

ICG LONGBOW



ICG-Longbow Senior Secured UK Property Debt Investments Limited

Annual Report and Consolidated
Financial Statements

For the year ended 31 January 2020

Company Number: 55917

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FINANCIAL HIGHLIGHTS

FOR THE YEAR ENDED 31 JANUARY 2020

Portfolio

<p>Committed in ten loans as at 31 January 2020</p> <p>£128.6 million⁽¹⁾</p>	<p>Invested in ten loans as at 6 May 2020</p> <p>£105.6 million</p>	<p>Weighted average loan coupon⁽²⁾</p> <p>7.51%</p> <p>(2019: 6.23%)</p>	<p>Weighted average loan maturity⁽²⁾</p> <p>1.85 years</p> <p>(2019: 0.96 years)</p>	<p>Weighted average loan to value ratio⁽²⁾</p> <p>65.8%</p> <p>(2019: 62.2%)</p>
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Performance

<p>Earnings Per Share</p> <p>5.04 pence</p> <p>(2019: 4.36 pence)</p>	<p>Total Income Per Share⁽²⁾</p> <p>7.01 pence</p> <p>(2019: 6.30 pence)</p>	<p>NAV Per Share⁽²⁾</p> <p>98.2 pence</p> <p>(2019: 99.16 pence)</p>	<p>Dividend per Share⁽²⁾</p> <p>6.00 pence</p> <p>(2019: 6.00 pence)</p>	<p>Shareholder Total Return since IPO⁽²⁾</p> <p>44.3%</p> <p>(2019: 35.4%)</p>
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⁽¹⁾ The difference between this amount and principal advanced to date of £120,769,516 as disclosed in note 5, represents outstanding amounts to be drawn by borrowers under existing facility agreements.

⁽²⁾ These are Alternative Performance Measures, refer to page 64 for details.

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

- Total income excluding prepayment fees of £8.48 million (31 January 2019: £7.64 million).
- Profit after tax of £6.11 million for the year ended 31 January 2020 (31 January 2019: £5.26 million)
- Earnings per share of 5.04 pence (31 January 2019: 4.36 pence).
- NAV of £119.12 million as at 31 January 2020 (31 January 2019: £120.28 million).
- Total dividends paid or declared for the year ended 31 January 2020 of 6.00 pence per share (31 January 2019: 6.00 pence per share).

DIVIDEND

- Total dividends paid or declared for the year ended 31 January 2020 of 6.00 pence per share (31 January 2019: 6.00 pence per share), made up as follows:
 - Interim dividend of 1.5 pence per share paid in respect of quarter ended 30 April 2019
 - Interim dividend of 1.5 pence per share paid in respect of quarter ended 31 July 2019
 - Interim dividend of 1.5 pence per share paid in respect of quarter ended 31 October 2019
 - Interim dividend of 1.5 pence per share paid in respect of quarter ended 31 January 2020

INVESTMENT PORTFOLIO

- As at 31 January 2020, the Group's investment portfolio comprised ten loans with an aggregate principal balance of £120.77 million, representing 101.39% of the shareholders' equity (31 January 2019: 9 loans with aggregate principal balance of £107.22 million, representing 89.14% of the shareholders' equity).
- The weighted average coupon on drawn capital was 7.51% (31 January 2019: 6.23%).
- The weighted average IRR on new investments was 9.4%.
- The portfolio weighted average LTV was 65.8% (31 January 2019: 62.2%), reflecting changes to the composition of the loan portfolio.
- The portfolio weighted average residual term was 1.85 years, of which, on average, 1.01 years remains income protected (31 January 2019: residual term 0.96 years, income protected term 0.42 years).
- As a result of new investment activity and redemptions after the financial year end, the Group's portfolio as at 6 May 2020 comprises ten loans with an aggregate principal balance of £106 million.
- The portfolio weighted average LTV as at 6 May 2020 is 68.2%, the weighted average residual loan term is 2.06 years, and the weighted average loan coupon is 7.48%.
- Despite the unprecedented market conditions post year end as a result of Covid-19, the Group's borrowers report that rent collection has generally been robust and sufficient to make interest payments. The Directors do not consider there to have been any defaults or incurred loss events on loan balances as at 6 May 2020.
- As at 6 May 2020, the Group has £nil outstanding on its revolving credit facility.

