENT & WORKING CAPITAL FACILITY (CONTINUED)

The OakNorth facility also provides the opportunity to raise equity once loan capital has been deployed, which is a much more attractive proposition for potential shareholders, borrowers and the Board than raising capital in advance of deployment. The Board will consider whether to seek to further extend the placement programme at the Company's Annual General Meeting.

### DIVIDEND

Over the past year the Company has been supplementing earnings generated from the portfolio with the release of prior period profits in order to maintain its dividend while legacy, lower yielding, loans run-off. The Company's retained profits have now been fully utilised. The last of the lower yielding loans, made under the old investment policy, mature in April 2019 and are expected to be replaced by higher returning investments, which will also serve to increase materially the weighted average loan duration and weighted average coupon of the portfolio.

The Board considers that it is in shareholders' interests to maintain its dividend while this transition process is completed, and has therefore declared a dividend of 1.50 pence per share in respect of the quarter ended 31 January 2019 maintaining the total dividend for the year at 6.0 pence per share of which 0.54 pence is being paid from capital.

Given the positive outlook highlighted above, the Board intends to maintain the Company's dividend, utilising capital

as required until these legacy loans have been replaced. The Board remains confident of returning to a covered dividend over the next three quarters.

### GOVERNANCE AND MANAGEMENT

The Board continues to commit significant time and effort to its governance responsibilities. To strengthen oversight of the performance of the ongoing investment portfolio the Board established an Investment Risk Committee in the prior year. This Committee has worked effectively throughout this year. The Board as a whole continues to assess and challenge new pipeline investments for the Group. A full account of the discharge of the Board's governance responsibilities is provided in the Corporate Governance Report.

### OUTLOOK

Following year end, the Group completed a new £15 million commitment and drew down a further £1.5 million on the committed Affinity loan. In all cases the Investment Adviser has sought – and continues to seek – to stress test the Brexit resiliency of new opportunities, which in certain cases led to a delay in completion of these new loans but resulted in an improved risk position for the Group.

Following these completions, the weighted average unexpired loan term of the committed portfolio increases to 1.13 years and the average LTV of the portfolio rises to 63.0%. The Group's wider pipeline remains highly encouraging with terms now agreed on three new transactions and the

Investment Adviser has, from late February onwards, seen a strong pick up in new enquiries.

Certain of the Group's short-dated and lower-returning loans will reach maturity, with an expectation of repayment in the first half of the year of up to approximately £46 million. The depth of the current pipeline will allow for the substantial transitioning of the portfolio towards longer-dated and higher returning loans in line with the stated investment objectives. As at 31 January 2019, over 60% of the portfolio had been extended or transitioned to the new investment policy and based on current expected maturities and redeployments, this should rise to over 80% by July 2019.

The Board continues to progress a potential investment in an ICG-Longbow private fund opportunity as detailed in our last fact sheet. The likely timing for such an investment will be balanced against the pipeline of new direct lending deals and the Group's available funds to ensure the optimum outcome for shareholders from a risk, return and loan diversification perspective.



**JACK PERRY**  
Chairman

23 April 2019



Bliss Hotel, Southport

## INVESTMENT ADVISER'S REPORT

### INVESTMENT OBJECTIVE

The investment objective of the Group, as approved by the shareholders of the Company, is "to construct a portfolio of UK real estate debt related investments predominantly comprising loans secured by first ranking fixed charges against commercial property investments, with the aim of providing shareholders with attractive, quarterly dividends, capital preservation and, over the longer term, a degree of capital appreciation."

Fund facts		Fund facts	
Fund launch:	5 February 2013	Fund type:	Closed ended investment company
Investment Adviser:	ICG-Longbow	Domicile:	Guernsey
Base currency:	GBP	Listing:	London Stock Exchange
Issued shares:	121.3 million	ISIN code:	GG00B8C23S81
Management fee:	1.0%	LSE code:	LBOW
		Website:	www.lbow.co.uk

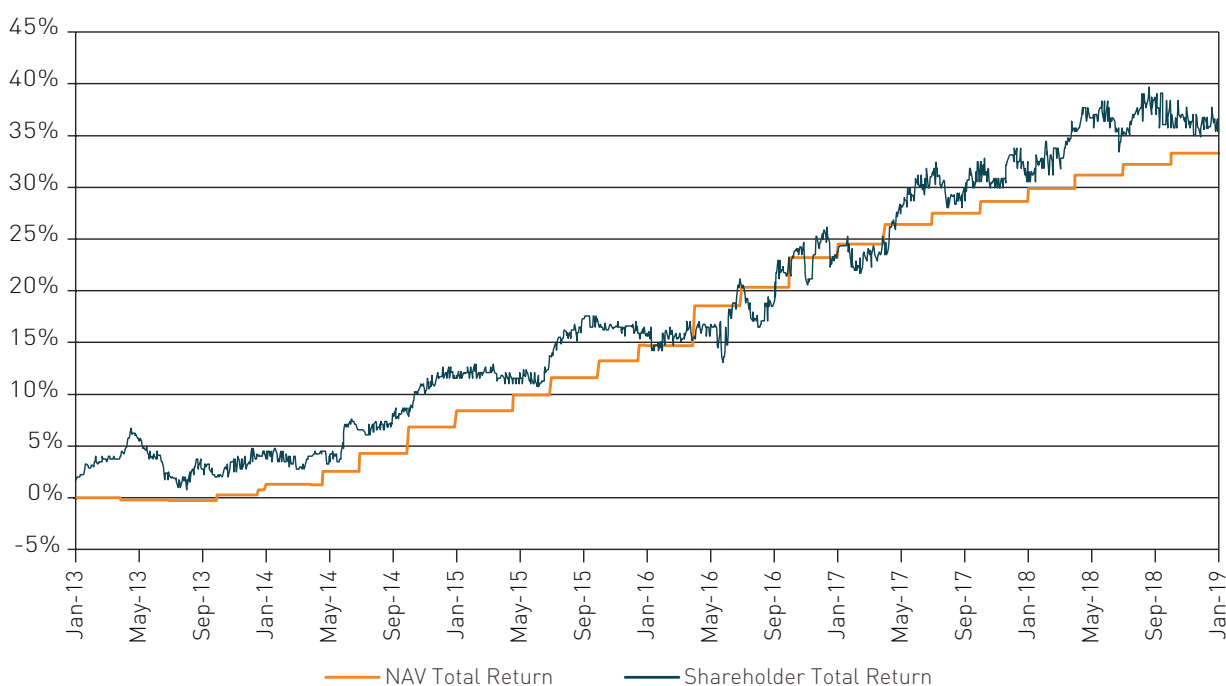
Share price & NAV at 31 January 2019	
Share price (pence per share):	98.80
NAV (pence per share):	99.16
Discount:	(0.36%)
Approved dividend (pence per share) <sup>(1)</sup> :	1.5
Dividend payment date <sup>(1)</sup> :	12 April 2019

Key portfolio statistics at 31 January 2019	
Number of investments:	9
Percentage capital invested <sup>(2)</sup> :	90.3%
Weighted avg. investment coupon:	6.23%
Weighted avg. LTV:	62.2%
Weighted avg. ICR:	208%

<sup>(1)</sup> For the Quarter ended 31 January 2019.

<sup>(2)</sup> Loans advanced at amortised cost/Total equity attributable to the owners of the Company.

### SHARE PRICE TOTAL RETURN V NAV TOTAL RETURN (FROM IPO TO 31 JANUARY 2019)<sup>(1)</sup>



<sup>(1)</sup> Reduction in NAV in April 2017 due to declaration of 2.25 pence per share special dividend.

## INVESTMENT ADVISER'S REPORT (CONTINUED)

### SUMMARY

At 31 January 2019 the investment portfolio comprised nine loans, following the repayment in the period of the IRAF and Hulbert loans, and reinvestment of proceeds into the £16.20 million Affinity loan commitment. A further £1.50 million was advanced to the borrower of the Meadow loan.

The weighted average loan to value ratio increased to 62.2% (31 January 2018: 58.0%), reflecting the repayment of the relatively lowly leveraged IRAF and Hulbert loans. Each individual loan remains well secured, with the portfolio ICR at 208%, substantially in line with 31 January 2018 (218%).

Following the year end, the Group entered into a £15.00 million commitment secured by a hotel and leisure complex in Southport, Merseyside, of which £12.50 million was drawn at closing. The loan carries an initial LTV ratio of 59.5%, and matures in April 2023. It is in line with the Group's investment parameters and provides an attractive risk adjusted return. Additionally, a further £1.50 million advance was made on the Group's Affinity loan, in support of the borrower's ongoing refurbishment works.

### PORTFOLIO

Portfolio statistics	31 January 2019	31 January 2018
Number of loan investments	9	10
Aggregate principal advanced	£107,221,546	£111,153,477
Weighted average LTV	62.2%	58.0%
Weighted average ICR	208%	218%
Weighted average interest coupon	6.23%	6.29% pa
Weighted average unexpired loan term	0.96 years	1.37 years
Weighted average unexpired interest income protection	0.42 years	0.53 years
Cash held	£12,370,129	£6,486,150

This resulted in an aggregate of £121,271,423 being advanced as at 31 March 2019 and the cash balance reduced to £3,286,723.

These changes take the portfolio weighted average LTV to 63.0%, the weighted average residual loan term to 1.13 years, and the weighted average loan coupon to 6.32%.

### GROUP PERFORMANCE

The Group's performance was steady in 2018, with the £11.94 million IRAF repayment immediately reinvested into the Affinity loan, minimising cash drag. In October 2018 the £6.57 million Hulbert loan repaid, with the proceeds reinvested in the £1.50 million advance to Meadow, noted above, and, in February 2019 (post-year end), in the £15.00 million Southport loan commitment. The Southport loan was funded from cash resources and a £3.50 million drawdown on the OakNorth Bank Plc facility. Also post year end, in March 2019, a further £1.50m was drawn under the committed Affinity loan.

The portfolio continues to perform in line with expectations and in compliance with all of the Group's investment parameters.

INVESTMENT ADVISER'S REPORT (CONTINUED)

INVESTMENT PORTFOLIO AS AT 31 JANUARY 2019

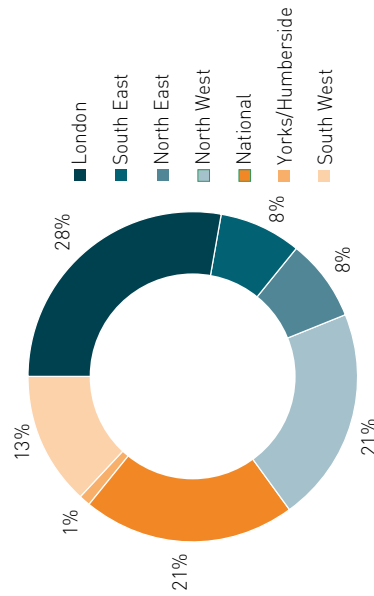
Project	Region	Sector	Term start	Unexp term (yrs)	Day 1 balance (£m)	Day 1 LTV (%)	Day 1 ICR (%)	Principal Balance outstanding (£m) <sup>(a)</sup>	Current LTV (%)	Current ICR (%)
Meadow	London	Retail <sup>(1)</sup>	Sep-13	1.00	18.07	65.0	150	21.50	70.3 <sup>(3)</sup>	100
Northlands	London	Mixed use	Nov-13	0.07	7.20	61.7	192	8.50	53.5	158
Halcyon	National	Industrial/distribution	Dec-13	0.85	8.60	64.8	116	6.42	65.2	115
Carrara	Yorks/Humberside	Regional office	Dec-13	0.85	1.30	65.0	113	1.30	65.0	113
Ramada	North East	Other (hotel)	Apr-14	0.24	7.98	64.4	180	7.98	66.0	162
Commercial Regional Space	North West	Industrial/distribution	Mar-16	0.20	22.40	64.0	280	22.40	50.9	355
BMO	National	Mixed Use	Jan-17	0.20	16.00	55.4	404	15.79	51.5	398
Quattro	South East	Mixed Use	Oct-17	1.95	9.00	83.7	100	9.00	83.7	100
Affinity	South West	Office	Mar-18	3.29	14.20	67.3	100	14.32	67.9	100
<b>Total/weighted average</b>				<b>0.96</b>	<b>104.75</b>	<b>65.0</b>	<b>207</b>	<b>107.22</b>	<b>62.2</b>	<b>208</b>

<sup>(1)</sup> Whilst the existing use of the Meadows secured property is retail, the site is subject to a planning application for residential redevelopment.

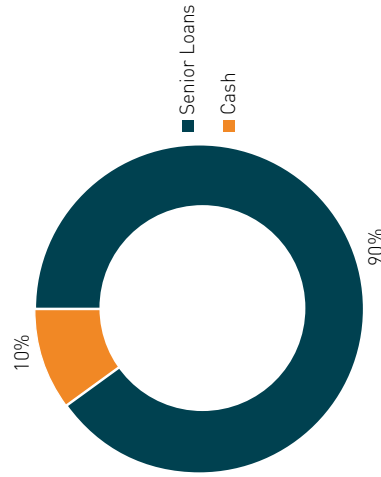
<sup>(2)</sup> Amounts may vary due to rounding.

<sup>(3)</sup> The current LTV reflects the higher valuation taking into account the anticipated increase in value on receiving permission for the change of use.

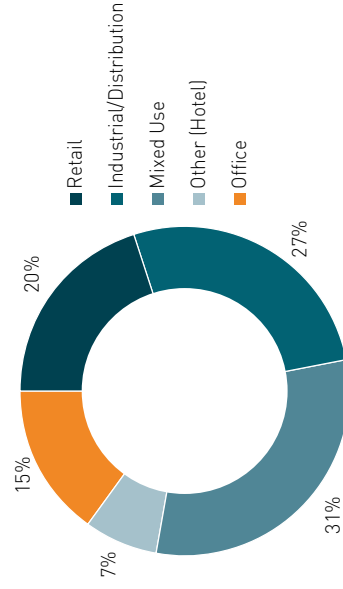
Regional Distribution by Loan Amount



Asset Type



Sector Distribution by Loan Amount



## INVESTMENT ADVISER'S REPORT (CONTINUED)

### ECONOMY AND FINANCIAL MARKET UPDATE

Annual GDP growth for 2018 was 1.4%, reflecting the ninth consecutive year of growth, with monthly figures for January and February 2019 also being strong and ahead of consensus expectations. Looking forward, the OBR is forecasting continued growth for each of the next five years. The OBR does expect growth to temper in 2019 (to 1.2%), however the public finances are in the strongest position since the financial crisis and appear well placed to weather any softening.

The UK employment success story continues. The labour market is essentially at full capacity, with 473,000 more people in work in January 2019 compared to the prior year, and the employment rate of 76.1% at an all-time high. Last year we reported that the unemployment rate of 4.3% was the joint lowest since 1975; it has since fallen further, to 3.9%. Unfilled vacancies are reported at 863,000, further highlighting positive labour demand.

During the year the strength of the labour market translated into real wage growth, with average nominal wages growing by circa 3.3% year-on-year, the fastest rate since 2008, compared with CPI inflation at 1.9% at the end of February. Inflation had been on a downward trend during the year, with the January 2018 rate being 3.0%, however the latest CPI figures did show a modest increase from the January 2019 level, with import costs perhaps pointing to a further moderate rise in inflation in the coming months.

Notwithstanding the strength of the labour market and outlook for prices, the Bank of England's decision making on interest rates is likely to be heavily weighted towards the outcome of Brexit negotiations. Five year swap rates have trended modestly downwards over the second half of the year (from a high of circa 1.45% in October 2018 to below 1.00% in March 2019), perhaps reflecting a view of the Bank of England being in wait-and-see mode for the foreseeable future.

### BREXIT

An extension to 31 October 2019 of the Article 50 deadline to avoid a disruptive "no deal" Brexit has recently been agreed between the UK and European Union. It appears that the vast majority of both Parliament and the Government are strongly against leaving without a deal; the EU also wishes to avoid a no deal scenario. Intensive political debate will continue although the end game is still as murky as ever.

Ongoing Brexit uncertainty is affecting business and consumer confidence and further delay will not be helpful.

In the event of a "no-deal" Brexit, we foresee a period of volatility in the property market as it reacts to the increased uncertainty which will provide opportunity. Capital Economics – whose projections proved robust in the immediate aftermath of the unexpected referendum result – is projecting a 5.4% fall in UK commercial property values in a 'managed' no deal and an 8.8% fall in a disorderly exit scenario. We believe the Group's portfolio is sufficiently robust to withstand any such shock, and moreover any volatility may create excellent opportunities for new investment in the event that, for example, open-ended property funds are forced to divest stock to meet redemptions, as in the immediate aftermath of the referendum.

In what we may call a 'normalised' Brexit scenario, and as we detail below, consensus opinion in the property markets has for some time been that the outlook for returns will be driven by income in the coming years, given the extended market cycle and ongoing structural weakness in retail. In our view this continues to reinforce the case for debt rather than equity investing.

### OCCUPATIONAL DEMAND/SUPPLY

The occupational markets (outside of retail) remain broadly positive, driven by strong employment data and job creation. In the office markets, Central London take up in 2018 was slightly ahead of the prior year, whilst in the regions, the strongest performers were Glasgow and Manchester, easily surpassing 2017 take up. Glasgow in particular saw take up 64% above the 10-year average, according to CBRE. Bristol and Birmingham reportedly remain strong, albeit are both hampered by lack of available supply. Take up in the South East, at 3.5 million sq. ft., was the highest since 2007.

Industrial and logistics take up continues to be positive. According to CBRE, 2018 logistics take up of 31.5 million sq. ft. was comfortably above the 10 year average of 21.4 million sq. ft. and a new annual record. Rental value growth was also positive, at 5.2% in the 12 months to December 2018.

This represents a marked contrast with the retail market, where CBRE report average prime rents on UK high streets falling 4.4% in 2018, with double digit declines in Scotland, Wales and the North West. It should be highlighted the above excludes secondary and non-core locations, and even then may be understating the true extent of the decline – by way of example in March 2019 Next plc reported that in lease renewals concluded for 28 stores during the year, it achieved average like-for-like rental reductions of 29%. The falling rents are reflective of the high volume of store closures during the year (many through the controversial CVA process) and less competition for space.

### PROPERTY INVESTMENT MARKET

In the investment market, Lambert Smith Hampton's regular investment transaction bulletin showed that 2018 was a strong year for volumes, with £16.6 billion of transactions in Q4 taking the annual total to £61.8 billion, modestly ahead of 2017 and the second highest for a decade. This is even more impressive when considered in the light of a slump in retail investment volumes 28% below the 10-year average.

Industrial investment was at a record high with £8.4 billion transacted, and office volumes were 29% above the 10-year average, led by Central London (£16.9 billion) where Brexit does not appear to have deterred overseas purchasers, particularly from the Far East, from making sizeable commitments (albeit some may be taking advantage of the favourable exchange rate).

Towards the end of 2018 and in particular in early 2019, the data show that volumes have softened, with total investment in January and February 2019 only half the level of the prior year. This has been reflected in our own experience as investors borrowing finance took a more cautious approach to decision making amidst what at the time appeared to be the peak of the Brexit turmoil. We have seen a material increase in activity from late-February onward and, as and when more clarity emerges on Brexit, we expect this trend to continue as the weight of money allocated to UK property remains strong.

All-property capital values rose by 2.1% during 2018, a meaningful slowdown from the 5.2% growth reported in the prior year, and largely driven by a 6% fall in retail values. Total returns fell to 7.5%, from 10% a year earlier. Looking forward, IPF consensus forecasts show total returns averaging circa 3% during 2019 and 2020, before rising to 4.9% in 2021. In each case the outlook for returns is expected to be driven by income, albeit rental value growth is expected to be subdued, particularly given the ongoing structural weakness in retail.

## INVESTMENT ADVISER'S REPORT (CONTINUED)

### FINANCE MARKETS

According to the latest Cass Business School Lending Survey, the value of total outstanding CRE loans dipped only marginally (2.5%) through the first half of 2018 suggesting the beginning of a levelling out of loan books after a few years of decline – the Bank of England reported historic yearly falls of 6.8%, 7.2% and 7.6% between 2017 and 2015. Cass highlight that this puts current outstanding UK property debt at £163 billion, some 36% lower than the 2008 peak of £255 billion.

Whilst the UK's overall loan book is showing signs of stabilisation, the nature of the lenders supplying debt capital to the market continues to change. A review of the year end accounts of the UK clearing banks shows they are generally still reducing their exposure to the sector. During 2018, Lloyds Banking Group reported a reduction in its UK commercial real estate loan book by circa £0.1 billion (0.6%); Royal Bank of Scotland by circa £2.17 billion (8.5%); and Santander by circa £1.86 billion (22%), as regulatory constraints and credit appetite continue to affect business volumes.

Meanwhile alternative lenders continue to thrive. According to the Cass Survey 'Other Lenders', which includes alternative non-bank lenders such as the Group, saw loan originations increase by 21% in H1 2018, the latest data for which figures are available.

Interestingly, according to the Cass survey, respondents put 'Property Fundamentals' ahead of 'Brexit' as the key current lending risk. This doubtless reflects the widely reported structural challenges in the retail sector and the extended property cycle, but reinforces our view that the lending market remains sanguine about business prospects specifically related to Brexit.

### PORTFOLIO PROFILE AND ACTIVITY

The Group's investment portfolio was generally stable during the year, with two repayments – the £11.94 million IRAF loan and the £6.57 million Hulbert loan – and one new investment, a new £16.20 million commitment secured by a Bristol office building (the Affinity loan). A £1.50 million increase to the Meadow loan was advanced in December 2018. The Group also agreed loan extensions with the borrowers of the Halcyon, Carrara and Northlands loans, allowing shareholders to benefit from these modestly leveraged and performing assets for an extended period.

Over the reporting period the Group's investments have continued to perform in line with business plans with underlying performance generally stable or improving. All financial covenants are in compliance. The weighted average

LTV at year end was 62.2% (31 January 2018: 58.0%), as the Group continues to transition its loan portfolio under the revised investment policy. The weighted average ICR on the portfolio remains robust at 208%, broadly in line with the 218% reported at 31 January 2018.

In February 2019, following year end, the Group advanced a new £15.00 million loan commitment to Bliss Hotels group, secured by a hotel and leisure complex in Southport, Merseyside.

Following the post-year end events, the weighted average LTV of the Group's investments is 63.0%, the weighted average ICR is 202% and weighted average coupon has increased to 6.32%. The average unexpired loan term has increased to 1.13 years, as the investment portfolio continues to transition.

The Investment Adviser believes the Group's loan portfolio continues to be satisfactorily secured, given its senior position with a weighted average exposure of 62.2% LTV at year end. Risk remains well-diversified at portfolio level by sector and region. Exposures are predominantly against multi-property or multi-tenanted security, and where appropriate interest is supported by fully funded cash reserves.