CHAIRMAN'S STATEMENT



JACK PERRY CHAIRMAN

“A well secured portfolio with strong available liquidity”

INTRODUCTION

On behalf of the Board, it is my pleasure to present the seventh Annual Report for the Group, for the year ended 31 January 2020.

Since the Group's year end, a pandemic has been declared following the outbreak and rapid spread of the novel coronavirus ("Covid-19") throughout the world. In response, the UK entered a Government-mandated lockdown on 23 March 2020, for a minimum period of six weeks, closing down substantial parts of the economy including the retail, leisure and hospitality sectors in particular. While the Government has put in place an unprecedented economic support package to lessen the impact on businesses and individuals, the duration and the full impact of the lockdown and longer term restrictions is unknown at the date of this report.

The Board and the Investment Adviser have considered the potential impact of Covid-19 on the Group and the portfolio and ran various stress tests as discussed in the Viability Statement on page 20.

However, the Board is satisfied the Group is entering this period of great uncertainty in a strong financial position, with ample cash liquidity, no debt and a well-diversified portfolio of first ranking mortgage loans which carry a weighted average LTV ratio of 68.2% as at 6 May 2020.

The Directors consider that any decisions made in response to the impact of Covid-19 are non-adjusting events that arose after the reporting date. Except where indicated, the commentary in this Annual Report relates to the period ending 31 January 2020.

Given the challenging economic and political backdrop in the UK during 2019, the Board was pleased with the Group's performance with a marked improvement in profitability and full dividend cover restored. The investment portfolio was refreshed and grew modestly, as the exit of legacy loans and reinvestment of capital into more remunerative and longer-dated loans allowed the Group to grow revenues and move to what provides, on a pro forma basis, a fully covered dividend with the opportunity for some medium-term NAV growth.

Total income for the financial year to 31 January 2020 was £8.5 million (£7.6 million for year to 31 January 2019) producing earnings per share, after costs, of 5.04 pence (2019: 4.36 pence). This

increase reflects the strength of returns generated from the new investments concluded during the year, combined with reinvestment or repricing of certain of the Group's legacy loans which previously carried lower coupon rates.

PORTFOLIO

At 31 January 2020, the portfolio comprised ten loans, of which four represented new transactions completed during the reporting period. These new transactions, totalling circa £58 million of commitments, carry a weighted average underwritten IRR of 9.4% and demonstrate the Group's ability to continue to secure high quality and remunerative investments for shareholders.

During the year the Board considered an investment in the most recent ICG-Longbow private fund. However given the drawdown profile and duration of that fund compared to direct investment opportunities at the time, it was felt the direct investment opportunities offered shareholders a superior risk return profile and a more balanced portfolio overall. As such no fund investment was concluded.

The Group made periodic drawdowns on its revolving credit facility, of up to £10 million during the year (of which £5.2 million was outstanding at the year-end), which allowed the Group to commit to new investments and structure loans with follow-on tranches, in the absence of loan redemptions or equity fundraising. Over the year this minimised cash drag and was modestly accretive to shareholders.

The weighted average maturity of the portfolio at year end was 1.85 years, albeit the duration of new loans completed during the period, and after the year end at 3.7 years on a weighted average basis, lays the foundations for income generation and dividend sustainability in the longer term.

Following year end, the Group completed one new loan, with an overall funding commitment of £7.8 million, secured by an industrial property in the North West, while receiving prepayment of the Meadow loan in the amount of £21.5 million following a sale of the underlying property. The latter was accompanied by exit and prepayment fees of £0.7 million and in the Board's view, supports the Group's strategy of extending strongly performing loans where possible, in order to secure refreshed coupon protection periods and benefit from the corresponding prepayment fees if redeemed early, as in this case.

CHAIRMAN'S STATEMENT (CONTINUED)

PORTFOLIO (CONTINUED)

While concluding a robust level of investment, the Group was highly focused on maintaining underwriting standards during what at times was a challenging market in which to lend. The Investment Adviser has continued to steer clear of the troubled shopping centre market as it sought to avoid exposing shareholders to the ongoing uncertainties facing that sector. Although two investments saw challenges during the period, with the BMO loan reaching the end of its contractual term and the Quattro loan falling behind on its interest payments, in each of these cases there is line of sight to matters being regularised and the Board does not believe any shareholder capital is at risk.