### PORTFOLIO OUTLOOK

As the Group's shorter-dated, lower-returning loans reach maturity, with an expectation of repayment in the first half of the financial year, there is now a strong opportunity to cement the transition of the portfolio towards newer, longer-dated and higher-returning loans in line with the stated investment objectives.

In preparation for the rapid reinvestment of any repaid proceeds, the Investment Adviser has agreed terms on three new and renewal transactions with an aggregate committed balance in excess of £45 million, which, if completed, will significantly increase the weighted average investment coupon and loan duration, and progress the Company towards a fully covered dividend.

The UK retail market remains challenged, and although such difficulties always present opportunities, extreme selectivity and caution is warranted. It should be noted that the Group's exposure to retail is low at 20% (the Meadow loan) and secured by a site undergoing planning approval for a large residential development. Exposure to true retail is limited to local convenience shopping parades (within two of the loans secured by mixed-use portfolios), a sub-market which is less exposed to the general travails of the sector.

## INVESTMENT ADVISER'S REPORT (CONTINUED)

### LOAN PORTFOLIO

As set out above, as at 31 January 2019, the Group's portfolio comprised nine loans with an aggregate principal balance outstanding of £107.22 million.

A summary of each of the individual loans as at 31 January 2019 is set out below:

#### Meadow

Originally an £18.07 million senior loan facility used to assist financing an established and well supported international real estate fund in the acquisition of a highly prominent retail park in North London. The borrower is an SPV owned by Meadow Real Estate Fund II LP and is managed by Meadow Partners, an international real estate investor and asset manager.

The estate is now vacant, save for some temporary occupancy of part of the site, and debt service continues to be met from a pre-funded reserve account (topped up quarterly) which provides interest cover through to loan maturity. The loan remains compliant with all covenants and is satisfactorily secured.

During the year, a £1.50 million increase was advanced to the borrower, with the loan extended for a further period up to January 2020. The increase supported the acquisition of an adjoining site which was deemed to hold marriage value with the main scheme by enhancing access routes.

As previously reported, the sponsor is in the advanced stages of reaching a determination on its residential proposals for the site. Whilst Barnet Council initially rejected the application, the London Mayor called in the proposal on 5 November 2018 for his own determination. A decision is pending.

#### Property profile

Number of properties	1
Property value (£)	£30,600,000*
Property value (£/sq. ft.)	£329.45
Property area sq. ft.	92,882
Number of tenants	n/a
Weighted lease length	n/a

#### Debt profile

Day one debt	£18,070,000
Debt outstanding	£21,500,000
Original term	4.3 years
Maturity	January 2020
Current LTV	70.3%
Current ICR	100%
Loan exposure per sq. ft.	£231.48

\* The property value of £30.6m reflects the current value of the property including the potential uplift in value which may be achieved should planning permission be obtained.

#### Northlands

Originally a £7.20 million senior loan facility used to refinance existing senior debt secured on a mixed use portfolio of high street retail (46%), office and tenanted residential units located predominantly in London and the South East. The borrower is Northlands Holdings and group affiliates on a cross-collateralised basis.

The security portfolio is highly diverse across its property and tenant base, principally being let to convenience retail and residential occupiers. Following certain changes to the underlying property security pool and additional advances, the loan balance is now £8.50 million, reflecting 53.5% LTV.

The sponsor and Company have agreed terms for a full refinancing of the facility, on attractive risk-adjusted terms, in support of the next phase of the sponsor's business plan. Post year end, a short term extension of the current loan maturity has been agreed whilst the refinancing progresses.

#### Property profile

Number of properties	15
Property value (£)	£15,877,950
Property value (£/sq. ft.)	£131.91
Property area sq. ft.	121,285
Number of tenants	119
Weighted lease length	2.17 years

#### Debt profile

Day one debt	£7,200,000
Debt outstanding	£8,500,000
Original term	5.0 years
Maturity	February 2019 (extended to November 2019)
Current LTV	53.5%
Current ICR	158%
Loan exposure per sq. ft.	£70.08

## INVESTMENT ADVISER'S REPORT (CONTINUED)

### LOAN PORTFOLIO (CONTINUED)

#### Halcyon

Originally a £8.60 million senior loan facility utilised to refinance a portfolio of freehold ground rents.

During the year the loan was partially repaid by £2.17m following the release of three freehold assets which was sanctioned on the basis that the overall credit risk dynamic on the portfolio did not change.

With the loan being secured by a portfolio of defensive freehold ground rent investments, the security position is considered strong despite an ICR below the average of the Group's investments.

A repayment of the facility is expected in advance of the scheduled loan maturity.

Property profile	
Number of properties	18
Property value (£)	£9,856,000
Property value (£/sq. ft.)	£37.40
Property area sq. ft.	263,545
Number of tenants	4
Weighted lease length	83.76 years

Debt profile	
Day one debt	£8,600,000
Debt outstanding	£6,423,280
Original term	5.0 years
Maturity	December 2019
Current LTV	65.2%
Current ICR	115%
Loan exposure per sq. ft.	£24.37

#### Carrara

A £1.30 million senior loan facility was used to refinance an individual ground rent investment.

The Carrara security comprises a single virtual freehold ground rent investment located in Leeds with an unexpired lease term of 82 years, subject to a ground rent of 25% of market rent. The property is a modern office building on an established business park accessed from the M1 motorway. Given the Group's senior position in the capital structure against the superior freehold interest in the asset, the security position remains very strong.

A repayment of the facility is expected in advance of the scheduled loan maturity.

Property profile	
Number of properties	1
Property value (£)	£2,000,000
Property value (£/sq. ft.)	£81.73
Property area sq. ft.	24,470
Number of tenants	1
Weighted lease length	81.94 years

Debt profile	
Day one debt	£1,300,000
Debt outstanding	£1,300,000
Original term	5.0 years
Maturity	December 2019
Current LTV	65.0%
Current ICR	113%
Loan exposure per sq. ft.	£53.13

## INVESTMENT ADVISER'S REPORT (CONTINUED)

## LOAN PORTFOLIO (CONTINUED)

**Ramada**

A £7.98 million loan to Quay Hotels Limited, which had an original maturity date of April 2019.

The investment is secured by a first and only charge over the Ramada Encore hotel in Gateshead, a modern 200 bedroom hotel which was constructed in 2012. The secured property, which is operated by Wyndham Hotels Group, is situated in a highly visible location in Gateshead Quays, adjacent to the Baltic Centre for Contemporary Art and within a short walk of the Sage Gateshead concert venue and the Millennium footbridge which links Gateshead and Newcastle quayside areas.

The LTV position of the loan, at 66%, and ICR (162%) remain robust.

A short term extension of the loan is under discussion with the borrower. This will allow shareholders to enjoy income on the loan for an extended period.

Property profile	
Number of properties	1
Property value (£)	£12,100,000
Property value (£/bedroom)	£60,500
Bedrooms	200

Debt profile	
Day one debt	£7,982,500
Debt outstanding	£7,982,500
Original term	5.0 years
Maturity	April 2019
Current LTV	66.0%
Current ICR	162%
Loan exposure per bedroom	£39,912.50

**Commercial Regional Space**

A £22.40 million loan to Commercial Regional Space Limited and affiliates made on 16 March 2016, and secured by first charges against two multi-let industrial estates located in Lancashire comprising 1.25 million sq. ft. of accommodation and providing a highly diversified income stream from lettings to over 160 tenants.

Performance continues to remain robust during the year, with income stable and the loan being considered very well secured.

Post year end, a short term extension of the loan was agreed, at an improved interest rate, whilst a refinancing is progressed. Thereafter we anticipate repayment of the loan in the coming six months.

Property profile	
Number of properties	2
Property value (£)	£44,000,000
Property value (£/sq. ft.)	£36.81
Property area sq. ft.	1,195,197
Number of tenants	166
Weighted lease length	1.50 years

Debt profile	
Day one debt	£22,400,000
Debt outstanding	£22,400,000
Original term	3 years
Maturity	July 2019
Current LTV	50.9%
Current ICR	355%
Loan exposure per sq. ft.	£18.74

## INVESTMENT ADVISER'S REPORT (CONTINUED)

### LOAN PORTFOLIO (CONTINUED)

#### BMO

The Group advanced a new £16.00 million loan to clients of BMO Real Estate Partners, with an initial LTV ratio of 55.4% and a maturity date in April 2019. The loan was originally secured by first charges against a portfolio of 17 properties located across the UK, principally in the high street retail and industrial sectors, and provides a diversified income stream.

A repayment of the facility is expected in the coming quarter. However a short extension is being agreed to allow refinancing to be finalised.

Property profile	
Number of properties	15
Property value (£)	£30,690,000
Property value (£/sq. ft.)	£96.50
Property area sq. ft.	318,036
Number of tenants	52
Weighted lease length	9.62 years

Debt profile	
Day one debt	£16,000,000
Debt outstanding	£15,793,727
Original term	2 years
Maturity	April 2019
Current LTV	51.5%
Current ICR	398%
Loan exposure per sq. ft.	£49.66

#### Quattro

On 17 October 2017, the Group advanced a new £9.00 million loan to a private property company, secured by three mixed use assets in and around the London Borough of Kingston. The Group initially financed a £6.00 million participation in the loan subsequently, acquiring the minority £3.00 million position from ICG following an equity issuance under the 2017 Placing Programme.

The loan carries an initial LTV ratio of 83.7%, at the top end of the Group's investment parameters, however it offers significant income and value growth opportunities.

The loan is structured with a profit participation component, allowing the Group to benefit from any future value growth in the portfolio whilst retaining the security of a senior first mortgage position. There has been no value growth to date and accordingly no value is currently ascribed to the profit participation.

Property profile	
Number of properties	3
Property value (£)	£10,750,000
Property value (£/sq. ft.)	£282.61
Property area sq. ft.	38,038
Number of tenants	7
Weighted lease length	12.23 years

Debt profile	
Day one debt	£9,000,000
Debt outstanding	£9,000,000
Original term	3.2 years
Maturity	January 2021
Current LTV	83.7%
Current ICR	100%
Loan exposure per sq. ft.	£236.61

## INVESTMENT ADVISER'S REPORT (CONTINUED)

## LOAN PORTFOLIO (CONTINUED)

## Affinity

On 28 February 2018, a new £16.20 million commitment was made, of which £14.20 million was advanced, to refinance a multi-let office property in Bristol, and to provide a £2.00 million capital expenditure facility to fund a refurbishment programme. The loan is secured by a five storey office block comprising 114,364 sq. ft. let to ten tenants with a contracted rent of £1.24 million per annum and an initial weighted unexpired lease term at loan closing of 4.9 years.

The loan continues to perform in line with the business plan with some key lease renewals secured during the period.

Property profile		Debt profile	
Number of properties	1	Day one debt	£14,200,000
Property value (£)	£21,100,000	Debt outstanding	£14,322,039
Property value (£/sq. ft.)	£184.50	Original term	4.2 years
Property area sq. ft.	114,364	Maturity	May 2022
Number of tenants	21	Current LTV	67.9%
Weighted lease length	4.02 years	Current ICR	100%
		Loan exposure per sq. ft.	£125.23

Following year end, the following loan was added to the portfolio:

## Southport Hotel

A £15 million loan commitment, of which £12.50 million has been drawn, secured by a hotel and leisure complex in Southport, Merseyside. The initial loan to value ratio is 59.5%.

The hotel has a demonstrable trading history with a business plan focused on investing in improving the asset, renovating the bedrooms and thereafter driving room rates.

Property profile		Debt profile	
Number of properties	1	Day one debt	£12,500,000
Property value (£)	£21,000,000	Debt outstanding	£12,500,000
Property value (£/bedroom)	£157,895	Original term	4 years
Property value (£/sq. ft.)	£462.25	Maturity	April 2023
Bedrooms	133	Current LTV	59.5%
Property area sq. ft.	45,430	Current ICR	143%
		Loan Exposure per bedroom	£93,984.96

## INVESTMENT POLICY

### INVESTMENT OBJECTIVE

The investment objective of the Group, as approved by the shareholders of the Company, is "to construct a portfolio of UK real estate debt related investments predominantly comprising loans secured by first ranking fixed charges against commercial property investments, with the aim of providing shareholders with attractive, quarterly dividends, capital preservation and, over the longer term, a degree of capital appreciation."

### INVESTMENT POLICY

The Group's investment policy is to invest in:

- direct real estate debt investments via a diversified loan portfolio comprised of first ranking loans secured on UK Commercial Property, with an aggregate LTV of no more than 75% (based on the initial valuations at the time of loan origination or acquisition once fully invested); and
- ICG Private Funds acquired in primary or secondary transactions, including from the Investment Adviser or its associates.

### INVESTMENT RESTRICTIONS

A. The following restrictions apply to loan investments within the portfolio.

The Group will, subject as set out below, only invest in loans that:

- are originated by the Investment Adviser or its associates;
- are denominated in Pounds Sterling;
- benefit from a first ranking fixed charge over the relevant properties, including in respect of any receivable income;
- benefit from loan covenants structured to ensure that a material decrease in the income or value from the underlying property will trigger an event of default or cash-flow lock-up;
- have a term of no greater than ten years from the date of investment;
- have an LTV no higher than 85% at the time of origination or acquisition provided however that the aggregate value of the loans with an LTV of greater than 80% shall be no greater than 20% of the Group's gross asset value; and
- are bilateral (other than where syndicated with other funds managed by the Investment Adviser or its associates).

At the time any investment is made:

- the maximum percentage of the Group's gross assets allocated to a single loan shall be 10%, provided that the limit may be increased to 15% in respect of loans benefiting from Investment Grade Tenants and 20% in respect of loans benefiting from a diversified tenant profile;
- the maximum percentage of the Group's gross assets allocated to a single borrower (together with its parents, subsidiaries and/or affiliates) shall be 20%;
- the maximum exposure of the gross rents receivable on all loan investments to a single underlying tenant shall be 10%, except in the case of the UK Government, when the maximum exposure shall be 25%;
- the maximum exposure to a mainstream property sector or the mixed property sector shall be 50% of the Group's gross assets;

- the maximum exposure to an alternative property sector shall be 25% of the Group's gross assets;
- the maximum exposure to property which is not a mainstream property sector, an alternative property sector or the mixed property sector shall be 5% of the Group's gross assets;
- the maximum exposure to property within a single UK economic region shall be 30% of the Group's gross assets, provided that the maximum exposure to Greater London property shall be 60% of the Group's gross assets; and
- the value of the Group's security which is not freehold tenure or long-leasehold tenure with an unexpired term of more than 50 years shall not be greater than 5% of the total value of the Group's security.

The Group will not invest in subordinated loans and mezzanine loans, bridge loans, development loans or loan-on-loan financings.

B. The following restrictions apply to the portfolio's indirect real estate exposure.

The Group may only invest in ICG Private Funds where at the date of making an investment or commitment:

- the relevant ICG Private Fund's investment parameters, investment policy and/or investment objective, as the case may be, require that at least 90% of that ICG Private Fund's capital is invested in Pounds Sterling denominated loans secured by commercial real estate and at least 60% in loans secured by first ranking security over Commercial Property;
- the maximum percentage of the Group's gross assets committed to a single ICG Private Fund shall be 20%, where gross assets are calculated on the assumption that the Group's commitment to such fund is fully utilised; and
- the maximum percentage of the Group's gross assets committed to all ICG Private Funds shall be 30%, where gross assets are calculated on the assumption that the Group's commitment to such funds is fully utilised.

### GEARING

The Group may utilise borrowings from time to time in order to finance its working capital requirements provided that such borrowings will not exceed an amount equal to 20% of the Group's Net Asset Value immediately following the drawdown of the borrowings.

### CASH MANAGEMENT POLICY

Cash held by the Group pending investment or distribution will be held in either cash or cash equivalents. The Group may invest in quoted bond and other debt instruments with a final maturity of less than 365 days as well as money market funds for the purposes of cash management provided any such instrument has a minimum credit rating. The Group will not apply gearing to these temporary investments.

The Group will not invest in other listed or unlisted closed-ended funds.

Any material change to the Group's published investment policy will be made only with the prior approval of shareholders by ordinary resolution.

## BOARD OF DIRECTORS

**JACK PERRY CBE**

**Chairman and Non-Executive  
Independent Director**

**APPOINTMENT:**

Appointed to the Board and as a Chairman in November 2012

**EXPERIENCE:**

Jack pursues a career as a portfolio non-executive director. In addition to a number of current public and charitable appointments, he is chairman of European Assets Trust PLC and a non-executive director of Witan Investment Trust plc. He was Chief Executive Officer of Scottish Enterprise and prior to this was a managing partner and regional industry leader for Ernst & Young LLP. Jack was also chairman of CBI Scotland. He has served on the Boards of FTSE 250 and other public and private companies and is a member of the Institute of Chartered Accountants of Scotland.

**COMMITTEE MEMBERSHIP:**

Nomination Committee, Management Engagement Committee

**STUART BEEVOR**

**Non-Executive  
Independent Director**

**APPOINTMENT:**

Appointed to the Board in November 2012

**EXPERIENCE:**

Stuart is an Independent Consultant with various roles advising clients in real estate fund management, investment, development and asset management. He is Board Member of Metropolitan Thames Valley Housing and non-executive director of Empiric Student Property plc. From 2004 to 2013 he was a non-executive director at Unite Group Plc. From 2002 to 2011 he was Managing Director of Grosvenor Fund Management Limited and a member of the Board of Grosvenor Group Limited, the international property group. Prior to joining Grosvenor, he was Managing Director at Legal and General Property Limited, having previously held a number of roles at Norwich Union (now Aviva). Stuart is a Chartered Surveyor with over 30 years' experience in real estate both in the UK and overseas.

**COMMITTEE MEMBERSHIP:**

Audit and Operational Risk Committee, Investment Risk Committee,  
Nomination Committee

**PATRICK FIRTH**

**Non-Executive  
Independent Director**

**APPOINTMENT:**

Appointed to the Board in November 2012

**EXPERIENCE:**

Patrick qualified as a Chartered Accountant with KPMG Guernsey in 1991 and is also a member of the Chartered Institute for Securities and Investment. He has worked in the fund industry in Guernsey since joining Rothschild Asset Management (CI) Limited in 1992 before moving to become Managing Director at Butterfield Fund Services (Guernsey) Limited (subsequently Butterfield Fulcrum Group (Guernsey) Limited), a company providing third party fund administration services, where he worked from April 2002 until June 2009. He is a non-executive director of a number of investment funds and management companies, including GLI Finance Limited, Riverstone Energy Limited, JZ Capital Partners Limited and NextEnergy Solar Fund Limited. Mr Firth is a resident of Guernsey.

**COMMITTEE MEMBERSHIP:**

Audit and Operational Risk Committee, Nomination Committee,  
Management Engagement Committee, Investment Risk Committee

## BOARD OF DIRECTORS (CONTINUED)



**MARK HUNTLEY**  
Non-Executive Director

**APPOINTMENT:**

Appointed to the Board in November 2012

**EXPERIENCE:**

Mark has over 40 years' experience in the fund and fiduciary sector and much of his involvement in the fund and private asset sectors has involved real estate and private equity investments. He holds a number of board appointments on listed and private funds and property advisory boards including non-executive board appointment of the following listed companies: Macau Property Opportunities Fund Limited, Stirling Mortimer No.8 Fund UK Land Limited and Stirling Mortimer No.9 Fund UK Land 2 Limited. He has been actively involved in real estate investment in the UK and internationally. He also has experience of a number of private and listed debt structures. Mark is an Associate of the Institute of Financial Services (Trustee Diploma).

He acted as a consultant to the Administrator following the sale of the company in November 2017. The purpose of the consultancy was to provide corporate knowledge primarily for the three months following sale to 31 January 2018. No remuneration has been paid and he holds no executive roles or functions. There has been no involvement with the Administrator under this arrangement concerning the Group's activities. The consultancy is not active and will expire in October 2019.

**COMMITTEE MEMBERSHIP:**

Investment Risk Committee, Nomination Committee



**PAUL MEADER**  
Non-Executive  
Independent Director

**APPOINTMENT:**

Appointed to the Board in November 2012

**EXPERIENCE:**

Paul is an independent director of investment companies, insurers and investment funds. Until the autumn of 2012 he was Head of Portfolio Management for Collins Stewart based in Guernsey, prior to which he was Chief Executive of Corazon Capital. He has over 30 years' experience in financial markets in London, Dublin and Guernsey, holding senior positions in portfolio management and trading. Prior to joining Corazon he was Managing Director of Rothschild's Swiss private-banking subsidiary in Guernsey. He is a non-executive director of the following listed companies: Guaranteed Investment Products 1 PCC Limited, Volta Finance Limited, Schroder Oriental Income Fund Limited, SQN Asset Finance Income Fund Limited and JP Morgan Global Convertibles Income Fund Limited. Paul is a Chartered Fellow of the Chartered Institute of Securities & Investments, a past Commissioner of the Guernsey Financial Services Commission and past Chairman of the Guernsey International Business Association. He is a graduate of Hertford College, Oxford.

**COMMITTEE MEMBERSHIP:**

Audit and Operational Risk Committee, Investment Risk Committee, Nomination Committee, Management Engagement Committee

## REPORT OF THE DIRECTORS

The Directors hereby submit the Annual Report and Consolidated Financial Statements for the Group for the year ended 31 January 2019. This Report of the Directors should be read together with the Corporate Governance Report on pages 24 to 31.

### GENERAL INFORMATION

The Company is a non-cellular company limited by shares incorporated on 29 November 2012 under the Companies Law. The Company's registration number is 55917, and it has been registered with the GFSC as a registered closed-ended collective investment scheme. The Company's ordinary shares were admitted to the premium segment of the FCA's Official List and to trading on the Main Market of the London Stock Exchange on 5 February 2013.

### PRINCIPAL ACTIVITIES

The principal activity of the Group is to invest in senior secured debt investments. The investment objective of the Group is to construct a portfolio of UK real estate debt related investments predominantly comprising loans secured by first ranking

fixed charges against commercial property investments, with the aim of providing shareholders with attractive, quarterly dividends, capital preservation and, over the longer term, a degree of capital appreciation.

### BUSINESS REVIEW

A review of the Group's business and its likely future development is provided in the Chairman's Statement on pages 3 to 4 and in the Investment Adviser's Report on pages 5 to 14.

### LISTING REQUIREMENTS

Since being admitted on 5 February 2013 to the Official List maintained by the FCA, the Company has complied with the applicable Listing Rules.

### RESULTS AND DIVIDENDS

The results for the year are set out in the Financial Statements on pages 42 to 63.