DIVIDEND

As highlighted in our previous report, the Company has in prior periods supplemented the earnings generated from the portfolio with the release of historic profits in order to maintain its dividend. When these retained profits were fully utilised, the Board elected to continue to maintain the 1.50 pence per share quarterly dividend by supplementing ongoing earnings with payments from capital. The dividend paid from capital amounted to 0.96 pence during the year.

With all legacy lower-yielding loans having now run off and the portfolio consisting exclusively of higher returning and accretive investments, the dividend is now fully covered on a pro forma basis and, subject to the impacts of Covid-19, the Board anticipates the dividend will remain fully covered from profits in the near term, with the additional prospect of some medium-term NAV growth in line with the Company's investment objectives.

GOVERNANCE AND MANAGEMENT

During the year, the Board paid close attention to the updated recommendations in the AIC Code of Corporate Governance, published in February 2019.

Additionally, the Board spent considerable time this year on succession planning given all of the Directors have been in place since November 2012. The Board has an agreed plan in place for the orderly retirement of existing Directors and to provide for the regular refreshment of skills and talent, alongside the need to improve diversity. This is considered further in the Corporate Governance Report on pages 25 to 32.

POST YEAR END TRADING

Shareholders will be interested in the Group's trading experience and in particular an update on rent and interest

collection across its portfolio during the first quarter of the new financial year.

The majority of the Group's investments are secured by properties or portfolios backed by highly diversified cashflows from commercial and residential tenants. Across these investments, and despite the unprecedented market conditions, the Group's borrowers as of 6 May 2020 report that rent collection for these properties has generally been robust and, as a result, interest payments have been made in full or (in one case where payment is not yet due) sufficient rents have been collected to make the interest payment.

Three of the investments are secured by operational assets or are in sectors which have been adversely affected by the ongoing UK lockdown. These investments account for approximately 45% of quarterly interest payments in aggregate. In these cases, the Group as a responsible lender has chosen to either defer or capitalise the interest payments due in order to assist the underlying borrowers with working capital management during the lockdown period. The amounts do not materially affect portfolio LTV or expected returns. The Investment Adviser has conducted additional robust Covid-19 stress testing and has line of sight to resolution of these arrears in each case. The Group has a satisfactory equity cushion on all of its investments and does not expect any shortfall in either total interests during the term of each loan or to any capital repayments by loan maturity.

OUTLOOK

Following year end, the Group completed a new £7.8 million commitment secured by an industrial property and drew down a further £2.9 million on committed capital expenditure facilities. The repayment of the Meadow loan, together with exit and prepayment fees, allows for reinvestment, on a suitably conservative basis, into longer term loans which we expect will be accretive to shareholders and again add further duration to the loan profile.

As a consequence of the global Covid-19 pandemic, economic forecasts for 2020 are at the time of writing gyrating wildly almost on a daily basis with no clear consensus on the extent of the negative impact on UK GDP for 2020 or the speed of recovery. It is clear that certain sectors such as the retail, travel and leisure industries will be disproportionately impacted. Others such as healthcare, distribution and IT productivity tools may prove to be highly resilient. Based on our understanding of the performance of our borrowers and the industries in which they operate we believe our portfolio of

assets remains well secured with an adequate margin of equity to withstand the current economic downturn and the worst sector-specific effects arising from the health emergency.

During the year, several shareholders expressed eagerness to see the Company grow, albeit noting the challenging fundraising environment given political and economic uncertainty experienced during the past financial year before the Covid-19 outbreak reached the UK shores. Obviously, the Board's primary focus now has shifted to the protection of capital and the maintenance of current revenues.

While the Company's shares returned to a premium at year end, the market disruption caused by Covid-19 has led to the shares trading at a discount to NAV for a prolonged period, which is likely to fetter the opportunity to undertake further share issuance in the near to medium term. While the Board and Investment Adviser continue to share an ambition for growth, should new issuance not be possible the Board will continue to seek to manage the Company in the most effective manner for shareholders as a whole.