During the year, and since the year end, the Directors declared the following dividends:

Dividend	Quarter Ended	Date of Declaration	Payment Date	Amount per Ordinary Share (pence)
Interim dividend	31 January 2018	13 March 2018	20 April 2018	1.5
Interim dividend	30 April 2018	28 June 2018	27 July 2018	1.5
Interim dividend	31 July 2018	2 October 2018	2 November 2018	1.5
Interim dividend	31 October 2018	7 December 2018	18 January 2019	1.5
Interim dividend	31 January 2019	8 March 2019	12 April 2019	1.5

### SHARE CAPITAL

At incorporation on 29 November 2012, the Company issued one founding ordinary share of no par value. On 5 February 2013 the Company issued a further 104,619,249 ordinary shares of no par value at £1 per ordinary share in an IPO. On 24 April 2014, the Company issued 3.6 million new ordinary shares at 102 pence per share, a premium of 2 pence per share above IPO issue price. On 26 October 2017, the Company issued 8.82 million new ordinary shares at 102 pence per share, a premium of 2 pence per share above IPO issue price. On 27 March 2018, the Company issued 4.26 million new ordinary shares pursuant to the remaining authority to allot a further 31.2 million shares under the 2017 Placing Programme.

The Company has one class of ordinary shares. The issued nominal value of the ordinary shares represents 100% of the total issued nominal value of all share capital. Under the Company's Articles of Incorporation, on a show of hands, each

shareholder present in person or by proxy has the right to one vote at Annual General Meetings. On a poll, each shareholder is entitled to one vote for every share held. On 1 March 2017, the proposed resolution that Company have the power to allot up to an additional 40,000,000 shares was duly passed without amendment.

Shareholders are entitled to all dividends paid by the Company and, on a winding up, providing the Company has satisfied all of its liabilities, the shareholders are entitled to all of the surplus assets of the Company. The ordinary shares have no right to fixed income.

## REPORT OF THE DIRECTORS (CONTINUED)

### SHAREHOLDINGS OF THE DIRECTORS

The Directors with beneficial interests in the shares of the Company as at 31 January 2019 and 2018 are detailed below:

Director	Ordinary Shares of £1 each held 31 January 2019	% holding at 31 January 2019	Ordinary Shares of £1 each held 31 January 2018	% holding at 31 January 2018
Jack Perry	50,000	0.04	50,000	0.04
Stuart Beevor	30,000	0.02	20,000	0.02
Paul Meader	25,000	0.02	25,000	0.02
Patrick Firth	10,000	0.01	10,000	0.01
Mark Huntley	10,000	0.01	10,000	0.01

Directors' beneficial interests in the shares of the Company as at 22 March 2019, being the most current information available, are unchanged from those disclosed above.

### DIRECTORS' AUTHORITY TO BUY BACK SHARES

The Directors believe that the most effective means of minimising any discount to Net Asset Value which may arise on the Company's share price, is to deliver strong, consistent performance from the Group's investment portfolio in both absolute and relative terms. However, the Board recognises that wider market conditions and other considerations will affect the rating of the shares in the short term and the Board may seek to limit the level and volatility of any discount to Net Asset Value at which the shares may trade. The means by which this might be done could include the Company repurchasing shares. Therefore, subject to the requirements of the Listing Rules, the Companies Law, the Articles and other applicable legislation, the Company may purchase shares in the market in order to address any imbalance between the supply of and demand for shares or to enhance the Net Asset Value of shares.

In deciding whether to make any such purchases the Directors will have regard to what they believe to be in the best interests of shareholders and in accordance with the applicable Guernsey legal requirements which require the Directors to be satisfied on reasonable grounds that the Company will, immediately after any such repurchase, satisfy a solvency test prescribed by the Companies Law and any other requirements in its Memorandum and Articles of Incorporation. The making and timing of any buybacks will be at the absolute discretion of the Board and not at the option of the shareholders. Any such repurchases would only be made through the market for cash at a discount to Net Asset Value.

Annually the Company passes a resolution granting the Directors general authority to purchase in the market up to 14.99% of the shares in issue immediately following Admission at a price not exceeding the higher of (i) 5% above the average mid-market values of shares for the five business days before the purchase is made or (ii) the higher of the last independent trade or the highest current independent bid for shares. The Directors intend to seek renewal of this authority from the shareholders at the Annual General Meeting.

Pursuant to this authority, and subject to the Companies Law and the discretion of the Directors, the Company may purchase shares in the market on an on-going basis with a view to addressing any imbalance between the supply of and demand for shares.

Shares purchased by the Company may be cancelled or held as treasury shares. The Company may borrow and/or realise investments in order to finance such share purchases.

The Company did not purchase any shares for treasury or cancellation during the year or to date.

### DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

The Group maintains insurance in respect of directors' and officers' liability in relation to their acts on behalf of the Group. Insurance is in place, having been renewed on 30 December 2018.

## REPORT OF THE DIRECTORS (CONTINUED)

### SUBSTANTIAL SHAREHOLDINGS

As at 31 January 2019, the Company had been notified, in accordance with Chapter 5 of the Disclosure and Transparency Rules, of the following substantial voting rights as shareholders of the Company.

Shareholder	Shareholding	% holding
Close Brothers Asset Management	21,243,517	17.51
Brooks Macdonald	11,356,118	9.36
TDC Pensionskasse	10,653,156	8.78
Premier Asset Management	10,300,000	8.49
Intermediate Capital Group	10,000,000	8.24
Canopus	9,806,107	8.08
Kleinwort Hambros	6,259,802	5.16

In addition, the Company also provides the same information as at 22 March 2019, being the most current information available.

Shareholder	Shareholding	% holding
Close Brothers Asset Management	21,102,083	17.40
Canopus	11,006,107	9.07
TDC Pensionskasse	10,653,156	8.78
Premier Asset Management	10,300,000	8.49
Intermediate Capital Group	10,000,000	8.24
Brooks Macdonald	9,791,465	8.07
Kleinwort Hambros	6,172,312	5.09

The Directors confirm that there are no securities in issue that carry special rights with regard to the control of the Company.

### INDEPENDENT EXTERNAL AUDITOR

Deloitte LLP has been the Company's external auditor since the Company's incorporation. The Audit and Operational Risk Committee reviews the appointment of the external auditor, its effectiveness and its relationship with the Company, which includes monitoring the use of the external auditor for non-audit services and the balance of audit and non-audit fees paid, as included in Note 15. Following a review of the independence and effectiveness of the external auditor, a resolution will be proposed at the 2019 Annual General Meeting to re-appoint Deloitte LLP. Each Director believes that there is no relevant information of which the external auditor is unaware. Each had taken all steps necessary, as a Director, to be aware of any relevant audit information and to establish that Deloitte LLP is made aware of any pertinent information. This confirmation is given and should be interpreted in accordance with the provisions of Section 249 of the Companies Law. Further information on the work of the external auditor is set out in the Report of the Audit and Operational Risk Committee on pages 32 to 34.

### ARTICLES OF INCORPORATION

The Company's Articles of Incorporation may only be amended by special resolution of the shareholders.

### NMPI STATUS

There is no change to the Company's status in respect of NMPI and the Company remains on the AIC list of exempted securities.

The Company continues to make all reasonable efforts to conduct its affairs in such a manner so that its shares can be recommended by UK financial advisers to ordinary retail investors in accordance with the FCA's rules relating to non-mainstream investment products.

### AIFMD

The Company is an internally managed non-EU domiciled alternative investment fund. Any offer of shares to prospective investors within selected member states of the European Economic Area (including the UK) will be made in accordance with the applicable national private placement regime, and the Company will notify its intention to market to the competent authority in each of the selected member states for the purposes of compliance with AIFMD.

### AEOI RULES

Under AEOI Rules the Company continues to comply with both FATCA and CRS requirements to the extent relevant to the Company.

### CHANGE OF CONTROL

There are no agreements that the Company considers significant and to which the Company is party that would take effect, alter or terminate upon change of control of the Company following a takeover bid.

## REPORT OF THE DIRECTORS (CONTINUED)

### GOING CONCERN

The Directors, at the time of approving the Financial Statements, 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. The Group was substantially invested at 31 January 2019, with loans advanced at amortised cost representing 90.25% of the total equity attributable to the owners of the Company. The Board expects that the loan portfolio will generate sufficient cash flows to pay on-going expenses and generate returns to shareholders for a period of at least twelve months from the date of approval of the Consolidated Financial Statements. The Directors have considered the cash position, maturity profile and performances of current investments made by the Group, and its ability to reinvest maturing loans and have concluded that it is appropriate to adopt the going concern basis of accounting in preparing the Financial Statements.

The first continuation vote was held on 1 March 2017 and passed by the shareholders. Follow-on continuation resolutions shall be held every five years at which the Directors shall propose an ordinary resolution that the Company continues its business as a closed-ended collective investment scheme. The first follow-on continuation resolution will be required on or before the Annual General Meeting of the Company to be held in 2022.

### VIABILITY STATEMENT

As required by the AIC Code, the Directors have assessed the prospects of the Group over a period longer than 12 months required by the going concern provision. The Board has conducted this review for a period covering the period to 31 January 2022, which is deemed appropriate given:

- (i) the maturity profile of the Group's current loan portfolio from April 2019 to January 2023;
- (ii) the Company's intention to replace existing loans at maturity with new loans of 3-5 year tenure as they expire;
- (iii) the expectation that the weighted average loan term will increase to 2-3 years; and
- (iv) the date of the next scheduled continuation vote being 2022.

The Group's capital has remained substantially invested and can be reinvested under the new investment policy utilising the Company's revolving credit facility ("RCF") in advance of expected loan repayments. Based on past performance the returns generated from each investment should be stable and predictable in the medium term.

The Investment Adviser has prepared and the Board has reviewed the Group's revenue, cashflow and working capital projections over the next three years, and considered the impact of some of the principal risks of the Group as described on pages 29 to 31. The Investment Adviser and the Board evaluated the resilience of the Group to the occurrence of these risks in severe yet plausible scenarios. This evaluation has applied through the following key scenarios to the portfolio of loans prevailing at 31 January 2019 and known subsequent changes:

- each loan repays at the expiry date. Utilising the Company's revolving credit facility, capital is invested in advance of loan maturity within the target investment policy and reflecting the

Investment Adviser's transaction pipeline. Loan repayments are used to reduce borrowing under the RCF after three months (the "Base Case");

- the UK economy enters a period of severe recession causing a 20% reduction in interest collection as a result of a combination of tenant defaults and falling rents which in turn cause a sharp correction to property values similar to that which was experienced in 2008. During this period the RCF remains available, but is not extended, and underperforming assets are not realised before maturity (the "Stress Case").

It was assumed that there would be no changes relating to the Group structure, which includes changes in tax legislation applicable to the Group or Company and changes to fund legislation, and for the purpose of the projections that no new capital was raised.

The Investment Adviser and the Board have further considered the impact of Brexit on the performance of the loan portfolio, and the Group's ability to redeploy capital. Given the strength of the current pipeline and investment property transaction volumes the Board was satisfied that Brexit did not pose a greater risk to the business than the stress scenario.

Having conducted a robust analysis of the above scenarios and stresses applied to each, the Directors remain satisfied that the Group can meet its liabilities as they fall due and remains viable over the period under consideration (to January 2022).

### FINANCIAL RISK MANAGEMENT POLICIES AND OBJECTIVES

Financial Risk Management Policies and Objectives are disclosed in Note 11 on pages 58 to 62.

### PRINCIPAL RISKS AND UNCERTAINTIES

Principal Risks and Uncertainties are discussed in the Corporate Governance Report on pages 29 to 31.

### SUBSEQUENT EVENTS

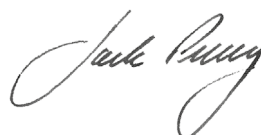
Significant subsequent events have been disclosed in Note 17 to the Financial Statements on page 63.

### ANNUAL GENERAL MEETING

The AGM of the Company will be held at 2pm BST on 2 July 2019 at Floor 2, Trafalgar Court, Les Banques, St Peter Port, GY1 4LY. Details of the resolutions to be proposed at the AGM, together with explanations, will appear in the Notice of Meeting to be distributed to shareholders together with this Annual Report.

Members of the Board will be in attendance at the AGM and will be available to answer shareholder questions.

By order of the Board



**JACK PERRY**  
Chairman

23 April 2019

## DIRECTORS' RESPONSIBILITIES STATEMENT

The Directors are responsible for preparing the Annual Report and Financial Statements in accordance with applicable law and regulations.

The Companies Law requires the Directors to prepare Financial Statements for each financial year. Under that law the Directors are required to prepare the Consolidated Financial Statements in accordance with IFRS as adopted by the European Union. Under the Companies Law, the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period. In preparing these Financial Statements, the Directors are required to:

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

The Directors confirm that they have complied with the above requirements in preparing the Financial Statements.

The Directors are responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time, the financial position of the Group and enable them to ensure that the Financial Statements comply with Companies Law. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud, error and non-compliance with law and regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the website ([www.lbow.co.uk](http://www.lbow.co.uk)).

Legislation in Guernsey governing the preparation and dissemination of the Financial Statements may differ from legislation in other jurisdictions.

### RESPONSIBILITY STATEMENT OF THE DIRECTORS IN RESPECT OF THE ANNUAL REPORT UNDER THE DISCLOSURE AND TRANSPARENCY RULES

Each of the Directors, whose names are set out on pages 16 and 17, confirms to the best of their knowledge and belief that:

- the Financial Statements, prepared in accordance with IFRS, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the Annual Report includes a fair review of the development and performance of the business and the position of the Company and its subsidiary, together with a description of the principal risks and uncertainties faced; and
- the Annual Report and Consolidated Financial Statements include information required by the FCA and ensuring that the Company complies with the provisions of the Listing Rules, Disclosure Guidelines and Transparency Rules of the FCA. With regard to corporate governance, the Company is required to disclose how it has applied the principles and complied with the provisions of the Corporate Governance Code applicable to the Company.

### RESPONSIBILITY STATEMENT OF THE DIRECTORS IN RESPECT OF THE ANNUAL REPORT UNDER THE CORPORATE GOVERNANCE CODE

The Directors are responsible for preparing the Annual Report and Financial Statements in accordance with applicable law and regulations. Having taken advice from the Audit and Operational Risk Committee, the Directors consider the Annual Report and Financial Statements, taken as a whole, as fair, balanced and understandable and that it provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

By order of the Board



**JACK PERRY**  
Chairman

23 April 2019



**PATRICK FIRTH**  
Director

23 April 2019



Ramada, Gateshead

## CORPORATE GOVERNANCE REPORT

As a UK premium listed Company, ICG-Longbow Senior Secured UK Property Debt Investment Limited's governance policies and procedures are based on the principles of the Corporate Governance Code as required under the Listing Rules. The Corporate Governance Code is available on the Financial Reporting Council's website, [www.frc.org.uk](http://www.frc.org.uk).

The Company became a member of the AIC effective 27 February 2013 and has therefore put in place arrangements to comply with the AIC Code and, in accordance with the AIC Code, voluntarily complies with the Corporate Governance Code. The Directors recognise the importance of sound corporate governance, particularly the requirements of the AIC Code. The AIC Code and the AIC Guide are available on the AIC's website, [www.theaic.co.uk](http://www.theaic.co.uk). We are supportive of the continued enhancement of governance standards that have recently been published for accounting periods beginning on or after 1 January 2019.

The Company is subject to the GFSC Code, which applies to all companies registered as collective investment schemes in Guernsey. The GFSC has also confirmed that companies that report against the Corporate Governance Code or AIC Code are deemed to meet the GFSC Code.

The Board monitors developments in corporate governance to ensure the Board remains aligned with best practice especially with respect to the increased focus on diversity. The Board acknowledges the importance of diversity, including gender, for the effective functioning of the Board and commits to supporting diversity in the boardroom. It is the Board's ongoing aspiration to have a well diversified representation. The Board also values diversity of business skills and experience because Directors with diverse skills sets, capabilities and experience gained from different geographical backgrounds enhance the Board by bringing a wide range of perspectives to the Company.

The AIC Code, as explained by the AIC Guide, addresses all the principles set out in the Corporate Governance Code, as well as setting out additional principles and recommendations on issues that are of specific relevance to investment companies such as the Company. The Board considers that reporting against the principles and recommendations of the AIC Code, by reference to the AIC Guide, provides better information to shareholders.

Throughout the year ended 31 January 2019, the Company has complied with the recommendations of the AIC Code and the relevant provisions of Section 1 of the Corporate Governance Code, except as set out below.

The Corporate Governance Code includes provisions relating to:

- the role of the chief executive;
- executive directors' remuneration; and
- the need for an internal audit function.

For the reasons set out in the AIC Guide, and as explained in the Corporate Governance Code, the Board considers that the above provisions are not currently relevant to the position of the Company, being an internally managed investment company, which delegates most day-to-day functions to third parties.

As an investment company the Company has no employees, all Directors are non-executive and independent of the Investment Adviser and therefore the Directors consider the Company has no requirement for a Chief Executive or Senior Independent

Director and the Board is satisfied that any relevant issues can be properly considered by the Board. The absence of an internal audit function is discussed in the Report of the Audit and Operational Risk Committee on page 33.

As an investment company, the Group's activities have no direct impact on the environment. However the Board believes that it is in the shareholders' interest to consider environmental, social and governance factors when selecting and retaining investments. The Investment Adviser is a signatory to the UN Principles for Responsible Investment and these principles are applied in all investment decisions. The Investment Adviser has continued to develop its ESG policies and procedures, which included completing the Global Real Estate Sustainability Benchmark survey of real estate debt investors for the second time, with satisfactory results against its peer group.

Moreover, during the year the parent of the Investment Adviser has been named as a constituent of the FTSE4Good index. FTSE Russell (the trading name of FTSE International Limited and Frank Russell Company) confirms that Intermediate Capital Group has been independently assessed according to the FTSE4Good criteria, and has satisfied the requirements to become a constituent of the FTSE4Good Index Series. Created by the global index provider FTSE Russell, the FTSE4Good Index Series is designed to measure the performance of companies demonstrating strong Environmental, Social and Governance (ESG) practices. The FTSE4Good indices are used by a wide variety of market participants to create and assess responsible investment funds and other products.

### THE BOARD

The Company is led and controlled by a Board of Directors, which is collectively responsible for the long-term success of the Company. It does so by acting in the interests of the Company, creating and preserving value and has as its foremost principle acting in the interests of shareholders. The Company believes that the composition of the Board is a fundamental driver of its success as the Board must provide strong and effective leadership of the Company. The current Board was selected, as their biographies illustrate, to bring a breadth of knowledge, skills and business experience to the Company. The Directors details are listed on pages 16 and 17 which set out their range of investment, financial and business skills and experience represented.

The Chairman of the Board must be independent and is appointed in accordance with the Company's Articles of Incorporation. Mr Perry is considered to be independent because he:

- has no current or historical employment with the Investment Adviser;
- has no current directorships in any other investment funds managed by the Investment Adviser; and
- is not an executive of a self-managed company or an ex-employee who has left the executive team of a self-managed company within the last five years.

The Board meets at least four times a year and, in addition, there is regular contact between the Board, the Investment Adviser and the Administrator. Further, the Board requires to be supplied in a timely manner with information by the Investment Adviser, the Company Secretary and other advisers in a form and of a quality appropriate to enable it to discharge its duties.

## CORPORATE GOVERNANCE REPORT (CONTINUED)

### BOARD TENURE AND RE-ELECTION

All Directors were appointed in November 2012 therefore no member of the Board has served for longer than seven years to date. As such no issue has arisen to be considered by the Board with respect to long tenure. In accordance with the AIC Code, when and if any Director shall have been in office (or on re-election would at the end of that term of office) for more than nine years the Company will consider further whether there is a risk that such a Director might reasonably be deemed to have lost independence through such long service. Following the recent publication of the 2019 AIC Code, the Board recognises that Directors serving nine years or more may appear to have their independence impaired. However, the Board may nonetheless consider Directors to remain independent and will provide a clear explanation with future Annual Report and Financial Statements as to their reasoning.

The Nomination Committee shall take the lead in any discussions relating to the appointment or re-appointment of Directors, and give consideration to Board rotation in advance of the nine year tenure limit.

A Director who retires at an Annual General Meeting may, if willing to continue to act, be elected or re-elected at that meeting. If, at a general meeting at which a Director retires, the Company neither re-elects that Director nor appoints another person to the Board in the place of that Director, the retiring Director shall, if willing to act, be deemed to have been re-appointed unless at such meeting it is expressly resolved not to fill the vacated office or a resolution for the re-appointment of the Director is put to the meeting and lost.

Directors are appointed under letters of appointment, copies of which are available at the registered office of the Company. The Board considers its composition and succession planning on an on-going basis. The Company's Articles of Incorporation specify that not greater than one third by number of the Directors will be subject to annual re-election at each subsequent Annual General Meeting of the Company and that each of the Directors should submit themselves for re-election at least every three years. Mr Firth and Mr Meader will retire as Directors of the

During the year ended 31 January 2019 and the year ended 31 January 2018, the Directors' remuneration was as follows:

Director	1 February 2018 to 31 January 2019 £	1 February 2017 to 31 January 2018 £
Jack Perry	50,000	50,833
Patrick Firth	40,000	41,875
Paul Meader	36,875	36,875
Stuart Beevor	35,000	36,875
Mark Huntley	35,000	36,875

The Company Directors' fees for the year amounted to £196,875 (31 January 2018: £203,333) with outstanding fees of £49,375 due to the Directors at 31 January 2019 (31 January 2018: £48,750) (see Note 8). During the prior year, the Company paid each Director an additional, one-off fee of £5,000 for the extra services they performed in connection with the 2017 Placing Programme.

Company in accordance with the policy adopted by the Board and will be put forward for re-election at the forthcoming AGM. Mr Huntley was considered by the Board as independent but as he remained a consultant to the Administrator under an agreement which is described on page 17 which expires in October 2019 he will stand for re-election.

Any Director who is elected or re-elected at that meeting is treated as continuing in office throughout. If he is not elected or re-elected, he shall retain office until the end of the meeting or (if earlier) when a resolution is passed to appoint someone in his place or when a resolution to elect or re-elect the Director is put to the meeting and lost.

The Board has an agreed succession plan for the orderly retirement of existing Directors and to provide for the regular refreshment of skills and talent. The Board welcomes the 2019 AIC Code and is confident that its succession plan respects both the letter and the spirit of the Code regarding Board composition, diversity - particularly with respect to gender - and how effectively members work together to achieve the Company's objectives.

Regular retirements of Directors will take place starting from the AGM in 2020 ensuring that the Company complies with the 2019 AIC Code.

### DIRECTORS' REMUNERATION

The level of remuneration of the Non-executive Directors reflects the time commitment and responsibilities of their roles. The Chairman is entitled to annual remuneration of £50,000 (31 January 2018: £50,000). The Chairman of the Audit and Operational Risk Committee is entitled to annual remuneration of £40,000 (31 January 2018: £40,000) and the Chairman of the Investment Risk Committee is entitled to annual remuneration of £37,500 effective from 1 May 2018 (31 January 2018: £35,000). The other independent Directors are entitled to annual remuneration of £35,000 (31 January 2018: £35,000). No change to Directors' remuneration is proposed for the year to 31 January 2020.

All of the Directors are non-executive and are each considered independent for the purposes of Chapter 15 of the Listing Rules.

## CORPORATE GOVERNANCE REPORT (CONTINUED)

### DUTIES AND RESPONSIBILITIES

The Board has overall responsibility for maximising the Company's success by directing and supervising the affairs of the business and meeting the appropriate interests of shareholders and relevant stakeholders, while enhancing the value of the Company and also ensuring the protection of investors. The Board has adopted a Schedule of Matters which sets out the particular duties of the Board. Such reserved powers include the following:

- strategic matters;
- risk assessment and management including reporting, compliance, governance, monitoring and control and financial reporting;
- statutory obligations and public disclosure;
- declaring Company dividends;
- managing the Company's advisers; and
- other matters having a material effect on the Company.

The Directors have access to the advice and services of the Administrator, who is responsible to the Board for ensuring that Board procedures are followed and that it complies with Companies Law and applicable rules and regulations of the GFSC and the London Stock Exchange. Where necessary, in carrying out their duties, the Directors may seek independent

professional advice and services at the expense of the Company. The Company maintains appropriate Directors' and Officers' liability insurance in respect of legal action against its Directors on an on-going basis.

The Board's responsibilities for the Annual Report are set out in the Directors' Responsibility Statement on page 22. The Board is also responsible for issuing appropriate Interim Reports and other price-sensitive public reports.

One of the key criteria the Company uses when selecting non-executive Directors is their confirmation prior to their appointment that they will be able to allocate sufficient time to the Company to discharge their responsibilities in a timely and effective manner.

The Board formally met four times during the year and the ad-hoc Board meetings were called in relation to specific events or to issue approvals, often at short notice and did not necessarily require full attendance. Each Board member receives a comprehensive Board pack at least five days prior to each meeting which incorporates a formal agenda together with supporting papers for items to be discussed at the meeting. Directors are encouraged when they are unable to attend a meeting to give the Chairman their views and comments on matters to be discussed, in advance. In addition to their meeting commitments, the Non-executive Directors also liaise with the Investment Adviser to management whenever required and there is regular contact outside the Board meeting schedule.

Attendance is further set out below:

Director	Scheduled Board Meetings	Ad-hoc Board Meetings	Audit and Operational Risk Committee Meetings	Investment Risk Committee Meetings	Nomination Committee Meeting	Management Engagement Committee Meeting	Tenure as at 31 January 2019
Stuart Beevor	4 of 4	1 of 4	3 of 3	4 of 4	1 of 1	n/a	6 years and 2 months
Patrick Firth	4 of 4	3 of 4	3 of 3	n/a	1 of 1	1 of 1	6 years and 2 months
Mark Huntley	4 of 4	4 of 4	n/a	4 of 4	1 of 1	n/a	6 years and 2 months
Paul Meader	4 of 4	2 of 4	3 of 3	4 of 4	1 of 1	1 of 1	6 years and 2 months
Jack Perry	4 of 4	2 of 4	n/a	n/a	1 of 1	1 of 1	6 years and 2 months

A quorum is comprised of any two or more members of the Board from time to time, to perform administrative and other routine functions on behalf of the Board, subject to such limitations as the Board may expressly impose on this committee from time to time.

### COMMITTEES OF THE BOARD

The Board believes that it and its committees have an appropriate composition and blend of backgrounds, skills and experience to discharge their duties effectively. The Board is of the view that no one individual or small group dominates decision-making. The Board keeps its membership, and that of its committees, under review to ensure that an acceptable balance is maintained, and that the collective skills and experience of its members continue to be refreshed. It is satisfied that all Directors have sufficient time to devote to their roles and that undue reliance is not placed on any individual.

Each committee of the Board has written terms of reference, approved by the Board, summarising its objectives, remit

and powers, which are available on the Company's website ([www.lbow.co.uk](http://www.lbow.co.uk)) and are reviewed on an annual basis. Each Committee has access to such external advice as it may consider appropriate.

All committee members are provided with an appropriate induction on joining their respective committees, as well as on-going access to training. Minutes of all meetings of the committees are made available to all Directors and feedback from each of the committees is provided to the Board by the respective committee Chairmen at the next Board meeting. The Chairman of each committee attends the AGM to answer any questions on their committee's activities.

The Board and its committees are supplied with regular, comprehensive and timely information in a form and of a quality that enables them to discharge their duties effectively. All Directors are able to make further enquiries of management whenever necessary, and have access to the services of the Company Secretary.

## CORPORATE GOVERNANCE REPORT (CONTINUED)

### AUDIT AND OPERATIONAL RISK COMMITTEE

The Audit and Operational Risk Committee is chaired by Mr Firth and also comprises Mr Beevor and Mr Meader, all of whom held office throughout the year. Other Directors have a standing invitation to attend meetings. However, their attendance at these meetings is as an observer only. The Chairman of the Audit and Operational Risk Committee, the Investment Adviser and the external auditor, Deloitte LLP, have held discussions regarding the audit approach and identified risks. The external auditors attend Audit and Operational Risk Committee meetings and a private meeting is routinely held with the external auditors to afford them the opportunity of discussions without the presence of the Investment Adviser or Administrator. The Audit and Operational Risk Committee activities are contained in the Report of the Audit and Operational Risk Committee on pages 32 to 34.

### INVESTMENT RISK COMMITTEE

The Investment Risk Committee was established on 21 September 2017 and is chaired by Mr Meader and also comprises Mr Beevor, Mr Huntley and Mr Mortimer, all of whom held office throughout the year. Mr Christie retired from the Investment Risk Committee on 7 March 2019 and Mr Firth was appointed to the Investment Risk Committee on 7 March 2019. Mr Christie is a representative of Luxco and Mr Mortimer is a representative of the Investment Adviser. The new representative of Luxco is currently under consideration. The Investment Risk Committee will meet not less than twice a year pursuant to its terms of reference which are available on the Company's website.

Pursuant to its terms of reference, the Investment Risk Committee's remit is to monitor the risks associated with the investments and to monitor the compliance of the investment portfolio with the investment restrictions of the Group. The Investment Risk Committee reviews; the performance and investment risks associated with the individual investments, the effectiveness of the Investment Adviser's investment underwriting and investment structuring/documentation processes and its compliance with them, and the effectiveness of the Investment Adviser's investment management and risk reporting processes, challenging where appropriate.

### MANAGEMENT ENGAGEMENT COMMITTEE

The Management Engagement Committee is chaired by Mr Perry and also comprises Mr Firth and Mr Meader, all of whom held office throughout the year. The Management Engagement Committee will meet not less than once a year pursuant to its terms of reference which are available on the Company's website.

The Management Engagement Committee's main function is to review and make recommendations in relation to the Company's service providers. The Management Engagement Committee will review in particular any proposed amendment to the Investment Advisory Agreement and will keep under review the performance of the Investment Adviser (including effective and active monitoring and supervision of the activities of the Investment Adviser) in its role as Investment Adviser to the Company as well as the performance of any other service providers to the Company. The Audit and Operational Risk Committee also report on their relationship with the external auditor.

### Board Performance Evaluation

In accordance with Principle 7 of the AIC Code which requires a formal and rigorous annual evaluation of its performance, the

Board formally reviews its performance annually through an internal process.

The assessment covers the effectiveness and performance of the Board as a whole, an evaluation of individual Directors and the effectiveness of the Board Committees. Internal evaluation of the Board, the Audit and Operational Risk Committee, the Nomination Committee, the Management Engagement Committee and individual Directors took the form of self-appraisal questionnaires and discussion to determine effectiveness and performance as well as the Directors' continued independence. During the year the Board carried out an internal evaluation of the performances of the Board and the Board Committees. The responses were consolidated and anonymised and common themes identified in order for the Board to determine key actions and next steps for improving Board and Committee effectiveness and performance.

The Board believes that annual evaluations are helpful and provide a valuable opportunity for continuous improvement. The evaluation concluded that the Board is performing satisfactorily and is acquitting its responsibilities well in the areas reviewed which incorporated: investment matters, Board composition and independence, relationships and communication, shareholder value, knowledge and skills, Board processes and the performance of the Chairman. The Board believes that the current mix of skills, experience, knowledge and age of the Directors is appropriate to the requirements of the Company.

New Directors will receive an induction on joining the Board. Directors regularly meet with the senior management employed by the Investment Adviser both formally and informally to ensure that the Board remains regularly updated on all issues. All members of the Board are members of professional bodies and serve on other Boards, which ensures they are kept abreast of the latest technical developments in their areas of expertise. The Board arranges for presentations from the Investment Adviser, the Company's brokers and other advisers on matters relevant to the Company's business. The Board assesses the training needs of Directors on an annual basis.

### NOMINATION COMMITTEE

The Nomination Committee is chaired by Mr Perry and also comprises Mr Beevor, Mr Firth, Mr Huntley and Mr Meader, all of whom held office throughout the year. The Nomination Committee meets at least once a year pursuant to its terms of reference and met on 23 April 2018. The Nomination Committee's remit is to review regularly the structure, size and composition of the Board; to give full consideration to succession planning for Directors; to keep under review the leadership needs of the Company and be responsible for identifying and nominating, for the approval of the Board, candidates to fill Board vacancies as and when they arise.

The Nomination Committee recognises the continuing importance of planning for the future and ensuring that succession plans are in place. In considering appointments to the Board, the Nomination Committee takes into account the ongoing requirements of the Company and evaluates the balance of skills, experience, independence, and knowledge of each candidate. Appointments are therefore made on personal merit and against objective criteria with the aim of bringing new skills and different perspectives to the Board whilst taking into account the existing balance of knowledge, experience and diversity.

## CORPORATE GOVERNANCE REPORT (CONTINUED)

### NOMINATION COMMITTEE (CONTINUED)

In the case of candidates for Non-executive Directorships, care is taken to ascertain that they have sufficient time to fulfil their Board and, where relevant, committee responsibilities. The Board believes that the terms of reference of the Nomination Committee ensure that it operates in a rigorous and transparent manner. The Board believes that, as a whole, it comprises an appropriate balance of skills, experience and knowledge. The Board also believes that diversity of experience and approach, including gender diversity, amongst Board members is of great importance and it is the Company's policy to give careful consideration to issues of Board balance and diversity when making new appointments.

The Nominations Committee has reviewed the composition, structure and diversity of the Board, succession planning, the independence of the Directors and whether each of the Directors has sufficient time available to discharge their duties effectively. The Committee and the Board confirm that they believe that the Board has an appropriate mix of skills and backgrounds and was selected with that in mind, that a majority of Directors should be considered as Independent in accordance with the provisions of the AIC Code and that all Directors have the time available to discharge their duties effectively. In this regard, the Committee reviewed in more detail the commitments of Mr Firth, Mr Meader and Mr Huntley.

Mr Firth is a director and Chairman of the Audit and Operational Risk Committee. He is also a full-time non-executive director of a number of companies, four of which are listed investment companies. Mr Firth has also announced that he will shortly be retiring from the board of one of those companies, JZ Capital Partners Limited. The Committee noted that Mr Firth has attended all Board and main committee meetings, and 3 out of 4 ad-hoc Board meetings (the quorum for which is two members), during the year and that he has always demonstrated the time commitment to discharge fully and effectively his duties as a Director.

Mr Meader is also a full time non-executive director and is a director of five listed investment companies, one of which he is chairman. The Committee noted that Mr Meader has always demonstrated the time commitment to discharge his duties fully and effectively and he attended all scheduled Board meetings, all committee meetings and 2 of the 4 ad-hoc Board meetings.

Mr Huntley is also a full time non-executive director and is a director of three listed investment companies. The Committee noted that Mr Huntley has always demonstrated the time commitment to discharge his duties fully and effectively and he attended all scheduled Board meetings, all committee meetings and all ad-hoc Board meetings.

Accordingly, the Board recommends that shareholders vote in favour of the re-election of all Directors at the forthcoming AGM.

### INTERNAL CONTROL AND FINANCIAL REPORTING

The Directors acknowledge that they are responsible for establishing and maintaining the Group and Company's system of internal controls and reviewing its effectiveness. Internal control systems are designed to manage rather than eliminate the failure to achieve business objectives and can only provide reasonable but not absolute assurance against material misstatements or loss. The Directors can confirm they have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity. The key procedures which have been established to provide internal control are:

- the Board has delegated the day to day operations of the Group and Company to the Administrator and Investment Adviser, however, it remains accountable for all functions it delegates;
- the Board clearly defines the duties and responsibilities of the Company's agents and advisers and appointments are made by the Board after due and careful consideration. The Board monitors the on-going performance of such agents and advisers and will continue to do so through the Management Engagement Committee;
- the Board monitors the actions of the Investment Adviser at regular Board meetings and is also given frequent updates on developments arising from the operations and strategic direction of the underlying borrowers; and
- the Administrator provides administration and company secretarial services to the Company. The Administrator maintains a system of internal control on which it reports to the Board.

The Board has reviewed the need for an internal audit function and has decided that the systems and procedures employed by the Administrator and Investment Adviser, including their own internal controls and procedures, provide sufficient assurance that an appropriate level of risk management and internal control, which safeguards shareholders' investment and the Group's assets, is maintained. An internal audit function specific to the Company is therefore considered unnecessary, as explained on page 33.

Internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes. The Administrator and Investment Adviser both operate risk controlled frameworks on a continual ongoing basis within a regulated environment. The Administrator undertakes an ISAE 3402: Assurance Reports on Controls at a Service Organisation audit annually which is provided to the Board when finalised. The Administrator also formally reports to the Board quarterly through a compliance report. The Investment Adviser formally reports to the Board quarterly including updates within ICG-Longbow and also engages with the Board on an ad-hoc basis as required. No weaknesses or failing within the Administrator or Investment Adviser have been identified.

The systems of control referred to above are designed to ensure effectiveness and efficient operation, internal control and compliance with laws and regulations. In establishing the systems of internal control, regard is paid to the materiality of relevant risks, the likelihood of costs being incurred and costs of control. It follows, therefore, that the systems of internal control can only provide reasonable but not absolute assurance against the risk of material misstatement or loss.

The Company has delegated the provision of services to external service providers whose work is overseen by the Management Engagement Committee at its regular scheduled meetings. Each year a detailed review of performance pursuant to their terms of engagement is undertaken by the Management Engagement Committee. An on-site review of the Investment Adviser and an assessment of the Luxembourg Administrator were undertaken in November 2018 and in February 2019 respectively. The conclusions of these reviews were highly satisfactory providing assurance to the Board. In addition, the Company maintains a website which contains comprehensive information, including regulatory announcements, share price information, financial reports, investment objectives and strategy, investor contacts and information on the Board.

## CORPORATE GOVERNANCE REPORT (CONTINUED)

### INVESTMENT ADVISORY AGREEMENT

The Company has entered into an agreement with the Investment Adviser. This sets out the Investment Adviser's key responsibilities, which include identifying and recommending suitable investments for the Company to enter into and negotiating on behalf of the Company the terms on which such investments will be made. The Investment Adviser is also responsible to the Board for all issues relating to the maintenance and monitoring of existing investments.

In accordance with Listing Rule 15.6.2(2) R and having formally appraised the performance and resources of the Investment Adviser, in the opinion of the Directors the continuing appointment of the Investment Adviser on the terms agreed is in the interests of the shareholders as a whole.

### RELATIONS WITH SHAREHOLDERS

The Board welcomes shareholders' views and places great importance on communication with its shareholders. The Company's AGM provides a forum for shareholders to meet and discuss issues with the Directors of the Company. The Chairman and other Members of the Board have made, and will continue to make themselves available to meet shareholders at other times.

The Company reports formally to shareholders in a number of ways: regulatory news releases through the London Stock Exchange's Regulatory News Service whereby announcements are issued in response to events or routine reporting obligations; an Interim Report is published in September each year, outlining performance to 31 July, which is made available on the Company's website; the Annual Report is published in April each year, for the year ended 31 January, which is made available on the Company's website. In addition, the Company's website (<http://www.lbow.co.uk>) contains comprehensive information, including company notifications, share information, financial reports, investment objectives and policy, investor contacts and information on the Board and corporate governance. The Board receives comprehensive shareholder reports from the Company's Registrar at all quarterly Board meetings and regularly monitors the views of shareholders and the shareholder profile of the Company. Over the year, the Investment Manager's investor relations team and senior management held several roadshows and over 20 meetings with investors and equity research analysts.

The Directors have identified the following as the key risks faced by the Company:

Description	Potential Impact	Mitigation
Real estate loan non-performance	Real estate loans made by the Group may, after funding, become non-performing for a wide variety of reasons, including non-payment of principal or interest, as well as covenant violations by the borrower in respect of the underlying loan documents. Non-payment of interest could affect the Company's ability to pay the target dividend in full, whilst non-payment of principal could lead to the Company initiating an enforcement process over the assets securing the relevant loan, where the recoveries under such process may be smaller than the value of the Company's investment in the loan.	The Group's current investment parameters require an equity buffer of at least 15% (and 25% by average) of the property security's value to shield against any reduction in capital values. All loans include covenants which give the lender the opportunity to intervene and take protective action at an early stage if the value of the underlying property or the income profile reduces materially. In order to identify any such deterioration, loans are monitored on a quarterly basis for signs of underperformance or distress.

### WHISTLEBLOWING

The Board has considered the AIC Code recommendations in respect of arrangements by which staff of the Investment Adviser or Administrator may, in confidence, raise concerns within their respective organisations about possible improprieties in matters of financial reporting or other matters.

It has concluded that adequate arrangements are in place for the proportionate and independent investigation of such matters and, where necessary, for appropriate follow-up action to be taken within their organisation.

### PRINCIPAL RISKS AND UNCERTAINTIES

During the year the Board has overseen the continued enhancement of the Group's risk management framework and risk culture. The Committee undertook a robust assessment of the Group's principal risks and associated risk appetite, taking into account changes in the business and the external environment.

The Board can confirm that they have undertaken a robust assessment of principal risks facing the Company. These risks have been ranked considering the magnitude of potential impact, probability and taking into account the effectiveness of existing controls. The risks represent a snapshot of the Company's current risk profile. This is not an exhaustive list of all risks the Company faces. As the macro environment changes and country and industry circumstances evolve, new risks may arise or existing risks may recede or the rankings of these risks may change.

The Board thoroughly considers the process for identifying, evaluating and managing any significant risks faced by the Company on an on-going basis and these risks are reported and discussed at Board meetings. It ensures that effective controls are in place to mitigate these risks and that a satisfactory compliance regime exists to ensure all applicable local and international laws and regulations are upheld.

The Board is committed to upholding and maintaining our zero tolerance towards the criminal facilitation of tax evasion.

For each material risk, the likelihood and potential impact are identified. The Company's financial instrument risks are discussed in Note 11 to the Financial Statements.

## CORPORATE GOVERNANCE REPORT (CONTINUED)

Description	Potential Impact	Mitigation
Property valuations	Valuations of property and property-related assets are inherently subjective due to the individual nature of each property. As a result, valuations are subject to uncertainty and, in determining market value, valuers are required to make certain assumptions and such assumptions may prove to be inaccurate. This is particularly so in periods of volatility or when there are limited real estate transactional data against which property valuation can be benchmarked. If valuations prove to be inaccurate, the assets securing the Company's loan may be worth less than the Company anticipated. This may mean the relevant loan becomes non-performing, with the possibility of a loss or impairment for the Company.	All investments are monitored on a quarterly basis for early warning signs of underperformance or distress. The maturity of the loans and the Investment Adviser's direct property market experience, including its ongoing interactions with the market in respect of other funds it manages, should also help it to identify any potential inaccuracies in the independent third party valuations, or adverse trends in the market as a whole.
Market conditions	The performance of the Group and its underlying investments may be affected by other economic conditions such as changes to equity risk premiums, corporate failure rates, changes in laws or regulations, national and international political circumstances, and general macroeconomic variables etc. These risks are particularly acute given the potential volatility of the capital and credit markets, and the Investment Adviser may be unable to predict whether, or to what extent or for how long, such conditions may occur and affect the operation of the Group.	Whilst market conditions may have a significant impact on the share price of the Company, the impact on its investments and underlying performance will be less severe to the extent it does not impact the confidence of property investors or the occupational markets. The Group's investment strategy, based on diverse underlying income and thorough cash flow – based underwriting, and property due diligence will mitigate the risk of properties and/or locations becoming undesirable due to other market conditions during the term of the investments. The general economic backdrop is monitored by the Investment Adviser.

**Risks relating to Group structure:**

Description	Potential Impact	Mitigation
Change in tax and regulatory legislation and ensuring the corporate structure is fit for purpose	A change in tax legislation applicable to the Group or Company, resulting in increased tax liabilities for the Group or Company and a consequential reduction in yield or capital to investors. The Group may also be impacted by the OECD's BEPS legislation. BEPS refers to the tax planning strategies of multinational corporations that exploit mismatches in national tax rules to shift artificial profits to low or no-tax locations, resulting in little or no overall corporate tax being paid. While the Investment Adviser does not believe the Company is an intended target of the OECD's BEPS measures, being neither a multinational company nor involved in artificial arrangements, it is currently unclear what the implications will be for the Group or the real estate sector. It is possible that the implementation of the BEPS actions in the UK or other jurisdictions through which the Group invests may have negative implications for the Group, including the potential for a reduction in the tax deductibility of debt interest. The risk of such changes to tax and regulatory legislation is heightened as the UK withdraws from Europe.	<p>The corporate structure of the Company is regularly reviewed and, where appropriate, external tax advice sought. ICG-Longbow and the Board continue to monitor developments in UK, Guernsey and European tax and regulatory legislation. With respect to BEPS and Brexit, the Group continues to monitor the situation but does not currently expect either to impact its operating structure or investment performance.</p> <p>The Investment Adviser is in constant contact with advisers and industry bodies to be able to monitor the potential impact of changes in regulation and legislation.</p>

## CORPORATE GOVERNANCE REPORT (CONTINUED)

The Company's principal risk factors are fully discussed in the Company's 2018 Prospectus, available on the Company's website ([www.lbow.co.uk](http://www.lbow.co.uk)) and should be reviewed by shareholders.

Emerging risks are regularly considered to assess any potential impact on the Group and to determine whether any actions are required. Emerging risks include those related to regulatory/legislative change and macroeconomic and political change, which in the current year have included the ongoing developments in respect of the UK's decision to leave the European Union.

In summary, the above risks are mitigated and managed by the Board through continual review, policy setting and updating of the Company's risk matrix at each quarterly meeting to ensure that procedures are in place with the intention of minimising the impact of the above mentioned risks. The Board relies

on periodic reports provided by the Investment Adviser and Administrator regarding risks that the Group faces. When required, experts will be employed to gather information, including property surveyors, tax advisers, legal advisers, and environmental advisers.