The Group's liquidity position remains strong, and as of 6 May 2020 the Group has cash of approximately £15 million and undrawn credit facilities of £25 million, giving total available liquidity of approximately £40 million. The Investment Adviser has seen a noticeable increase in pipeline enquiries over the past two weeks, and on a cautious basis is continuing to explore attractive new lending opportunities in line with the Group's investment parameters.

The Board continues to believe the Company represents an attractive investment opportunity for shareholders, providing a highly defensive and stable return at levels significantly above the expected performance of direct property investment.



JACK PERRY
Chairman

6 May 2020

INVESTMENT ADVISER'S REPORT

The Investment Adviser's Report refers to the performance of the loans and the portfolio for the year to 31 January 2020, and the general market conditions prevailing at that date and prior to the UK Covid-19 lockdown. The Investment Adviser continues to work closely with the Board to ascertain the immediate and consequential impacts of the UK lockdown. Whilst the long-term effects on the UK economy and commercial property sectors will remain unclear until after the UK's exit strategy is revealed, any forward-looking statements in this report reflect the latest information available as at 6 May 2020.

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 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 2020	
Share price (pence per share):	99.00
NAV (pence per share) ⁽¹⁾ :	98.20
Premium/(Discount) ⁽¹⁾ :	0.81%
Approved dividend (pence per share) ⁽²⁾ :	1.5
Dividend payment date ⁽²⁾ :	1 May 2020

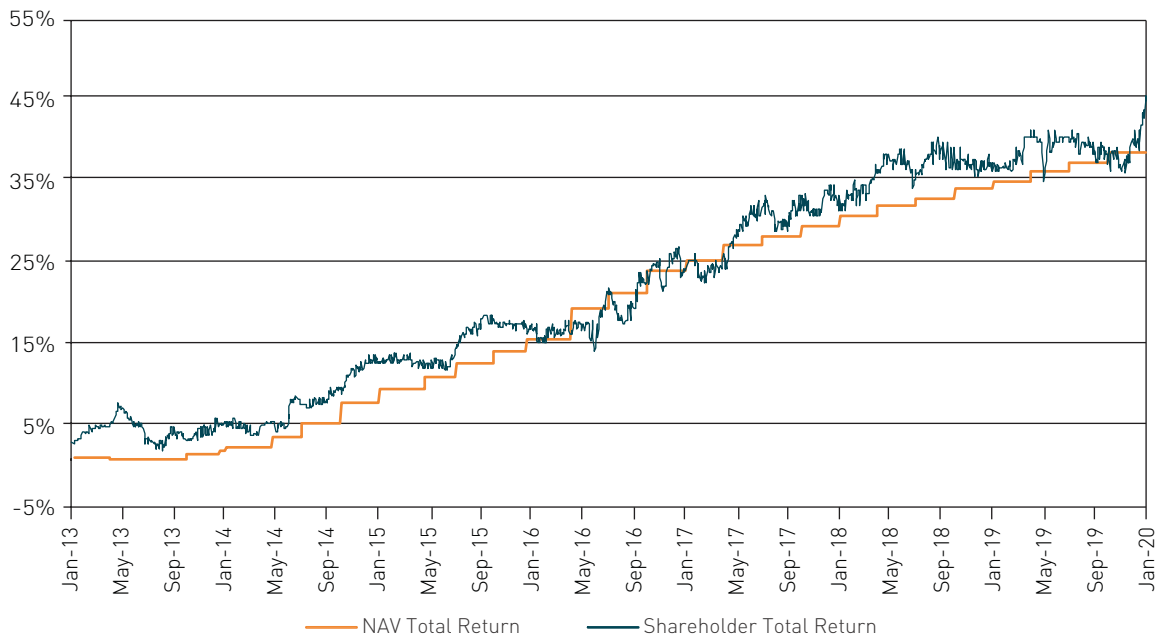
Key portfolio statistics at 31 January 2020	
Number of investments:	10
Percentage capital invested ⁽¹⁾⁽³⁾ :	101.4%
Weighted avg. investment coupon ⁽¹⁾ :	7.51%
Weighted avg. LTV ⁽¹⁾ :	66.4%

⁽¹⁾ These are Alternative Performance Measures, refer to page 64 for details.