By order of the Board



**JACK PERRY**  
Chairman

23 April 2019



**PATRICK FIRTH**  
Director

23 April 2019

## REPORT OF THE **AUDIT AND OPERATIONAL RISK COMMITTEE**

The Audit and Operational Risk Committee, chaired by Mr Firth, operates within clearly defined terms of reference (which are available from the Company's website) and includes all matters indicated by Disclosure and Transparency Rule 7.1, the AIC Code and the UK Code. Its other members are Mr Beevor and Mr Meader. Only independent Directors can serve on the Audit and Operational Risk Committee. Members of the Audit and Operational Risk Committee must be independent of the Company's external auditor and Investment Adviser. The Audit and Operational Risk Committee will meet no less than twice a year, and at such other times as the Audit and Operational Risk Committee Chairman shall require.

The Committee members have considerable financial and business experience and the Board has determined that the membership as a whole has sufficient recent and relevant sector and financial experience to discharge its responsibilities. The Board has taken note of the requirement that at least one member of the Audit and Operational Risk Committee should have recent and relevant financial experience and is satisfied that the Audit and Operational Risk Committee is properly constituted in that respect, with all members being highly experienced and, in particular, with one member having a background as a chartered accountant.

The duties of the Audit and Operational Risk Committee in discharging its responsibilities include reviewing the Annual Report and Consolidated Financial Statements and the Interim Report, the system of internal controls, and the terms of appointment of the Company's independent auditor together with their remuneration. It is also the formal forum through which the auditor will report to the Board of Directors. The objectivity of the auditor is reviewed by the Audit and Operational Risk Committee which will also review the terms under which the external auditor is appointed to perform non-audit services and the fees paid to them or their affiliated firms overseas.

### RESPONSIBILITIES

The main duties of the Audit and Operational Risk Committee are:

- reviewing and monitoring the integrity of the Financial Statements of the Group and any formal announcements relating to the Group's financial performance, reviewing significant financial reporting judgements contained in them;
- reporting to the Board on the appropriateness of our accounting policies and practices including critical judgement areas;
- reviewing any draft impairment reviews of the Group's investments prepared by the Investment Adviser, and making a recommendation to the Board on any impairment in the value of the Group's investments;
- meeting regularly with the external auditor to review their proposed audit plan and the subsequent audit report and assess the effectiveness of the audit process and the levels of fees paid in respect of both audit and non-audit work;
- making recommendations to the Board in relation to the appointment, re-appointment or removal of the external auditor and approving their remuneration and the terms of their engagement;

- monitoring and reviewing annually the auditor's independence, objectivity, expertise, resources, qualification and non-audit work;
- considering annually whether there is a need for the Company and its Group to have its own internal audit function;
- monitoring the internal financial control and risk management systems on which the Company and its Group is reliant;
- reviewing and considering the UK Code, the AIC Code, the FRC Guidance on Audit and Operational Risk Committees; and
- reviewing the risks facing the Group and monitoring the risk matrix.

The Audit and Operational Risk Committee is required to report formally its findings to the Board, identifying any matters on which it considers that action or improvement is needed, and make recommendations on the steps to be taken.

The external auditor is invited to attend the Audit and Operational Risk Committee meetings as the Directors deem appropriate and at which they have the opportunity to meet with the Audit and Operational Risk Committee without representatives of the Investment Adviser or the Administrator being present at least once per year.

### FINANCIAL REPORTING

The primary role of the Audit and Operational Risk Committee in relation to the financial reporting is to review with the Administrator, Investment Adviser and the auditor the appropriateness of the Interim Report and Annual Report and Consolidated Financial Statements, concentrating on, amongst other matters:

- the quality and acceptability of accounting policies and practices;
- the clarity of the disclosures and compliance with financial reporting standards and relevant financial and governance reporting requirements;
- material areas in which significant judgements have been applied or there has been discussion with the external auditor including going concern and viability statement;
- whether the Annual Report and Consolidated Financial Statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy; and
- any correspondence from regulators in relation to the Group's financial reporting.

To aid its review, the Audit and Operational Risk Committee considers reports from the Administrator and Investment Adviser and also reports from the auditor on the outcome of their annual audit. The Audit and Operational Risk Committee supports Deloitte LLP in displaying the necessary professional scepticism their role requires.

## REPORT OF THE **AUDIT AND OPERATIONAL RISK COMMITTEE** (CONTINUED)

### MEETINGS

During the year ended 31 January 2019, the Audit and Operational Risk Committee met formally on 3 occasions. The matters discussed at those meetings include:

- review of the terms of reference of the Audit and Operational Risk Committee for approval by the Board;
- review of the accounting policies and format of the Financial Statements;
- detailed review of the Annual Report and Financial Statements, Interim Report and recommendation for approval by the Board including the going concern basis and the viability statement;
- review of the Group's risk matrix;
- review and approval of the audit plan and final Audit and Operational Risk Committee report of the auditor;
- discussion and approval of the fee for the external audit;
- assessment of the independence of the external auditor;
- assessment of the effectiveness of the external audit process as described below; and
- review of the Group's key risks and internal controls.

### PRIMARY AREA OF JUDGEMENT

The Audit and Operational Risk Committee determined that the key risk of misstatement of the Group's Financial Statements relates to the recoverability of the loans, in the context of the judgements necessary to evaluate any related impairment of the loans.

The Group's loans are the key value driver for the Group's NAV and interest income. Judgements over the level of any impairment and recoverability of loan interest could significantly affect the NAV.

The Board reviews the compliance of all loans with terms and covenants at each Board meeting. The Board also receives updates from the Investment Adviser regarding the trading performance for each borrower, the borrower's performance under the loans and on the general UK property market. As a result, the Board is able to determine the level, if any, of any impairment to the loans.

The incorrect treatment of any arrangement, exit and prepayment fees and the impact of loan impairments in the effective interest rate calculations may significantly affect the level of income recorded in the year thus affecting the level of distributable income.

The Audit and Operational Risk Committee has focussed their work on the adoption of IFRS 9 and in particular to the assessment of the credit risk changes, probability of default and loss given default in relation to the loan portfolio. The Audit and Operational Risk Committee has reviewed detailed impairment analysis and current loan performance reports prepared by the Investment Adviser together with the consideration of the current collateral values underpinning the loan portfolio. The Audit and Operational Risk Committee notes that critical judgements have been made in relation to the assessment of the staging of the loans together with the estimation of the probability of default and also the loss given default. Particular consideration was given to the Meadow loan which has experienced a significant credit risk increase given the fall in LTV and reduction in ICR as the property becomes vacant in readiness for the change in use. Further, it should be

noted that the current valuation includes an uplift in relation to the expected value of the granting of planning permission. Should this permission not be granted, the judgements around the valuation would need to be revisited. The Audit and Operational Risk Committee believes that whilst there is an on-going risk that the capital value invested in the loan portfolio may not be recoverable or there may be delays in recovering the capital, it is satisfied with the value of the security held provides sufficient headroom above the loan principal to support the assertion that no impairment loss is required to be recorded at 31 January 2019.

The Audit and Operational Risk Committee also considered the potential for impairment of the portfolio in the longer term, in accordance with IFRS 9, based on an agreed credit rating methodology which is benchmarked against the Group's previous experience in managing senior debt and whole loan portfolios.

The Audit and Operational Risk Committee also reviewed the income recognition and the treatment of arrangement and exit fees which were based on effective interest rate calculations prepared by the Investment Adviser and the Administrator. The main assumptions of the calculations were that none of the loans were impaired and that each loan would be repaid at the end of the agreed loan term. These were discussed at the Audit and Operational Risk Committee meeting to review the Annual Report, with the Investment Adviser, the Administrator and Auditor. The Audit and Operational Risk Committee is satisfied that the Group interest income has been recognised in line with the requirements of IFRS.

The Audit and Operational Risk Committee has reviewed the judgements and estimations in determining the fair value of prepayment options embedded within the contracts for loans advanced. The key factors considered in the valuation of prepayment options include the exercise price, the interest rate of the host loan contract, differential to current market interest rates, the risk free rate of interest, contractual terms of the prepayment option, and the expected term of the option. In response to these factors it has been evaluated that the probability of exercise by the borrower is low and the timing of exercise is indeterminable. As a result, the Audit and Operational Risk Committee has concluded that it is appropriate no value is attributed to embedded prepayment options.

### RISK MANAGEMENT

The Company's risk assessment process and the way in which significant business risks are managed is a key area of focus for the Audit and Operational Risk Committee. The work of the Audit and Operational Risk Committee is driven primarily by the Group's assessment of its principal risks and uncertainties as set out on pages 29 to 31 of the Corporate Governance Report, and it receives reports from the Investment Adviser and Administrator on the Group's risk evaluation process and reviews changes to significant risks identified. Furthermore, the Investment Risk Committee monitors the risks associated with the investments and the compliance of the investment portfolio with the investment restrictions of the Group.

### INTERNAL AUDIT

The Audit and Operational Risk Committee continues to review the need for an internal audit function and has decided that the systems and procedures employed by the Administrator and the Investment Adviser, including their own internal controls and procedures, provide sufficient assurance that an appropriate level of risk management and internal control, which safeguards shareholders' investment and the Group's assets, is maintained. An internal audit function specific to the Company is therefore considered unnecessary.

## REPORT OF THE **AUDIT AND OPERATIONAL RISK COMMITTEE** (CONTINUED)

### EXTERNAL AUDIT

Deloitte LLP has been the Company's external auditor since the Company's inception. This is the sixth audit period.

The external auditor is required to rotate the audit partner every five years. The current Deloitte LLP lead audit partner, Mrs Nicola Paul, started her tenure in 2014 (in respect of the year ended 31 January 2015) and her current rotation will end with the audit of the 2019 Annual Report and Financial Statements. The Audit and Operational Risk Committee shall give advance notice of any retendering plans within the Annual Report. The Audit and Operational Risk Committee has considered the re-appointment of the auditor and decided not to put the provision of the external audit out to tender at this time.

The objectivity of the auditor is reviewed by the Audit and Operational Risk Committee which also reviews the terms under which the external auditor may be appointed to perform non-audit services. The Audit and Operational Risk Committee reviews the scope and results of the audit, its cost effectiveness and the independence and objectivity of the auditor, with particular regard to any non-audit work that the auditor may undertake. In order to safeguard auditor independence and objectivity, the Audit and Operational Risk Committee ensures that any other advisory and/or consulting services provided by the external auditor do not conflict with its statutory audit responsibilities. Advisory and/or consulting services will generally only cover reviews of Interim Reports, tax compliance and capital raising work. Any non-audit services conducted by the auditor outside of these areas will require the consent of the Audit and Operational Risk Committee before being initiated.

The external auditor may not undertake any work for the Group in respect of the following matters – preparation of the Financial Statements, provision of investment advice, taking management decisions or advocacy work in adversarial situations.

The Committee reviews the scope and results of the audit, its cost effectiveness and the independence and objectivity of the auditor, with particular regard to the level of non-audit fees.

The Committee regularly monitors non audit services being provided by Deloitte to ensure there is no impairment to their independence or objectivity.

Notwithstanding such services, the Audit and Operational Risk Committee considers Deloitte LLP to be independent of the Company and that the provision of such non-audit services is not a threat to the objectivity and independence of the conduct of the audit as appropriate safeguards are in place.

To fulfil its responsibility regarding the independence of the auditor, the Audit and Operational Risk Committee will consider:

- discussions with or reports from the auditor describing its arrangements to identify, report and manage any conflicts of interest; and
- the extent of non-audit services provided by the auditor and arrangements for ensuring the independence and objectivity and robustness and perceptiveness of the auditor and their handling of key accounting and audit judgements.

To assess the effectiveness of the auditor, the Audit and Operational Risk Committee will review:

- the auditor's fulfilment of the agreed audit plan and variations from it;
- discussions or reports highlighting the major issues that arose during the course of the audit;
- feedback from other service providers evaluating the performance of the audit team;
- arrangements for ensuring independence and objectivity; and
- the robustness of the auditor in handling key accounting and audit judgements.

The Audit and Operational Risk Committee is satisfied with Deloitte LLP's effectiveness and independence as auditor having considered the degree of diligence and professional scepticism demonstrated by them. Having carried out the review described above and having satisfied itself that the auditor remains independent and effective, the Audit and Operational Risk Committee has recommended to the Board that Deloitte LLP be reappointed as auditor for the year ending 31 January 2020.

The Audit and Operational Risk Committee has provided the Board with its recommendation to the shareholders on the re-appointment of Deloitte LLP as external auditor which will be put to shareholders at the Annual General Meeting.

The Chairman of the Audit and Operational Risk Committee will be available at the Annual General Meeting to answer any questions about the work of the Committee.

On behalf of the Audit and Operational Risk Committee



**PATRICK FIRTH**  
Chairman of the Audit and Operational Risk Committee

23 April 2019

## INDEPENDENT AUDITOR'S REPORT

to the Members of ICG-Longbow Senior Secured UK Property Debt Investments Limited

### REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

#### OPINION

**In our opinion the consolidated financial statements of ICG Longbow Senior Secured UK Property Debt Investments Limited:**

- give a true and fair view of the state of the Group's affairs as at 31 January 2019 and of the Group's profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies (Guernsey) Law, 2008.

We have audited the financial statements which comprise:

- the Consolidated Statement of Comprehensive Income;
- the Consolidated Statement of Financial Position;
- the Consolidated Statement of Changes in Equity;
- the Consolidated Statement of Cash Flows; and
- the related notes 1 to 17.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.



#### BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (FRC's) Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### SUMMARY OF OUR AUDIT APPROACH

<b>Key audit matters</b>	<p>The key audit matters that we identified in the current year were:</p> <ul style="list-style-type: none"> <li>• the assessment of any impairment in value of loans advanced; and</li> <li>• revenue recognition.</li> </ul> <p>Within this report, any new key audit matters are identified with  and any key audit matters which are the same as the prior year identified with .</p>
<b>Materiality</b>	<p>The materiality we used for the Group financial statements was £2.4 million which was determined as 2% of the Net Asset Value.</p> <p>We also applied a lower materiality threshold of £0.38 million based on 5% of Investment Income.</p>
<b>Scoping</b>	<p>Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.</p>
<b>Significant changes in our approach</b>	<p>There have been no significant changes in our approach from the prior year.</p>

## INDEPENDENT AUDITOR'S REPORT (CONTINUED)

### CONCLUSIONS RELATING TO GOING CONCERN, PRINCIPAL RISKS AND VIABILITY STATEMENT

#### Going concern

We have reviewed the Directors' statement in note 2(b) to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

We considered as part of our risk assessment the nature of the group, its business model and related risks including where relevant the impact of Brexit, the requirements of the applicable financial reporting framework and the system of internal control. We evaluated the directors' assessment of the group's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the directors' plans for future actions in relation to their going concern assessment.

We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.

#### Principal risks and viability statement

Based solely on reading the directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the directors' assessment of the Group's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on pages 29-31 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation on page 29 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the Directors' explanation on page 21 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to report whether the directors' statement relating to the prospects of the Group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

**We confirm that we have nothing material to report, add or draw attention to in respect of these matters.**





**We confirm that we have nothing material to report, add or draw attention to in respect of these matters.**

## INDEPENDENT AUDITOR'S REPORT (CONTINUED)





### KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The assessment of any impairment in value of loans advanced 	
<b>Key audit matter description</b>  	<p>As at 31 January 2019, loans measuring £108.56 million (31 January 2018: £112.33 million) are carried at amortised cost less any provision for impairment as disclosed in Note 2 k)v and Note 5 of the Consolidated Financial Statements.</p> <p>As described in the Report Of The Audit and Operational Risk Committee, the Group's loans are the key value driver for the Group Net Asset Value and interest income.</p> <p>Judgements over the level of any impairment could significantly affect these key performance indicators. Impairment is considered to be the most critical accounting judgment and estimate made in applying the Group's accounting policies as described in Note 3. The specific areas of judgement include:</p> <ul style="list-style-type: none"> <li>■ The determination of the appropriate assumptions underlying the impairment analysis;</li> <li>■ The impact of loan-specific matters and macroeconomic factors that might indicate significant increase in credit risk or objective evidence of impairment on an individual loan or on the entire loan portfolio; and</li> <li>■ The determination of key inputs of the expected credit losses model such as probability of default and loss given default.</li> </ul>
<b>How the scope of our audit responded to the key audit matter</b>  	<p>Our procedures included:</p> <ul style="list-style-type: none"> <li>■ reviewing the loan due diligence (including third party property valuations) in respect of each loan in existence at balance sheet date;</li> <li>■ challenging the judgments (including qualitative and quantitative criteria) taken by management related to the categorisation of loan assets into various credit stages required under IFRS 9. We considered this in the context of management's definition of significant increase in credit risk ('SICR') and Default. To achieve this, we performed a review of the 'Loan Monitoring Report' to assess evidence of changes in credit risk arising from factors such as: <ul style="list-style-type: none"> <li>– movement in loan to value and interest cover ratios since date of initial recognition (i.e. deterioration in asset security);</li> <li>– covenant breaches;</li> <li>– delinquency in contractual payments including unexpected modifications to contractual cash flows; or</li> <li>– other signs of financial stress.</li> </ul> </li> <li>■ evaluating the reasonableness of estimates applied to determine the probability of default (PD), loss given default (LGD) and exposure at default (EAD), including how forward looking information was considered in this regard;</li> <li>■ working with our credit specialists to challenge the ECL model itself and the ECL established for each loan;</li> <li>■ reviewing each loan to assess whether the loan has or is likely going to breach its covenants or has defaulted on any coupon payments, and considering other information available on the borrower to assess the ability (or otherwise) to meet future payment commitments; and</li> <li>■ assessing the design and implementation of relevant controls relating to the loan impairment review process.</li> </ul>
<b>Key observations</b>  	<p>Having carried out the procedures above and based on the evidence obtained, we determined that the impairment assumptions were reasonable and the resulting estimate of expected credit losses and impairment is in accordance with international financial reporting standards.</p>

## INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Revenue recognition 	
<b>Key audit matter description</b>  	<p>Income from loans advanced totalled £7.20m for the year ended 31 January 2019 (2018:£7.04m), with further other income of £0.44m (31 January 2018: £1.04 million) received as a result of early principal repayments (see note 5). Part of the Group's investment objective as disclosed in the Investment Adviser's Report includes an aim to provide shareholders with attractive quarterly dividends. Incorrect treatment of any arrangement fees, exit fees, prepayment fees and the impact of loan impairments in the effective interest rate calculations may significantly affect the level of income recorded in the period, thus affecting the level of distributable income.</p> <p>In addition, the existence of prepayment fees arising from early principal repayments during the period will affect the income recognised and may not be recorded in accordance with the effective interest rate requirements set out in IFRS 9.</p> <p>The accounting policies related to this key audit matter can be found in Note 2 e) and Note 3.</p>
<b>How the scope of our audit responded to the key audit matter</b>  	<p>Our procedures included:</p> <ul style="list-style-type: none"> <li>■ assessing and challenging management's judgements in respect of the estimated contractual cash flows (including arrangement and exit fees) through examination of the amortisation schedules prepared for each loan together with the impairment analysis;</li> <li>■ recalculating interest income accruing under the effective interest rate method, taking into account the impact of any prepayments and other modifications in contractual cash flows, to the loan balances and interest income recognised;</li> <li>■ evaluating the impact of any impairments on the recognition of income recorded in the period;</li> <li>■ evaluating the impact of any prepayments or exit fees from early repayments on the income recorded in the period;</li> <li>■ tracing scheduled coupon payments to bank statements; and</li> <li>■ assessing the design and implementation of relevant controls relating to recognition of investment income.</li> </ul>
<b>Key observations</b>  	<p>Having carried out the procedures, we found out that interest income and loan related fees are appropriately accounted for in the financial statements and no material misstatements were identified by our testing.</p>

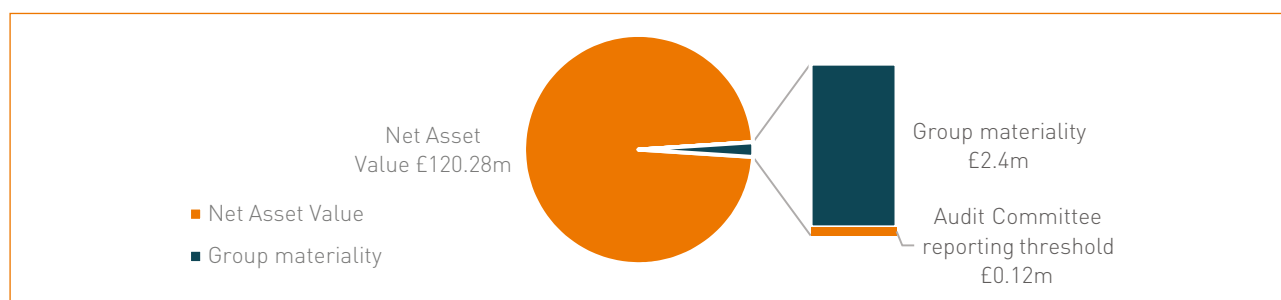
## INDEPENDENT AUDITOR'S REPORT (CONTINUED)

### OUR APPLICATION OF MATERIALITY

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

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

<b>Group materiality</b>	£2.4 million (2018: £2.36 million)
<b>Basis for determining materiality</b>	We determined materiality for the Group to be £2.4 million (31 January 2018: £2.36 million), which is approximately 2% (31 January 2018: 2%) of Net Asset Value.  We have applied a lower materiality threshold of £382,000 (31 January 2018: £351,000) based on 5% of net income (31 January 2018: 5%) in respect of loan interest income.
<b>Rationale for the benchmark applied</b>	We believe Net Asset Value is the most appropriate benchmark as it is considered one of the principal considerations for members of the Group in assessing financial performance.  A lower threshold has been used for loan interest income as such transactions are important to investors and provide the revenue to support distributions to shareholders.



Following discussion with the Audit Committee, we reassessed our reporting threshold from the prior year and agreed that we would report to the Committee all audit differences in excess of £120,000 (2018: £47,000) for the Group, as well as differences below that threshold that in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

### AN OVERVIEW OF THE SCOPE OF OUR AUDIT

The consolidated financial statements of the Group incorporates the financial statements of the parent company and its subsidiary as defined in the opinion paragraph above. Material transactions of the subsidiary and parent company were included within the scope of our audit of the consolidated financial statements conducted using the Group materiality set out above.

Our audit was scoped by obtaining an understanding of the Group and its environment, including internal control, and assessing the risks of material misstatement. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team for both the parent entity and its wholly owned subsidiary, ICG-Longbow Senior Debt S.A., which holds the portfolio of loan investments of the Group.

ICG-Longbow Senior Secured UK Property Debt Investments Limited uses service organisations to manage book-keeping and support in the preparation of the financial statements. As such, we have assessed the design and implementation of relevant controls established by the service organisations.