⁽²⁾ For the Quarter ended 31 January 2020.

⁽³⁾ 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 2020)⁽¹⁾



⁽¹⁾ Reduction in NAV in April 2017 due to a declaration of 2.25 pence per share special dividend

INVESTMENT ADVISER'S REPORT (CONTINUED)

SUMMARY

At 31 January 2020, the investment portfolio comprised ten loans, following a period of transition in which the legacy Ramada Gateshead and Commercial Regional Space loans repaid, whilst £46 million of new commitments were made across the Southport, RoyaleLife and LBS loans. Additionally, the Company's longstanding Northlands loan was refinanced onto a new three-year term, with the £12.5 million commitment taking total new transactions to £58 million over the period.

The weighted average loan to value ratio increased to 65.8% (31 January 2019: 62.2%) reflecting these changes to the portfolio composition, which remains comfortably within the Company's investment parameters.

Following the year end, the Group received repayment of the £21.5 million Meadow loan, following completion of the sponsor's business plan and a sale of the underlying property. The proceeds were partially reinvested into a new £7.8 million loan commitment secured by an industrial estate in the North West, which carries an initial LTV ratio of 60.3%. The new loan carries a three-year term, and is accretive to shareholders benefiting from a minimum contractual return.

PORTFOLIO

Portfolio statistics	31 January 2020	31 January 2019
Number of loan investments	10	9
Aggregate principal advanced	£120,769,516	£107,221,546
Weighted average LTV	65.8%	62.2%
Weighted average interest coupon	7.51%	6.23%
Weighted average unexpired loan term	1.85 years	0.96 years
Weighted average unexpired interest income protection	1.01 years	0.42 years
Cash held	£3,383,841	£12,370,129
Drawings on Working Capital Facility	£5,200,000	£0

Following these changes, the Group's portfolio totals ten investments with an aggregate committed balance of £115.1 million, of which £105.6 million is drawn. The weighted average LTV is 68.2%, with a weighted average interest coupon of 7.48% and weighted average loan maturity of 2.1 years.

GROUP PERFORMANCE

The Group's performance saw improvement in 2019, as lower-yielding legacy loans, in particular the Commercial Regional Space investment, were repaid and the proceeds reinvested in higher returning opportunities. The Company's working capital facility was used judiciously, minimising cash drag and allowing the Group to enter into forward-dated and follow-on funding commitments to grow the portfolio.

As referenced below, during the year some operational challenges were seen in the Quattro and BMO loans albeit the difficulties are being rectified and we continue to believe the portfolio is well secured and, other than the as yet unknown impacts of Covid-19, performing in line with expectations.



LBS, Post Refurbishment

INVESTMENT ADVISER'S REPORT (CONTINUED)

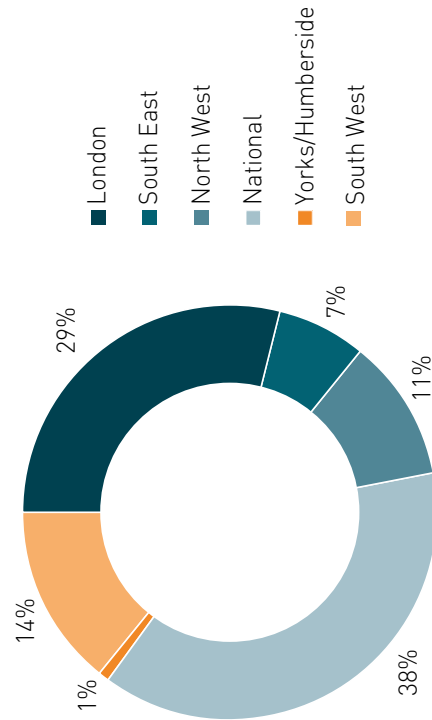
INVESTMENT PORTFOLIO AS AT 31 JANUARY 2020