## INDEPENDENT AUDITOR'S REPORT (CONTINUED)

### OTHER INFORMATION

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

***We have nothing to report in respect of these matters.***

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- *Fair, balanced and understandable* – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- *Audit committee reporting* – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- *Directors' statement of compliance with the UK Corporate Governance Code* – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R (2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

### RESPONSIBILITIES OF DIRECTORS

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

### AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

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

## INDEPENDENT AUDITOR'S REPORT (CONTINUED)

### REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

#### Matters on which we are required to report by exception

##### *Adequacy of explanations received and accounting records*

Under the Companies (Guernsey) Law, 2008 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- proper accounting records have not been kept by the parent company; or
- the financial statements are not in agreement with the accounting records.

***We have nothing to report in respect of these matters.***

#### USE OF OUR REPORT

This report is made solely to the company's members, as a body, in accordance with Section 262 of the Companies (Guernsey) Law, 2008. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and/or those matters we have expressly agreed to report to them on in our engagement letter and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



**NICOLA SARAH PAUL FCA**  
for and on behalf of Deloitte LLP  
Recognised Auditor  
St Peter Port, Guernsey

23 April 2019

## CONSOLIDATED STATEMENT OF **COMPREHENSIVE INCOME**

For the year ended 31 January 2019

	Notes	1 February 2018 to 31 January 2019 £	1 February 2017 to 31 January 2018 £
<b>Income</b>			
Income from loans	2 e)	7,196,384	7,035,459
Other fee income from loans	2 f), 5	439,207	1,042,285
Income from cash and cash equivalents		6,657	1,928
<b>Total income</b>		<b>7,642,248</b>	<b>8,079,672</b>
<b>Expenses</b>			
Investment advisory fees	13,14	1,211,925	1,141,405
Administration fees	13,14	163,333	170,000
Directors' remuneration	13	196,875	203,333
Luxco operating expenses		169,559	153,379
Broker fees		52,501	52,775
Audit fees for the Company	15	40,000	40,000
Audit fees for the Subsidiary	15	12,953	12,993
Regulatory fees		22,679	21,765
Listing fees		10,325	10,161
Legal and professional fees		413,221	372,840
Other expenses		87,827	104,194
<b>Total expenses</b>		<b>2,381,198</b>	<b>2,282,845</b>
<b>Profit for the year before tax</b>		<b>5,261,050</b>	<b>5,796,827</b>
Taxation charge/(credit)	4	2,803	(98,541)
<b>Profit for the year after tax</b>		<b>5,258,247</b>	<b>5,895,368</b>
<b>Total comprehensive income for the year</b>		<b>5,258,247</b>	<b>5,895,368</b>
<b>Basic and diluted Earnings per share (pence)</b>	9	<b>4.36</b>	<b>5.33</b>

All items within the above statement have been derived from continuing activities.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 January 2019

	Notes	31 January 2019 £	31 January 2018 £
<b>Assets</b>			
Cash and cash equivalents	7	12,370,129	6,486,150
Trade and other receivables	6	126,654	202,182
Loans advanced at amortised cost	5	108,561,477	112,331,666
<b>Total assets</b>		<b>121,058,260</b>	<b>119,019,998</b>
<b>Liabilities</b>			
Other payables and accrued expenses	8	773,871	1,037,809
<b>Total liabilities</b>		<b>773,871</b>	<b>1,037,809</b>
<b>Net assets</b>		<b>120,284,389</b>	<b>117,982,189</b>
<b>Equity</b>			
Share capital	10	119,115,310	114,857,090
Retained earnings		1,169,079	3,125,099
<b>Total equity attributable to the owners of the Company</b>		<b>120,284,389</b>	<b>117,982,189</b>
<b>Number of ordinary shares in issue at year end</b>	10	<b>121,302,779</b>	<b>117,042,779</b>
<b>Net Asset Value per ordinary share (pence)</b>	9	<b>99.16</b>	<b>100.80</b>

The Financial Statements were approved by the Board of Directors on 23 April 2019 and signed on their behalf by:



**JACK PERRY**  
Chairman

23 April 2019



**PATRICK FIRTH**  
Director

23 April 2019

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 January 2019

	Notes	Number of shares	Share capital £	Retained earnings £	Total £
<b>As at 1 February 2018</b>		117,042,779	114,857,090	3,125,099	117,982,189
Share issue	10	4,260,000	4,302,600	-	4,302,600
Share issue costs	10	-	(44,380)	-	(44,380)
Profit for the year		-	-	5,258,247	5,258,247
Dividends paid	10	-	-	(7,214,267)	(7,214,267)
<b>As at 31 January 2019</b>		<b>121,302,779</b>	<b>119,115,310</b>	<b>1,169,079</b>	<b>120,284,389</b>

For the year ended 31 January 2018

	Notes	Number of shares	Share capital £	Retained earnings £	Total £
<b>As at 1 February 2017</b>		108,219,250	106,038,522	6,290,172	112,328,694
Share issue	10	8,823,529	9,000,000	-	9,000,000
Share issue costs	10	-	(181,432)	-	(181,432)
Profit for the year		-	-	5,895,368	5,895,368
Dividends paid	10	-	-	(9,060,441)	(9,060,441)
<b>As at 31 January 2018</b>		<b>117,042,779</b>	<b>114,857,090</b>	<b>3,125,099</b>	<b>117,982,189</b>

The accompanying notes form an integral part of these Consolidated Financial Statements.

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 January 2019

	Notes	1 February 2018 to 31 January 2019 £	1 February 2017 to 31 January 2018 £
<b>Cash flows generated from operating activities</b>			
Profit for the year		5,258,247	5,895,368
Adjustments for non-cash items:			
Movement in other receivables		75,528	(177,162)
Movement in other payables and accrued expenses		(242,282)	241,027
Movement in tax payable		(21,656)	(101,760)
Loan amortisation		(750,171)	(706,539)
		4,319,666	5,150,934
Loans advanced less arrangement fees		(16,592,089)	(11,940,000)
Loans repaid		21,112,449	10,258,135
Net loans advanced less arrangement fees		4,520,360	(1,681,865)
<b>Net cash generated from operating activities</b>		<b>8,840,026</b>	<b>3,469,069</b>
<b>Cash flows used in financing activities</b>			
Proceeds from issue of shares	10	4,302,600	9,000,000
Share issue costs paid	10	(44,380)	(181,432)
Dividends paid	10	(7,214,267)	(9,060,441)
<b>Net cash used in financing activities</b>		<b>(2,956,047)</b>	<b>(241,873)</b>
Net movement in cash and cash equivalents		5,883,979	3,227,196
Cash and cash equivalents at the start of the year		6,486,150	3,258,954
<b>Cash and cash equivalents at the end of the year</b>		<b>12,370,129</b>	<b>6,486,150</b>

The accompanying notes form an integral part of these Consolidated Financial Statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 January 2019

## 1. GENERAL INFORMATION

ICG-Longbow Senior Secured UK Property Debt Investments Limited is a non-cellular company limited by shares and was incorporated in Guernsey under the Companies Law on 29 November 2012 with registered number 55917 as a closed-ended investment company. The registered office and principal place of business of the Company is Heritage Hall, PO Box 225, Le Marchant Street, St Peter Port, Guernsey, GY1 4HY, Channel Islands.

The Company's shares were admitted to the Premium Segment of the Official List and to trading on the Main Market of the London Stock Exchange on 5 February 2013.

The Consolidated Financial Statements comprise the Financial Statements of the Group as at 31 January 2019.

The investment objective of the Group, as approved by the shareholders of the Company, is to construct a portfolio of UK real estate debt related investments predominantly comprising loans secured by first ranking fixed charges against commercial property investments, with the aim of providing shareholders with attractive, quarterly dividends, capital preservation and, over the longer term, a degree of capital appreciation.

The Investment Adviser, which trades under the name of ICG-Longbow, is authorised and regulated by the FCA. The assets of the Company are managed by the Board under the advice of the Investment Adviser under the terms of the Investment Advisory Agreement.

## 2. ACCOUNTING POLICIES

### a) Basis of preparation

The Financial Statements for the year ended 31 January 2019 have been prepared in accordance with IFRS as adopted in the EU and the Companies Law.

In the preparation of these Financial Statements, the Company followed the same accounting policies and methods of computation as compared with those applied in the previous year, except for the classification, measurement, impairment and general hedge accounting principles of IFRS 9; consequential amendments to IFRS 7 Financial Instruments: Disclosures that were applied to the disclosures for 2019; and other consequential amendments to other IFRS standards that are effective for annual periods beginning on or after 1 February 2018. The adoption of the changes in other mandatorily effective IFRS standards did not materially impact the Company.

At the date of approval of these Financial Statements, the Group has not applied the following new and revised IFRS standards and interpretations that have been issued but yet are not effective:

		Effective for periods commencing
IFRS 9	Financial Instruments (Amendments regarding prepayment features with negative compensation and modifications of financial liabilities)	1 January 2019
IFRS 11	Joint arrangements (Amendments resulting from Annual Improvements 2015-2017 Cycle)	1 January 2019
IFRS 16	Leases	1 January 2019
IFRS 17	Insurance Contracts	1 January 2021
IAS 1	Presentation of Financial Statements (Amendments regarding the definition of material)	1 January 2020
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors (Amendments regarding the definition of material)	1 January 2020
IAS 12	Income Taxes (Amendments resulting from Annual Improvements 2015-2017 Cycle)	1 January 2019
IFRIC 23	Uncertainty over Income Tax Treatments	1 January 2019

The Directors do not anticipate that the adoption of these standards and interpretations in future periods will have a significant impact on the Consolidated Financial Statements of the Group.

### New and amended IFRS Standards that are effective and have been adopted in the current year

#### Impact of initial application of IFRS 9 Financial Instruments

In the current year, the Group has applied IFRS 9 Financial Instruments (as revised in July 2014) and the related consequential amendments to other IFRS Standards that are effective for an annual period that begins on or after 1 January 2018 and was adopted by the Group for the year ended 31 January 2019. The transition provisions of IFRS 9 allow an entity not to restate comparatives. The Group has elected not to restate comparatives in respect of the classification and measurement of financial instruments.

Additionally, the Group adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that were applied to the disclosures for the year ending 31 January 2019 and to the comparative period.

IFRS 9 introduced new requirements for:

- 1) The classification and measurement of financial assets and financial liabilities,
- 2) Impairment of financial assets; and
- 3) General hedge accounting.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 2. ACCOUNTING POLICIES (CONTINUED)

#### a) Basis of preparation (continued)

Details of these new requirements as well as their impact on the Group's Consolidated Financial Statements are described below.

The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9.

##### (a) Classification and measurement of financial assets

The date of initial application (i.e. the date on which the Group has assessed its existing financial assets and financial liabilities in terms of the requirements of IFRS 9) is 1 February 2018. Accordingly, the Group has applied the requirements of IFRS 9 to instruments that continue to be recognised as at 1 February 2018 and has not applied the requirements to instruments that had already been derecognised as at 1 February 2018. Comparative amounts in relation to instruments that continue to be recognised as at 1 February 2018 have not been restated.

All recognised financial assets that are within the scope of IFRS 9 are required to be measured subsequently at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

The Directors of the Company reviewed and assessed the Group's existing financial assets as at 1 February 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of IFRS 9 has had the following impact on the Group's financial assets as regards their classification and measurement:

- Financial assets classified as held-to-maturity and loans and receivables under IAS 39 that were measured at amortised cost continue to be measured at amortised cost under IFRS 9 as they are held within a business model to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding; and
- Changes in the way in which allowance for credit losses (impairment) are measured, as described below. The change had no material impact to the Group.

##### (b) Impairment of financial assets

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires the Group to account for ECL and changes in those ECL at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

In particular, IFRS 9 requires the Group to measure the loss allowance for a financial instrument at an amount equal to the lifetime ECL if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit-impaired financial asset.

However, if the credit risk on a financial instrument has not increased significantly since initial recognition (except for a purchased or originated credit-impaired financial asset), the Group is required to measure the loss allowance for that financial instrument at an amount equal to 12-months ECL. IFRS 9 also requires a simplified approach for measuring the loss allowance at an amount equal to lifetime ECL for trade receivables, contract assets and lease receivables in certain circumstances.

##### (c) Classification and measurement of financial liabilities

The application of IFRS 9 has had no impact on the classification and measurement of the Group's financial liabilities.

##### (d) General hedge accounting

The application of the IFRS 9 hedge accounting requirements has had no impact on the results and financial position of the Group for the current and/or prior years.

#### Assessment

The adoption of IFRS 9 has not had a material impact on the Group's Consolidated Financial Statements. This is based on the following summary of Group's transactions and activity:

- Cash and cash equivalents – initial recognition at fair value and subsequent measurement at amortised cost under both IAS 39 and IFRS 9;
- Trade and other receivables – initial recognition at fair value and subsequent measurement continues to be held at amortised cost under both IAS 39 and IFRS 9. As noted in Note 2 a) and Note 2 d) the impairment provisions has not had a material impact on the Group; and
- Other payables and accrued expenses – initial recognition at fair value and subsequent measurement continues to be held at amortised cost under both IAS 39 and IFRS 9.
- Loans advanced at amortised cost – initial recognition at amortised cost and subsequent measurement continues to be held at amortised cost under both IAS 39 and IFRS 9. As noted below, the impairment provision has not had a material impact on the Group.

The Group has adopted the Investment Adviser's internal credit rating methodology and used its loss experience to benchmark investment performance and potential impairment for both Stage 1 and Stage 2 loans under IFRS 9 considering both probability of default and ECL.

Based on the Group's internal credit rating model and its prior experience together with that of the Investment Adviser, senior loans (less than 65% day one LTV), typically achieve an "investment grade" equivalent credit rating. Whilst loans with a LTV over 65% may be considered sub-investment grade. The risk of loss is mitigated by the quality of the underlying property and the strengths of the financial covenants which enable the lender to take early preventative measures. To date the Group has not experienced any credit losses. The Group has adopted the Investment Adviser's internal credit rating methodology and used its loss experience to benchmark investment performance and potential impairment for both Stage 1 and Stage 2 loans under IFRS 9 considering both probability of default and ECL.

In accordance with the Group's IFRS 9 policy the credit-worthiness of each investment has been reviewed using ICG-Longbow's internal ratings models.

After the review process, the Group does not consider that there are special circumstances, which would increase the baseline probability of default and accordingly no IFRS 9 ECL provision has been taken against any loan.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 2. ACCOUNTING POLICIES (CONTINUED)

#### b) Going concern

The Directors, at the time of approving the Financial Statements, have a reasonable expectation that the Group has adequate resources to continue in operational existence for a period of at least twelve months from the date of approval of the Consolidated Financial Statements and do not consider there to be any threat to the going concern status of the Group.

The Group is now substantially invested with loans advanced at amortised cost representing 90.25% of the total equity attributable to the owners of the Company and expects that the loan portfolio will generate enough cash flows to pay on-going expenses and returns to shareholders. The Directors have considered the cash position and performances of current investments made by the Group and have concluded that it is appropriate to adopt the going concern basis of accounting in preparing the Financial Statements.

The first continuation vote was held on 1 March 2017 and passed by the shareholders. The requirement for subsequent annual continuation votes has been amended so that any follow-on continuation resolutions shall be held every five years and the Directors shall propose an ordinary resolution that the Company continues its business as a closed-ended collective investment scheme. The first follow-on continuation resolution will be required on or before the Annual General Meeting of the Company to be held in 2022.

#### c) Basis of consolidation

The Consolidated Financial Statements incorporate the Financial Statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 January each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the Consolidated Statement of Comprehensive Income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the Financial Statements of subsidiaries to bring the accounting policies used into line with those used by the Group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

The Group is not considered an 'Investment Entity' as defined by IFRS 10 Consolidated Financial Statements as it does not meet the criteria set out therein, specifically it does not measure and evaluate the performance of substantially all of its investments on a fair value basis.

#### d) Functional and presentation currency

The Financial Statements are presented in Pounds Sterling, which is the functional currency as well as the presentation currency as all the Group's investments and most transactions are denominated in Pounds Sterling.

#### e) Interest income

Interest income is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition. Arrangement and exit fees which are considered to be an integral part of the contract are included in the effective interest rate calculation.

Interest on cash and cash equivalents is recognised on an accruals basis.

#### f) Other fee income

Other fee income includes prepayment and other fees due under the contractual terms of the debt instruments. Such fees and related cash receipts are not considered to form an integral part of the effective interest rate and are accounted for on an accruals basis.

#### g) Operating expenses

Operating expenses are the Group's costs incurred in connection with the on-going management of the Group's investments and administrative costs. Operating expenses are accounted for on an accruals basis.

#### h) Taxation

The Company is exempt from Guernsey taxation under the Income Tax (Exempt Bodies) (Guernsey) Ordinance 1989 for which it pays an annual fee of £1,200 which is included within other expenses. The Company is required to apply annually to obtain exempt status for the purposes of Guernsey Taxation.

The Group is liable to Luxembourg tax arising on the results and capitalisation of its Luxembourg registered entity which is included in tax charge for the year (see Note 4).

#### i) Dividends

Dividends paid during the year are disclosed in the Consolidated Statement of Changes in Equity. Dividends declared post year end are disclosed in Note 17.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 2. ACCOUNTING POLICIES (CONTINUED)

#### j) Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors, as a whole. The key measure of performance used by the Board to assess the Group's performance and to allocate resources is the total return on the Group's Net Asset Value, as calculated under IFRS, and therefore no reconciliation is required between the measure of profit or loss used by the Board and that contained in the Financial Statements.

For management purposes, the Group is organised into one main operating segment, being the provision of a diversified portfolio of UK commercial property backed senior debt investments.

The majority of the Group's income is derived from loans secured on commercial and residential property in the United Kingdom.

Due to the Group's nature it has no employees.

The Group's results do not vary significantly during reporting periods as a result of seasonal activity.

#### k) Financial instruments

Financial assets and financial liabilities are recognised in the Group's Consolidated Statement of Financial Position when the Group becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are only offset and the net amount reported in the Consolidated Statement of Financial Position and Consolidated Statement of Comprehensive Income when there is a currently enforceable legal right to offset the recognised amounts and the Group intends to settle on a net basis or realise the asset and liability simultaneously.

#### Financial assets

All financial assets are recognised and de-recognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets at fair value through profit or loss, financial assets at fair value through OCI or financial assets at amortised cost. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

The Group's financial assets currently comprise loans, trade and other receivables and cash and cash equivalents.

#### i) Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They comprise loans and trade and other receivables.

They are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition, and subsequently carried at amortised cost using the effective interest rate method, less allowance for ECL. The effect of discounting on these trade and other receivables is not considered to be material.

The Group has loans and receivables with a prepayment option embedded. The key factors considered in the valuation of prepayment options include the exercise price, the interest rate of the host loan contract, differential to current market interest rates, the risk free rate of interest, contractual terms of the prepayment option, and the expected term of the option. Given the low probability of exercise and undeterminable exercise date, the value attributed to these embedded derivatives is considered to be £nil (31 January 2018: £nil).

#### ii) Derecognition of financial assets

A financial asset (in whole or in part) is derecognised either when:

- the Group has transferred substantially all the risks and rewards of ownership; or
- it has neither transferred nor retained substantially all the risks and rewards and when it no longer has control over the assets or a portion of the asset; or
- the contractual right to receive cash flow has expired.

#### iii) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments with an original maturity of three months or less that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

#### iv) Effective interest rate method

The effective interest rate method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**2. ACCOUNTING POLICIES (CONTINUED)****k) Financial instruments (continued)***v) Impairment of financial assets*

The Group recognises a loss allowance for ECL on trade receivables and loan receivables. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument. The Group always recognises 12-month ECL for trade receivables and loan receivables that fall under stage 1 assets.

For stage 2 assets, the Group recognises lifetime ECL when there has been a significant increase in credit risk since initial recognition. The ECL on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

*vi) Significant increase in credit risk*

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Group's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various external sources of actual and forecast economic information that relate to the Group's core operations.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk for a particular financial instrument, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor, or the length of time or the extent to which the fair value of a financial asset has been less than its amortised cost;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor; or
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Despite the foregoing, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

- (1) The financial instrument has a low risk of default;
- (2) The debtor has a strong capacity to meet its contractual cash flow obligations in the near term; and
- (3) Adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Group considers a financial asset to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there are no past due amounts.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 2. ACCOUNTING POLICIES (CONTINUED)

#### k) Financial instruments (continued)

##### vii) Definition of default

The Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that financial assets that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collateral held by the Group).

##### viii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- (a) significant financial difficulty of the issuer or the borrower;
- (b) a breach of contract, such as a default or past due event (see (vii) above);
- (c) the lenders of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty having granted to the borrower a concessions that the lenders would not otherwise consider;
- (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- (e) the disappearance of an active market for that financial asset because of financial difficulties.

##### ix) Write-off policy

The Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of loan receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

##### x) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the asset's gross carrying amount at the reporting date.

For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.

If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.

The Group's measurement of ECL reflects an unbiased and probability-weighted amount that is determined by evaluating the range of possible outcomes as well as incorporating the time value of money. The Group has also considered reasonable and supportable information from past events, current conditions and reasonable and supportable forecasts for future economic conditions when measuring ECL.

##### xi) Modification of cash flows

Having performed adequate due diligence procedures, the Group may negotiate or otherwise modify the contractual cash flows of loans to customers, usually as a result of loan extensions. When this happens, the Group assesses whether or not the new terms are substantially different to the original terms.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 2. ACCOUNTING POLICIES (CONTINUED)

#### k) Financial instruments (continued)

##### xiii) Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

- Stage 1 covers financial assets that have not deteriorated significantly in credit risk since initial recognition;
- Stage 2 covers financial assets that have significantly deteriorated in credit quality since initial recognition; and
- Stage 3 covers financial assets that have objective evidence of impairment at the reporting date.

Twelve month ECL are recognised in stage 1, while lifetime ECL are recognised in stages 2 and 3.

#### Financial liabilities

The classification of financial liabilities at initial recognition depends on the purpose for which the financial liability was issued and its characteristics.

All financial liabilities are initially recognised at fair value net of transaction costs incurred. All purchases of financial liabilities are recorded on a trade date, being the date on which the Group becomes party to the contractual requirements of the financial liability. Unless otherwise indicated the carrying amounts of the Group's financial liabilities approximate to their fair values.

The Group's financial liabilities consist of only financial liabilities measured at amortised cost.

##### i) Financial liabilities measured at amortised cost

These include trade payables and other short-term monetary liabilities, which are initially recognised at fair value and subsequently carried at amortised cost using the effective interest rate method.

##### ii) Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

#### l) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised as the proceeds received, net of direct issue costs.

### 3. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES IN APPLYING THE GROUP'S ACCOUNTING POLICIES

The preparation of the Financial Statements under IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making 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 on-going 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.

#### Critical judgements

In assessing the ECL, the Board have made critical judgements in relation to the staging of the loans and assessments which impact the loss given default. In assessing whether the loans have incurred a significant increase in credit risk the Investment Adviser, on behalf of the Board, assesses the credit risk attaching to each of the loans. The Group has adopted the Investment Adviser's internal credit rating methodology and has used its loss experience to benchmark investment performance and potential impairment for both Stage 1 and Stage 2 loans under IFRS 9 considering both probability of default and expected credit losses. The judgement applied in allocating each investment to Stage 1, 2 or 3 is key in deciding whether losses are considered for the next 12 months or over the life of the loan. The Board has estimated that two loans have shown evidence of significant credit risk in relation to reduction in LTV and ICR. In assessing the ultimate ECL in relation to these loans, the Board has made assumptions regarding the collateral value, headroom over the principal loan amounts and, in the case of the Meadow loan, the expectation that planning permission will be granted.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 3. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES IN APPLYING THE GROUP'S ACCOUNTING POLICIES (CONTINUED)

#### Critical accounting estimates

The measurement of both the initial and ongoing expected credit loss allowance for loan receivables measured at amortised cost is an area that requires the use of significant assumptions about credit behaviour such as likelihood of borrowers defaulting and the resulting losses. This is described further in Note 2 k). In assessing the probability of default the Board has taken note of the experience and loss history of the Investment Adviser which may not be indicative of future losses. The default probabilities are based on LTV headroom which the Investment Adviser believes to be a good predictor of the probability of default, in accordance with recent market studies of European commercial real estate loans. The Directors consider the loss given default to be close to zero as the loans are the subject of very detailed due diligence procedures on inception and, in addition, there is significant LTV headroom. As a result, no loss allowance has been recognised based on 12-month expected credit losses for those in stage 1 and or lifetime losses for those in stage 2, as any such impairment would be wholly insignificant to the Group.

Revenue recognition is considered a significant accounting judgement and estimate that the Directors make in the process of applying the Group's policies (see Notes 2 e) and 2 f)).

Further the Directors make estimates in determining the fair value of prepayment options embedded within the contracts for loans advanced. The key factors considered in the valuation of prepayment options include the exercise price, the interest rate of the host loan contract, differential to current market interest rates, the risk free rate of interest, contractual terms of the prepayment option, and the expected term of the option.

#### 4. TAXATION

The Group's tax charge of £2,803 (31 January 2018: credit £98,541) consists of taxes and non-deductible VAT levied on Luxco. The net wealth tax charge was nil for the financial year ended 31 January 2019 (31 January 2018: £4,365). The net wealth tax charge, set at a rate of 0.5% (31 January 2018: 0.5%), on Luxco's global assets (net worth), determined as at the 1 January of each calendar year. The corporate income tax charge, including corporate income tax and municipal business tax, amounted to £nil for 2019 (31 January 2018: £nil) set by the Luxembourg Tax Administration.

	1 February 2018 to 31 January 2019 £	1 February 2017 to 31 January 2018 £
Net wealth tax – current year	–	4,365
Net wealth tax – prior year	–	(27,470)
Fixed income tax – current year	(285)	–
Fixed income tax – prior year	–	(75,316)
Municipal business tax – current year	–	–
Municipal business tax – prior year	–	(875)
Non-deductible VAT	3,088	755
	2,803	(98,541)

#### 5. LOANS ADVANCED

##### (i) Loans advanced

	31 January 2019 Principal advanced £	31 January 2019 At amortised cost £	31 January 2018 Principal advanced £	31 January 2018 At amortised cost £
IRAF	–	–	11,935,000	12,150,584
Meadow	21,500,000	21,941,471	20,000,000	20,413,021
Northlands	8,500,000	8,692,447	7,577,250	7,690,133
Hulbert	–	–	6,565,000	6,666,450
Halcyon	6,423,280	6,570,708	8,600,000	8,730,605
Carrara	1,300,000	1,331,708	1,300,000	1,319,743
Ramada	7,982,500	8,151,125	7,982,500	8,077,179
Commercial Regional Space	22,400,000	22,620,181	22,400,000	22,556,213
BMO	15,793,727	15,807,533	15,793,727	15,770,768
Quattro	9,000,000	9,007,986	9,000,000	8,956,970
Affinity	14,322,039	14,438,318	–	–
	107,221,546	108,561,477	111,153,477	112,331,666

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**5. LOANS ADVANCED (CONTINUED)****(ii) Valuation considerations**

The Directors consider that the carrying value amounts of the loans, recorded at amortised cost in the Financial Statements, are approximately equal to their fair value. No element of the loans advanced is past due or impaired. For further information and the associated risks see the Investment Adviser's Report, the Statement of Principal Risks and Note 11.

Amortised cost is calculated using the effective interest rate method which takes into account all contractual terms (including arrangement and exit fees) that are an integral part of the loan agreement. As these fees are taken into account when determining initial net carrying value, their recognition in profit or loss is effectively spread over the life of the loan. The Group's accounting policy on the measurement of financial assets is discussed further in Note 2 k).

The Group's investments are in the form of bilateral loans, and as such are illiquid investments with no readily available secondary market. Whilst the terms of each loan includes repayment and prepayment fees, in the absence of a liquid secondary market, the Directors do not believe a willing buyer would pay a premium to the par value of the loans to recognise such terms and as such the amortised cost is considered representative of the fair value of the loans.

Each property on which investments are secured was subject to an independent, third party valuation at the time the investment was entered into. All investments are made on a hold to maturity basis. Each investment is monitored on a quarterly basis, in line with the underlying property rental cycle, including a review of the performance of the underlying property security. No market or other events have been identified through this review process which would result in a fair value of the investments significantly different to the carrying value.

Whilst the loans are performing and the balance outstanding in each case is at a substantial discount to the value of the underlying real estate on which they are secured, the Directors do not consider any loan to be subject to specific impairment, or for there to be a risk of not achieving full recovery.

**(iii) IFRS 9 – Impairment of Financial Assets**

In accordance with the Group's Accounting Policy for Financial Instruments as set out in Note 2 k) (v) above, the Board is required to consider the future potential impairment of the loan portfolio. Accordingly, the internal credit rating of each loan as at 31 January 2019 has been reviewed. Two loans showed a deterioration in their internal credit rating since 31 January 2018 and have been identified as a stage 2 assets; all other loans showed no deterioration, and were considered as Stage 1 assets with no ECL over a twelve month period.

**As at 31 January 2019**

	Stage 1	Stage 2	Stage 3	Total
Principal advanced	76,721,546	30,500,000	–	107,221,546
Gross carrying value	77,612,020	30,949,457	–	108,561,477
Less ECL allowance	–	–	–	–
	77,612,020	30,949,457	–	108,561,477

**As at 31 January 2018**

	Stage 1	Stage 2	Stage 3	Total
Principal advanced	76,721,546	30,500,000	–	107,221,546
Gross carrying value	112,331,666	–	–	112,331,666
Less ECL allowance	–	–	–	–
	112,331,666	–	–	112,331,666

The two Stage 2 loans were Quattro and Meadow. In the case of Meadow the deterioration in credit rating was as the result of a higher LTV arising from the increase in the loan amount. Investment performance was in line with business plan and there were no circumstances warranting special consideration. Based on the internal credit rating the probability of default was considered to be nil over the remaining term of the loan.

In the case of the Quattro loan the deterioration in credit rating was the result of a reduction in interest cover as the interest reserve was utilised. There were no special circumstances warranting further consideration and the probably of default over the remaining term was considered to be nil.

A reconciliation of the ECL allowance was not presented as the allowance recognised at year end was £nil.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 5. LOANS ADVANCED (CONTINUED)

#### IFRS 9 Impairment – Sensitivity Analysis

As discussed above, and in Note 2, the Group's ECL is a function of the probability of default ("PD") and loss given default ("LGD"), where PD is benchmarked against ICG-Longbow's internal credit rating model and LGD is based on ICG-Longbow's track record of over £3.0 billion of senior and whole loans which would satisfy the Company's investment parameters.

The Company has performed sensitivity analysis on its expected credit loss by considering the impact of a one grade deterioration in the credit rating of each loan (PD) and a one grade increase in loss (LGD) as a consequence. A one grade deterioration in credit rating (e.g. BBB to BB) is broadly equivalent to a 5% increase in LTV ratio or 20% reduction in ICR.

Given the low weighted average LTV and strong ICR of the portfolio as a whole the one-grade stress applied does not result in an increase to the expected credit loss which remains nil. A two grade decrease in credit quality of each loan would result in an expected credit loss of £157,080 (0.14% of the total capital advance).

	Reasonable possible shift	31 January 2019
LTV	+5%	£nil
ICR	-10%	
LTV	+10%	£157,080
ICR	-20%	

#### (iv) Portfolio movements

Having considered both Stage 1 and Stage 2 loans, the Board consider that the Expected Credit Loss within the portfolio is £nil, and no provision for impairment is required under IFRS 9.

On 28 February 2018, the Group received repayment in full of the £11,935,000 IRAF loan, together with interest and exit fees of approximately £238,700.

On 2 March 2018, the Group made a new loan commitment of £16,200,000 to an affiliate of Affinity Global Real Estate. At 31 January 2019, £14,322,039 of the total facility had been drawn down. On 11 March 2019, the Group advanced a further £1,549,877 to the borrower of the Affinity loan, taking total drawings to £15,871,916.

On 5 March 2018, the Group advanced a further £922,750 commitment on the Northlands loan and extended the coupon protection period of the total Northlands loan of £8,500,000. In December 2018, a 90 day extension to the maturity date was agreed with the borrower of the Northlands loan.

On 28 June 2018, the Group received a partial repayment of £2,176,720 from the Halcyon loan borrower, together with interest and exit fees of approximately £50,414.

On 15 October 2018, the Group received repayment in full of the £6,565,000 Hulbert loan, together with interest and exit fees of approximately £135,093.

On 3 December 2018, the Group advanced a further £1,500,000 to the borrower of the Meadow loan. The increase is on substantially the same terms and conditions as the existing loan.

In December 2018, the Halcyon and Carrara loans were both extended by a period of 12 months.

Other fee income from loans totalled £439,207 (31 January 2018: £1,042,285).

Following the year end, on 25 February 2019, the Group arranged a new loan commitment of £15.0 million to an affiliate of Bliss Hotels group, with an initial advance of £12.5 million. The Company made its first drawing of £3.5 million on its working capital facility in order to fund this investment.

On 11 April 2019, the Company agreed a three month extension of its facility to the borrower of the Commercial Regional Space loan, at a higher rate of interest.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**6. TRADE AND OTHER RECEIVABLES**

	31 January 2019 £	31 January 2018 £
Other receivables	126,654	202,182

There are no material past due or impaired receivable balances outstanding at the year end.

The Group has financial risk management policies in place to ensure that all receivables are received within the credit time frame. The Board of Directors considers that the carrying amount of all receivables approximates to their fair value.

**7. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents comprises cash held by the Group and short-term bank deposits held with maturities of three months or less. The carrying amounts of these assets approximate their fair value. This includes restricted cash of £272,423 (31 January 2018: £nil).

**8. OTHER PAYABLES AND ACCRUED EXPENSES**

	31 January 2019 £	31 January 2018 £
Investment advisory fees (see Note 13)	302,122	865,836
Taxes payable	1,679	23,335
Share issue costs payable	-	10,000
Directors' remuneration (see Note 13)	49,375	48,750
Administration fees (see Note 13)	14,167	30,833
Broker fees	27,083	28,953
Audit fees	30,000	28,000
Other expenses	349,445	2,102
	773,871	1,037,809

The Group has financial risk management policies in place to ensure that all payables are paid within the credit time frame. The Board of Directors considers that the carrying amount of all payables approximates to their fair value.

**9. EARNINGS PER SHARE AND NET ASSET VALUE PER SHARE****Earnings per share**

	1 February 2018 to 31 January 2019	1 February 2017 to 31 January 2018
Profit for the year (£)	5,258,247	5,895,368
Weighted average number of ordinary shares in issue	120,660,861	110,564,133
Basic and diluted EPS (pence)	4.36	5.33
Adjusted basic and diluted EPS (pence)	3.99	4.39

The calculation of basic and diluted Earnings per share is based on the profit for the year and on the weighted average number of ordinary shares in for the year ended 31 January 2019.

The calculation of adjusted basic and diluted Earnings per share is based on the profit for the year, adjusted for one-off other fee income during the year totalling £439,207 (31 January 2018: £1,042,285).

There are no dilutive shares in issue at 31 January 2019 (31 January 2018: none).

**Net Asset Value per share**

	31 January 2019	31 January 2018
NAV (£)	120,284,389	117,982,189
Number of ordinary shares in issue	121,302,779	117,042,779
NAV per share (pence)	99.16	100.80

The calculation of NAV per share is based on Net Asset Value and the number of ordinary shares in issue at the year end.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 10.SHARE CAPITAL

The authorised share capital of the Company is represented by an unlimited number of ordinary shares with or without a par value which, upon issue, the Directors may designate as (a) ordinary shares; (b) B shares; and (c) C shares, in each case of such classes and denominated in such currencies as the Directors may determine.

	31 January 2019 £	31 January 2018 £
<b>Authorised</b>		
Ordinary shares of no par value	Unlimited	Unlimited

<b>Issued and fully paid:</b>	<b>Total No</b>	<b>Total No</b>
Ordinary shares of no par value		
Shares as at inception	1	1
Issued on 5 February 2013	104,619,249	104,619,249
Issued on 24 April 2014	3,600,000	3,600,000
Issued on 26 October 2017	8,823,529	8,823,529
Issued on 27 March 2018	4,260,000	-
	121,302,779	117,042,779

	£	£
Share capital brought forward	114,857,090	106,038,522
Movements for the year:		
Ordinary shares issued on 26 October 2017	4,302,600	9,000,000
Share issue costs	(44,380)	(181,432)
<b>Share capital</b>	<b>119,115,310</b>	<b>114,857,090</b>

#### Dividends

Dividends are recognised by the Company in the quarterly NAV calculation following the declaration date. A summary of the dividends declared and/or paid during the year ended 31 January 2019 and 31 January 2018 are set out below:

<b>1 February 2018 to 31 January 2019</b>	<b>Dividend per share Pence</b>	<b>Total dividend £</b>
Interim dividend in respect of quarter ended 31 January 2018	1.50	1,755,642
Interim dividend in respect of quarter ended 30 April 2018	1.50	1,819,542
Interim dividend in respect of quarter ended 31 July 2018	1.50	1,819,541
Interim dividend in respect of quarter ended 31 October 2018	1.50	1,819,542
	6.00	7,214,267

#### Dividends

<b>1 February 2017 to 31 January 2018</b>	<b>Dividend per share Pence</b>	<b>Total dividend £</b>
Interim dividend in respect of quarter ended 31 January 2017	1.50	1,623,289
Special dividend in respect of quarter ended 31 January 2017	2.25	2,434,933
Interim dividend in respect of quarter ended 30 April 2017	1.50	1,623,289
Interim dividend in respect of quarter ended 31 July 2017	1.50	1,623,289
Interim dividend in respect of quarter ended 31 October 2017	1.50	1,755,641
	8.25	9,060,441

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**10.SHARE CAPITAL (CONTINUED)****Additional interim dividend**

On 8 March 2019, the Directors declared an interim dividend in respect of the quarter ended 31 January 2019 of £1,819,541 equating to 1.5 pence per ordinary share to shareholders on the register as at the close of business on 22 March 2019.

**Rights attaching to Shares**

The Company has a single class of ordinary shares which are not entitled to a fixed dividend. At any General Meeting of the Company each ordinary shareholder is entitled to have one vote for each share held. The ordinary shares also have the right to receive all income attributable to those shares and participate in distributions made and such income shall be divided pari passu among the holders of ordinary shares in proportion to the number of ordinary shares held by them.

**11. RISK MANAGEMENT POLICIES AND PROCEDURES**

The Group through its investment in senior loans is exposed to a variety of financial risks, including market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management procedures focus on the unpredictability of operational performance of the borrowers and on property fundamentals and seek to minimise potential adverse effects on the Group's financial performance.

The Board of Directors is ultimately responsible for the overall risk management approach within the Group. The Board of Directors has established procedures for monitoring and controlling risk. The Group has investment guidelines that set out its overall business strategies, its tolerance for risk and its general risk management philosophy.

In addition, the Investment Adviser monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities. Further details regarding these policies are set out below:

**Market risk**

Market risk includes market price risk, currency risk and interest rate risk. If a borrower defaults on a loan and the real estate market enters a downturn it could materially and adversely affect the value of the collateral over which loans are secured. This risk is considered by the Board to be as a result of credit risk as it relates to the borrower defaulting on the loan.

Market risk is moderated through a careful selection of loans within specified limits. The Group's overall market position is monitored by the Investment Adviser and is reviewed by the Board of Directors on an on-going basis.

**Currency risk**

The Group's currency risk exposure is considered to be immaterial as all investments have been and will be made in Pounds Sterling, with immaterial expenses incurred in Euro by Luxco.

**Interest rate risk**

Interest rate risk is the risk that the value of financial instruments and related income from cash and cash equivalents will fluctuate due to changes in market interest rates.

The majority of the Group's financial assets are loans advanced, which are at a fixed rate of interest and cash and cash equivalents. The Group's interest rate risk is limited to interest earned on cash deposits.

The following table shows the portfolio profile of the material financial assets at 31 January 2019 and 31 January 2018:

	31 January 2019 £	31 January 2018 £
<b>Floating rate</b>		
Cash	12,370,129	6,486,150
<b>Fixed rate</b>		
Loans advanced at amortised cost	108,561,477	112,331,666
	120,931,606	118,817,816

The timing of interest payments on the loans advanced is summarised in the table on page 61.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 11. RISK MANAGEMENT POLICIES AND PROCEDURES (CONTINUED)

#### Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when due. The Group's main credit risk exposure is on the loans advanced, where the Group invests in secured senior debt.

In order to minimise credit risk, the Group has adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults. The Group only transacts with entities that are rated the equivalent of investment grade and investments in these instruments, including bills of exchange, debentures and redeemable notes, where the counterparties have minimum BBB- credit rating, are considered to have low credit risk for the purpose of impairment assessment. The credit rating information is supplied by independent rating agencies where available and, if not available, the Group uses other publicly available financial information and its own trading records to rate its major customers. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

The Group has adopted the CMBS credit rating methodology to assess the creditworthiness of each loan and resultant credit risk, PD and LGD. The model takes into account factors below such as:

- financial risk of the debtor – considers the financial position of the debtor in general and considers LTV, ICR and amortisation profile/ debt maturity;
- property risk – where the property location, quality (specification, condition) and letting risk are considered;
- income risk – the income risk category considers, tenant diversity, tenant credit quality and lease length ratio, sector diversity and geographical diversity; and
- Borrower/structure risk – where factors such as history of the borrower/sponsor, loan control (security package) and covenants are considered.

The credit risk model is dynamic and recognises the interplay between diversity and quality as a risk mitigant. The Group's current credit risk grading framework comprises the following categories:

Grade	Description	Staging	Basis for recognising ECL
AAA, AA+	Virtually no risk	Stage 1	12 month ECL
AA to A	Low risk	Stage 1	12 month ECL
BBB	Moderate risk	Stage 1	12 month ECL
BB	Average risk	Stage 1	12 month ECL
B	Acceptable risk	Stage 1	12 month ECL
CCC+	Borderline Risk	Stage 2	Lifetime ECL-not credit impaired
CCC	Special Mention	Stage 2	Lifetime ECL-not credit impaired
CC	Substandard	Stage 3	Lifetime ECL-credit impaired
D	Doubtful	Stage 3	Lifetime ECL-credit impaired
D	Loss	N/A	Amount is written off

The Group has adopted the Investment Adviser's internal credit rating methodology and used its loss experience to benchmark investment performance and potential impairment for both Stage 1 and Stage 2 loans under IFRS 9 considering both probability of default and expected credit loss. The total exposure to credit risk arises from default of the loan counterparty and the carrying amounts of other financial assets best represent the maximum credit risk exposure at the year end date, including the principal advanced on loans, cash and cash equivalents and interest outstanding on loans. As at 31 January 2019, the maximum credit risk exposure was £119,591,675 (31 January 2018: £117,827,695).

The Investment Adviser has adopted procedures to reduce credit risk exposure through the inclusion of covenants in loans issued, along with conducting credit analysis of the counterparties, their business and reputation, which is monitored on an on-going basis. The Investment Adviser routinely analyses the profile of the Group's underlying risk in terms of exposure to significant tenants, reviewing market data and forecast economic trends to benchmark borrower performance and to assist in identifying potential future stress points.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

**11. RISK MANAGEMENT POLICIES AND PROCEDURES (CONTINUED)****Collateral held as security**

Each loan is secured by a charge of commercial real estate property pledged by the borrower. The current valuations for these properties and LTV information for each loan (and for the portfolio as a whole) are detailed in the loan summary pages in the Investment Manager's report on pages 10 to 14.

To diversify credit risk the Company maintains its cash and cash equivalents across four (31 January 2018: four) different banking groups as shown below, which have parent companies rated Baa or higher by MIS or an equivalent. In order to cover operational expenses, a working capital balance at Royal Bank of Scotland International Limited is monitored and maintained. To diversify credit risk within Luxco, cash and cash equivalents are maintained at appropriate levels of operational capital with interest payments made to the Company on a regular basis. This is subject to the Group's credit risk monitoring policies.

	31 January 2019 £
Royal Bank of Scotland Global Banking (Luxembourg) S.A.	2,144,187
Lloyds Bank International Limited	3,386,029
Barclays Bank plc	3,385,247
ABN AMRO (Guernsey) Limited	3,385,217
Royal Bank of Scotland International Limited	69,449
	12,370,129

	31 January 2018 £
Royal Bank of Scotland Global Banking (Luxembourg) S.A.	1,723,531
Lloyds Bank International Limited	1,554,210
Barclays Bank plc	1,554,219
ABN AMRO (Guernsey) Limited	1,554,190
Royal Bank of Scotland International Limited	100,000
	6,486,150

The carrying amount of these assets approximates their fair value.

A reconciliation of the ECL allowance was not presented as the allowance recognised at year end was £nil.

**Liquidity risk**

Liquidity risk is the risk that the Group will not be able to meet its liabilities as they fall due. The Group's loans advanced are illiquid and may be difficult or impossible to realise for cash at short notice.