Project	Region	Sector	Term start	Unexp term (yrs)	Day 1 balance (£m)	Day 1 LTV (%)	Balance outstanding (£m)	Balance committed (£m)	Current LTV (%)
Meadow	London	Residential	Sep-13	0.50	18.07	65.0	21.50	-	60.4
Halcyon ⁽¹⁾	National	Industrial/distribution	Dec-13	0.00	8.60	64.8	5.73	-	65.2
Carrara ⁽¹⁾	Yorks/Humb	Office	Dec-13	0.00	1.30	65.0	1.30	-	65.0
BMO	National	Mixed use	Jan-17	0.00	16.00	55.4	15.79	-	51.5
Quattro	South East	Mixed use	Oct-17	0.96	9.00	83.7	9.00	-	80.6
Affinity	South West	Office	Mar-18	2.29	14.20	67.3	16.70	-	66.0
Southport	North West	Hotel	Feb-19	3.20	12.50	59.5	13.77	1.23	65.6
Northlands	London	Mixed use	Aug-19	2.70	9.00	55.3	9.24	3.26	56.8
RoyaleLife	National	Residential	Sept-19	3.71	20.27	74.3	22.46	2.14	76.9
LBS	London	Office	Oct-19	2.70	4.92	69.3	5.27	1.23	74.2
Total/weighted average				1.86	113.86	65.7	120.77⁽²⁾	7.86	65.8

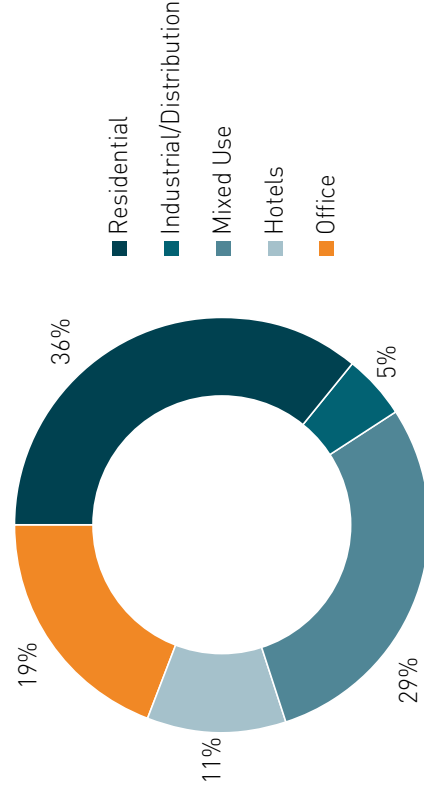
⁽¹⁾ Loan was extended post period end to December 2020

⁽²⁾ Totals vary due to roundings

Regional Distribution by Loan Amount



Sector Distribution by Loan Amount



INVESTMENT ADVISER'S REPORT (CONTINUED)

ECONOMY AND FINANCIAL MARKET UPDATE

Whilst UK GDP data was unexciting, with annualised growth during 2019 of only 1.1% (and nil growth in Q4 2019 given the Brexit and election uncertainty), this sluggish result should be seen in the context of weak performance by our Eurozone peers. Annualised French GDP growth was recorded at only 0.8% in 2019, Germany continued to struggle (+0.5% in 2019), and Italian GDP flatlined (0.0% in 2019).

Following the election of a Conservative Government in December 2019 with a majority ahead of consensus expectations, the UK left the EU on 31 January 2020. Whilst considerable uncertainty remains about the nature of the future trading relationship, both anecdotal evidence and flash data in January and February pointed to an overall improvement in business and consumer confidence following the election outcome, with the prospect of (at least) five years of what is widely expected to be a pro-business administration, and with a Commons majority in place to deliver its agenda. This initial 'Boris Bounce' has been firmly overtaken by events.

From late February 2020 onwards, and in particular since early March, markets became increasingly wary and volatile as a result of the outbreak of Covid-19 in China and its subsequent global spread. The actions of government in response to the continuing effects of Covid-19 have rendered most economic forecasts redundant. Economic forecasts are being regularly updated with increasingly bearish outlooks. A severe recession looks certain and, with no precedent, commentators are increasingly focused on the timing and nature of the subsequent recovery.

OCCUPATIONAL DEMAND/SUPPLY OFFICES

In the London office markets, take-up in 2019 outperformed expectations according to Savills, with take-up across the City and West End of 11.1 million sq ft overall, some 13% down on 2018 but 7% above the 10-year average. In a year with two Brexit block dates and a General Election, Savills believes this demonstrates the strength and resilience of the market. The general strength of demand in the London office market has seen the vacancy rate remain at low levels by historic standards, at 4.8% at the end of Q4 2019 compared to the 10-year average of 5.7%.