The Group manages its liquidity risks through cash flow forecasts to ensure that it can meet its obligations as they fall due. In addition, during the year, the Group entered into a revolving credit facility with OakNorth Bank Plc. The facility was undrawn at the year end but in future will be used to maintain and preserve liquidity as well as making new loans and investment and meeting operating costs of the Group.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 11. RISK MANAGEMENT POLICIES AND PROCEDURES (CONTINUED)

Liquidity risks arise in respect of other financial liabilities of the Group due to counterparties. The Group expects to meet its on-going obligations from cash flows generated by the loan portfolio. Except for the loans advanced, the Group's financial assets and financial liabilities all have maturity dates within one year. An analysis of the maturity of financial assets classified as loans advanced is shown in the table below:

	Less than one year £	Between one and five years £	Total as at 31 January 2019 £
Meadow – principal	21,500,000	–	21,500,000
Meadow – interest and exit fees	2,095,514	–	2,095,514
Northlands – principal	8,500,000	–	8,500,000
Northlands – interest and exit fees	232,976	–	232,976
Halcyon – principal	6,423,280	–	6,423,280
Halcyon – interest and exit fees	527,589	–	527,589
Carrara – principal	1,300,000	–	1,300,000
Carrara – interest and exit fees	106,778	–	106,778
Ramada – principal	7,982,500	–	7,982,500
Ramada – interest and exit fees	343,357	–	343,357
Commercial Regional Space – principal	22,400,000	–	22,400,000
Commercial Regional Space – interest and exit fees	433,977	–	433,977
BMO – principal	15,793,727	–	15,793,727
BMO – interest and exit fees	126,761	–	126,761
CNM – principal	–	9,000,000	9,000,000
CNM – interest and exit fees	720,000	810,000	1,530,000
Affinity – principal	–	14,322,039	14,322,039
Affinity – interest and exit fees	1,070,332	2,827,139	3,897,471
	89,556,791	26,959,178	116,515,969

	Less than one year £	Between one and five years £	Total as at 31 January 2018 £
IRAF – principal	11,935,000	–	11,935,000
IRAF – interest and exit fees	964,283	–	964,283
Meadow – principal	–	20,000,000	20,000,000
Meadow – interest and exit fees	1,494,448	1,904,110	3,398,558
Northlands – principal	7,577,250	–	7,577,250
Northlands – interest and exit fees	674,687	–	674,687
Hulbert – principal	6,565,000	–	6,565,000
Hulbert – interest and exit fees	580,148	–	580,148
Halcyon – principal	8,600,000	–	8,600,000
Halcyon – interest and exit fees	706,378	–	706,378
Carrara – principal	1,300,000	–	1,300,000
Carrara – interest and exit fees	106,778	–	106,778
Ramada – principal	–	7,982,500	7,982,500
Ramada – interest and exit fees	638,600	343,357	981,957
Commercial Regional Space – principal	–	22,400,000	22,400,000
Commercial Regional Space – interest and exit fees	987,840	433,977	1,421,817
BMO – principal	–	15,793,727	15,793,727
BMO – interest and exit fees	500,228	124,035	624,263
Quattro – principal	–	9,000,000	9,000,000
Quattro – interest and exit fees	720,000	1,530,000	2,250,000
	43,350,640	79,511,706	122,862,346

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 11. RISK MANAGEMENT POLICIES AND PROCEDURES (CONTINUED)

The Group could also be exposed to prepayment risk, being the risk that the principal may be repaid earlier than anticipated, causing the return on certain investments to be less than expected. The Group, where possible, seeks to mitigate this risk by inclusion of income protection clauses that protect the Group against any prepayment risk on the loans advanced for some of the period of the loan. To date, all loans include income protection clauses in the event of prepayment of the loans for the majority of the loan term. As at the year end date the residual weighted average income protection period was years 0.42 (31 January 2018: 0.53 years).

The Group has loans and receivables with a prepayment option embedded. Given the low probability of exercise and indeterminable exercise date, the value attributed to these embedded derivatives is considered to be £nil (31 January 2018: £nil).

#### Capital management policies and procedures

The Group's capital management objectives are to ensure that the Group will be able to continue as a going concern and to maximise the income and capital return to equity shareholders.

In accordance with the Group's investment policy, the Group's principal use of cash has been to fund investments in the form of loans sourced by the Investment Adviser, as well as on-going operational expenses and payment of dividends and other distributions to shareholders in accordance with the Company's dividend policy.

The Board, with the assistance of the Investment Adviser, monitors and reviews the broad structure of the Company's capital on an on-going basis.

The Company has no externally imposed capital requirements. The Group's capital at the year end comprised equity share capital and reserves.

### 12. SUBSIDIARY

At the date of this Annual Report the Company had one wholly owned subsidiary, ICG-Longbow Senior Debt S.A., registered in Luxembourg.

### 13. RELATED PARTY TRANSACTIONS AND DIRECTORS' REMUNERATION

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the party in making financial or operational decisions.

In the opinion of the Directors, on the basis of shareholdings advised to them, the Company has no immediate or ultimate controlling party.

#### Administrator and Directors

During the year, the Company incurred administration fees in relation to services provided by the Company's Administrator of £163,333 (31 January 2018: £170,000) of which £14,167 (31 January 2018: £30,833) was outstanding at the year end (see Note 8). Mr Huntley acted as a consultant to the Administrator following the sale of the company in November 2017. The purpose of the consultancy was to provide corporate knowledge primarily for the three months following sale to 31 January 2018. No remuneration has been paid and he holds no executive roles or functions. There has been no involvement with the Administrator under this arrangement concerning the Group's activities. The consultancy is not active and will expire in October 2019. During the year Mr Huntley received a Director's fee of £35,000 (31 January 2018: £36,875) of which £8,750 (31 January 2018: £8,750) was outstanding at the year end.

The Company Directors' fees for the year amounted to £196,875 (31 January 2018: £203,333) with outstanding fees of £49,375 due to the Directors at 31 January 2019 (31 January 2018: £48,750) (see Note 8).

#### Investment Adviser

Investment advisory fees for the year amounted to £1,211,925 (31 January 2018: £1,141,405), of which £302,122 (31 January 2018: £865,836) was outstanding at the year end (see Note 8).

### 14. MATERIAL AGREEMENTS

#### Investment Advisory Agreement

The Company and the Investment Adviser have entered into the Investment Advisory Agreement, pursuant to which the Investment Adviser has been given responsibility for the non-discretionary management of the Company's (and any of the Company's subsidiaries) assets (including uninvested cash) in accordance with the Group's investment policies, restrictions and guidelines.

Under the terms of the Investment Advisory Agreement, the Investment Adviser is entitled to a management fee at a rate equivalent to 1% per annum of the Net Asset Value paid quarterly in arrears based on the average Net Asset Value as at the last business day of each month in each relevant quarter.

The Investment Adviser's appointment cannot be terminated by the Company with less than 12 months' notice. The Company may terminate the Investment Advisory Agreement with immediate effect if the Investment Adviser has committed any material, irremediable breach of the Investment Advisory Agreement or has committed a material breach and fails to remedy such breach within 30 days of receiving notice from the Company requiring it to do so; or the Investment Adviser is no longer authorised and regulated by the FCA or is no longer permitted by the FCA to carry on any regulated activity necessary to perform its duties under the Investment Advisory Agreement. The Investment Adviser may terminate their appointment immediately if the Company has committed any material, irremediable breach of the Investment Advisory Agreement or has committed a material breach and fails to remedy such breach within 30 days of receiving notice from the Company requiring it to do so. As disclosed in Note 1, the Investment Adviser, which trades under the name of ICG-Longbow is authorised and regulated by the FCA.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 14. MATERIAL AGREEMENTS (CONTINUED)

#### Administration Agreement

The Administrator has been appointed to provide day to day administration and company secretarial services to the Company, as set out in the Administration Agreement.

Under the terms of the Administration Agreement, the Administrator is entitled to a fixed fee of £90,000 per annum for services such as administration, corporate secretarial services, corporate governance, regulatory compliance and stock exchange continuing obligations provided both to the Company and some limited administration services to Luxco in conjunction with the Luxembourg Administrator. The Administrator will also be entitled to an accounting fee charged on a time spent basis with a minimum fee of £40,000 per annum. Accounting fees for the year amounted to £80,000 (31 January 2018: £80,000) of which £14,167 (31 January 2018: £30,833) was outstanding at the year end.

#### Registrar Agreement

The Registrar has been appointed to provide registration services to the Company and maintain the necessary books and records, as set out in the Registrar Agreement.

Under the terms of the Registrar Agreement, the Registrar is entitled to an annual fee from the Company equal to £1.78 per shareholder per annum or part thereof, subject to a minimum of £7,500 per annum. Other Registrar activities will be charged for in accordance with the Registrar's normal tariff as published from time to time.

### 15. AUDITOR'S REMUNERATION

Audit and non-audit fees payable to the auditors can be analysed as follows:

	1 February 2018 to 31 January 2019 £	1 February 2017 to 31 January 2018 £
Audit fees for the Company	40,000	40,000
Audit fees for the Subsidiary	12,953	12,993
<b>Total Audit fees</b>	<b>52,953</b>	<b>52,993</b>
Professional services in relation to the 2017 Prospectus	-	51,000
Professional services in relation to the 2018 Prospectus	49,000	-
Professional services in relation to the share issue	-	6,000
<b>Total non-audit fees</b>	<b>49,000</b>	<b>57,000</b>

### 16. REVOLVING CREDIT FACILITY

On 1 October 2018, the Group entered into a revolving credit facility with OakNorth Bank plc. This facility is for an amount equal to the lower of £25 million and 209% of the NAV from time to time. The loan matures 36 months from the date of the agreement. Interest accrues on each loan at a rate of LIBOR plus 3.95% per annum. An arrangement fee is payable on first drawing the facility and on the termination date.

This facility will be used towards maintaining and preserving liquidity, making new customer loans, investing in Longbow Private Funds and payment of the fees, costs and expenses due. No drawdowns were made under this facility during the year. The first drawdown was made in February 2019 (see Note 17).

### 17. SUBSEQUENT EVENTS

On 25 February 2019, the Group arranged a new loan commitment of £15.0 million to an affiliate of Bliss Hotels group, with an initial advance of £12.5 million. The Company made its first drawing of £3.5 million on its working capital facility in order to fund this investment.

On 11 March 2019, a further £1.5 million was drawn down on the committed Affinity loan.

On 8 March 2019, the Company declared a dividend of 1.5 pence per ordinary share in respect of the quarter ended 31 January 2019, payable on 12 April 2019.

## GLOSSARY OF CAPITALISED DEFINED TERMS

"**Administrator**" means Eterra International Fund Managers (Guernsey) Limited;

"**Administration Agreement**" means the Administration Agreement dated 23 January 2013 between the Company and the Administrator;

"**Admission**" means the admission of the shares to the premium listing segment of the Official List and to trading on the London Stock Exchange;

"**AEOI**" means Automatic Exchange of Information;

"**Affinity**" means Affinity Global Real Estate;

"**AGM**" or "**Annual General Meeting**" means the general meeting of the Company;

"**AIC**" means the Association of Investment Companies;

"**AIC Code**" means the AIC Code of Corporate Governance;

"**AIC Guide**" means the AIC Corporate Governance Guide for Investment Companies;

"**AIFMD**" means the Alternative Investment Fund Managers Directive;

"**Annual Report**" or "**Annual Report and Consolidated Financial Statements**" means the annual publication of the Group provided to the shareholders to describe their operations and financial conditions, together with their Consolidated Financial Statements;

"**Article 50**" means Article 50 of the Treaty of Lisbon which gives any EU member state the right to quit unilaterally and outlines the procedure for doing so;

"**Articles of Incorporation**" or "**Articles**" means the articles of incorporation of the Company, as amended from time to time;

"**Audit and Operational Risk Committee**" means the Audit and Operational Risk Management Committee, a formal committee of the Board with defined terms of reference;

"**BEPS**" means Base erosion and profit shifting;

"**BMO**" means BMO Real Estate Partners;

"**Board**" or "**Directors**" or "**Board of Directors**" means the directors of the Company from time to time;

"**Brexit**" means the potential departure of the UK from the EU;

"**Carrara**" means Carrara Ground Rents;

"**CBI**" means the Confederation of British Industry;

"**CMBS**" means commercial mortgage-backed security;

"**Code**" or "**Corporate Governance Code**" means the UK Corporate Governance Code 2016 as published by the Financial Reporting Council;

"**Commercial Regional Space**" means Commercial Regional Space Limited;

"**Companies Law**" means the Companies (Guernsey) Law, 2008, (as amended);

"**Company**" means ICG-Longbow Senior Secured UK Property Debt Investments Limited;

"**CPI**" means consumer price index;

"**CRE**" means commercial real estate;

"**CRS**" means Common Reporting Standard;

"**CVA**" means company voluntary arrangement;

"**Disclosure Guidance and Transparency Rules**" or "**DTRs**" means the disclosure guidance published by the FCA and the transparency rules made by the FCA under section 73A of FSMA;

"**ECL**" means expected credit losses;

"**EGM**" means the Extraordinary General Meeting of the Company held on 1 March 2017;

"**EPS**" or "**Earnings per share**" means Earnings per ordinary share of the Company and is expressed in Pounds Sterling;

"**ESG**" means Environmental, Social and Governance;

"**EU**" means the European Union;

"**Euro**" or "**€**" means Euros, the currency introduced at the start of the third stage of European economic and monetary union;

"**FATCA**" means Foreign Account Tax Compliance Act;

"**FCA**" means the UK Financial Conduct Authority (or its successor bodies);

"**Financial Statements**" or "**Consolidated Financial Statements**" means the audited consolidated financial statements of the Group, including the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows, and associated notes;

"**FRC**" means the Financial Reporting Council;

"**FTSE**" means the Financial Times Stock Exchange;

"**FVTOCI**" means Fair Value through Statement of Other Comprehensive Income;

"**GDP**" means gross domestic product;

"**GFSC**" means the Guernsey Financial Services Commission;

"**GIIN**" means Global Intermediary Identification Number;

"**GLA**" means the Greater London Authority;

"**Group**" means the Company, ICG Longbow Senior Secured UK Property Debt Investments Limited together with its wholly owned subsidiary, ICG Longbow Senior Debt S.A (Luxco);

"**GFSC Code**" means the GFSC Finance Sector Code of Corporate Governance;

"**Halcyon**" means Halcyon Ground Rents;

"**Hulbert**" means Hulbert Properties;

"**IAS**" means international accounting standards as issued by the Board of the International Accounting Standards Committee;

"**ICG**" means Intermediate Capital Group PLC;

## GLOSSARY OF CAPITALISED DEFINED TERMS (CONTINUED)

"**ICG Private Funds**" means private real estate debt funds managed or advised by the Investment Adviser or its associates;

"**ICR**" means interest coverage ratio;

"**IFRS**" means the International Financial Reporting Standards, being the principles-based accounting standards, interpretations and the framework by that name issued by the International Accounting Standards Board, as adopted by the EU;

"**Interest Cover Ratio**" or "**ICR**" means the debt/profitability ratio used to determine how easily a company can pay interest on outstanding debt;

"**Interim Report**" means the Company's interim report and unaudited interim condensed financial statements for the period ended 31 July;

"**Investment Grade Tenant**" means a tenant that is rated Aaa to Baa3 by MIS and/or AAA to BBB- by S&P;

"**Investment Adviser**" or "**ICG-Longbow**" means Intermediate Capital Managers Limited or its associates;

"**Investment Advisory Agreement**" means Investment Advisory Agreement dated 31 January 2013 between the Company and the Investment Adviser, as amended and restated on 27 April 2017;

"**Investment Risk Committee**" means the Investment Risk Committee, a formal committee of the Board with defined terms of reference;

"**IPF**" means the International Property Forum;

"**IPO**" means the Company's initial public offering of shares to the public which completed on 5 February 2013;

"**IRAF**" means IRAF Portfolio;

"**ISAE 3402**" means International Standard on Assurance Engagements 3402, "Assurance Reports on Controls at a Service Organisation";

"**ISIN**" means an International Securities Identification Number;

"**Listing Rules**" means the listing rules made by the FCA under section 73A Financial Services and Markets Act 2000;

"**London Stock Exchange**" or "**LSE**" means London Stock Exchange plc;

"**LGD**" means loss given default;

"**LTV**" means Loan to Value ratio;

"**Luxco**" or "**Subsidiary**" means the Company's wholly owned subsidiary, ICG-Longbow Senior Debt S.A.;

"**Luxembourg Administrator**" means Ocorian Services (Luxembourg) S.à r.l being the administrator of Luxco;

"**Main Market**" means the main securities market of the London Stock Exchange;

"**Management Engagement Committee**" means a formal committee of the Board with defined terms of reference;

"**Meadow**" means Meadow Real Estate Fund II;

"**Memorandum**" means the Company's memorandum;

"**MIS**" means Moody's Investors Service Ltd, a credit rating agency registered in accordance with Regulation (EC) No 1060/2009 with effect from 31 October 2011;

"**NAV per share**" means the Net Asset Value per ordinary share divided by the number of Shares in issue (other than shares held in treasury);

"**Net Asset Value**" or "**NAV**" means the value of the assets of the Group less its liabilities, calculated in accordance with the valuation guidelines laid down by the Board, further details of which are set out in the 2017 Prospectus;

"**Nomination Committee**" means a formal committee of the Board with defined terms of reference;

"**Northlands**" means Northlands Portfolio;

"**NMPIs**" means Non-Mainstream Pooled Investments;

"**OBR**" means the Office of Budget Responsibility;

"**OECD**" means The Organisation for Economic Co-operation and Development;

"**Official List**" is the Premium Segment of the FCA's Official List;

"**PD**" means probability of default;

"**Ramada**" means Ramada Gateshead;

"**RCF**" means Revolving Credit Facility;

"**Registrar**" means Link Asset Services (Guernsey) Limited (formerly Capita Registrars (Guernsey) Limited);

"**Registrar Agreement**" means the Registrar Agreement dated 31 January 2013 between the Company and the Registrar;

"**Schedule of Matters**" means the Schedule of Matters Reserved for the Board, adopted 23 January 2013;

"**S&P**" means Standard & Poor's Credit Market Services Europe Limited, a credit rating agency registered in accordance with Regulation (EC) No 1060/2009 with effect from 31 October 2011;

"**SPV**" means special purpose vehicle;

"**Treaty of Lisbon**" means an international agreement that amends the two treaties which form the constitutional basis of the EU;

"**UK**" or "**United Kingdom**" means the United Kingdom of Great Britain and Northern Ireland;

"**US**" or "**United States**" means the United States of America, its territories and possessions;

"**2017 Placing Programme**" means the placing programme in connection with the 2017 Prospectus published in April 2017;

"**2017 Prospectus**" means the prospectus published in April 2017 by the Company in connection with the 2017 Placing Programme; and

"**£**" or "**Pounds Sterling**" means British pound sterling and "**pence**" means British pence.

## DIRECTORS AND GENERAL INFORMATION

### Board of Directors

Jack Perry (*Chairman*)  
Stuart Beevor  
Patrick Firth  
Mark Huntley  
Paul Meader

### Audit and Operational Risk Committee

Patrick Firth (*Chairman*)  
Stuart Beevor  
Paul Meader

### Investment Risk Committee

Paul Meader (*Chairman*)  
Stuart Beevor  
James Christie (Retired 7 March 2019)  
Mark Huntley  
David Mortimer  
Patrick Firth (Appointed 7 March 2019)

### Management Engagement Committee

Jack Perry (*Chairman*)  
Patrick Firth  
Paul Meader

### Nomination Committee

Jack Perry (*Chairman*)  
Stuart Beevor  
Patrick Firth  
Mark Huntley  
Paul Meader

### Investment Adviser

Intermediate Capital Managers Limited  
Juxon House  
100 St Paul's Churchyard  
London  
United Kingdom  
EC4M 8BU

### Registered office

Heritage Hall  
PO Box 225  
Le Marchant Street  
St Peter Port  
Guernsey  
GY1 4HY

*Effective from 29 April 2019*

Estera International Fund Managers  
(Guernsey) Limited  
Floor 2  
Trafalgar Court  
Les Banques  
St Peter Port  
Guernsey  
GY1 4LY

### Independent Auditor

Deloitte LLP  
PO Box 137  
Regency Court  
Glategny Esplanade  
St. Peter Port  
Guernsey  
GY1 3HW

### Guernsey Administrator and Company Secretary

Estera International Fund Managers  
(Guernsey) Limited  
Heritage Hall  
PO Box 225  
Le Marchant Street  
St. Peter Port  
Guernsey  
GY1 4HY

*Effective from 29 April 2019*

Estera International Fund Managers  
(Guernsey) Limited  
Floor 2  
Trafalgar Court  
Les Banques  
St Peter Port  
Guernsey  
GY1 4LY

### Luxembourg Administrator

Ocorian Services (Luxembourg)  
S.à r.l  
6c Rue Gabriel Lippmann  
Munsbach  
Luxembourg  
L-5365

### Registrar

Link Asset Services (Guernsey) Limited  
Mont Crevett House  
Bulwer Avenue  
St Sampson  
Guernsey  
GY2 4LH

### Corporate Broker and Financial Adviser

Cenkos Securities plc  
6-8 Tokenhouse Yard  
London  
United Kingdom  
EC2R 7AS

### Identifiers

**GIIN:** 6IG8VS.99999.SL.831  
**ISIN:** GG00B8C23S81  
**Sedol:** B8C23S8  
**Ticker:** LBOW  
**Website:** www.lbow.co.uk

### English Solicitors to the Company

Gowlings WLG (UK) LLP  
4 More London Riverside  
London  
United Kingdom  
SE1 2AU

### Guernsey Advocates to the Company

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

### Bankers

ABN AMRO (Guernsey) Limited  
Martello Court  
Admiral Park  
St Peter Port  
Guernsey  
GY1 3QJ

Barclays Bank plc  
6-8 High Street  
St Peter Port  
Guernsey  
GY1 3BE

Lloyds Bank International Limited  
PO Box 136  
Sarnia House  
Le Truchot  
St Peter Port  
Guernsey  
GY1 4EN

The Royal Bank of Scotland International  
Royal Bank Place  
1 Glategny Esplanade  
St Peter Port  
Guernsey  
GY1 4BQ

## CAUTIONARY STATEMENT

The Chairman's Statement and Investment Adviser's Report have been prepared solely to provide additional information for shareholders to assess the Company's strategies and the potential for those strategies to succeed. These should not be relied on by any other party or for any other purpose.

The Chairman's Statement and Investment Adviser's Report may include statements that are, or may be deemed to be, "forward-looking statements". These forward-looking statements can be identified by the use of forward-looking terminology, including the terms "believes", "estimates", "anticipates", "expects", "intends", "may", "will" or "should" or, in each case, their negative or other variations or comparable terminology.

These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this document and include statements regarding the intentions, beliefs or current expectations of the Directors and the Investment Adviser, concerning, amongst other things, the investment objectives and investment policy, financing strategies, investment performance, results of operations, financial condition, liquidity, prospects, and distribution policy of the Company and the markets in which it invests.

By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Forward-looking statements are not guarantees of future performance.

The Company's actual investment performance, results of operations, financial condition, liquidity, distribution policy and the development of its financing strategies may differ materially from the impression created by the forward-looking statements contained in this document.

Subject to their legal and regulatory obligations, the Directors and the Investment Adviser expressly disclaim any obligations to update or revise any forward-looking statement contained herein to reflect any change in expectations with regard thereto or any change in events, conditions or circumstances on which any statement is based.

FOR YOUR **NOTES**



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