Whilst the headline demand and supply statistics are positive, a note of caution is that serviced office providers accounted for 23% of City office take-up (1.5 million sq ft) during 2019. The sustainability of this business model is under increasing scrutiny following the (effective) failure of WeWork and more recently the effects of Covid-19. The true longevity of the model and resulting impact on the traditional office market will only play out in the medium term.

In the regional office market, comprising the top ten cities outside London, CBRE reports that total take-up during 2019 was 6.4 million sq ft, 15% behind 2018 take-up levels although in line with the 5 year average. Availability declined by 9%, largely driven by strong pre-let activity and low levels of new construction. Pre-let activity continues to be very strong with 54% of the 5.9 million sq ft under construction at the end of Q4 2019, already let or under offer. This demonstrated the continued strength of key regional cities.

INDUSTRIAL

The UK industrial market continued to perform strongly in 2019, supported by structural tailwinds, with Cushman & Wakefield reporting FY 2019 take-up at 32.5 million sq ft, representing an 18% decline on the record level seen in 2018 (39.7 million sq ft), but still representing a 5% increase on the ten year average.

The sector has gone through a few years of rapid transformation with occupiers reacting quickly to fast-changing consumer needs, and developers reacting through provision of new space. Availability during 2019 continued to rise as a result (+21% YoY) to 71.8 million sq ft; the by-product of this surge in supply has been a reduction in the rate of rental growth, with Cushman & Wakefield's prime rent index for 100,000 sq ft+ and 50-100,000 sq ft units rising by 1.9% and 2.1% respectively during Q4 2019, compared to 3% during 2018.

RETAIL

The UK retail market stresses are well documented, with the sector continuing to be exposed to structural changes in how consumers shop. Together with wider cost pressures and in particular the increasingly controversial business rates regime, this has created stress on retailers' business models and trading viability, with knock on pressure on demand for stores and rental levels. UK retail sales declined by 1% in the three months to December (per the ONS), and the British Retail Consortium reported that annual sales in 2019 fell for the first time in 25 years.

At the end of 2019, CBRE anticipated this challenging trading environment would lead to a 1.8% fall in rental values during 2020, but in our view for many centres this would be a substantial underestimate. The longer-term outlook for rental values within specific retail sub-sectors (shopping centres, retail parks or high street) will depend to a large extent on a location or scheme adapting to new shopping patterns and whether they provide a sufficient sense of 'destination' and ancillary services to sustain footfall and maintain the attractiveness of the space to shoppers and occupiers.

HOTEL

The UK hotel market, supported by positive macro factors in the UK, has performed strongly over the past few years. However rising operating costs, particularly payroll (where the National Living Wage rose to £8.72 per hour in April 2020 with further increases to £10.50 per hour by 2024), has put pressure on margins and will be a core focus for hotel owners going forwards. Knight Frank report that London and the top-15 UK regional cities have witnessed rising annual payroll costs of 5.1% and 6.3% respectively.

In the UK regions, 2019 revenue performance was modestly positive, albeit with occupancy and average room rate growth softening (RevPAR growth of +1.5% in the period to September 2019). With margins coming under pressure, the strength of management teams and the property fundamentals in terms of location and revenue mix will dictate the extent to which trading volatility can be minimised.

The London market, whilst subject to the same operating pressures as regional assets, continued to demonstrate its impressive resilience delivering RevPAR growth of 3.5% in the period to end September 2019, achieved largely through room rate growth of 4.3%, whilst occupancy has softened modestly (by 0.6%). London's position as a global 'hub' for tourists and businesses no doubt assisted, together with the declining value of the pound. London occupancy levels at 81.4% were amongst the highest in Europe.

PROPERTY INVESTMENT MARKET

After a strong performance in 2018 with transaction levels at the second highest for a decade, 2019 was a more challenging year for the UK investment market. Brexit, economic and political worries, along with continuing structural problems in retail, persuaded many investors to postpone decisions and wait for clarity. Almost all sectors saw a fall in activity to below-average levels, with total investment volumes for 2019 of £49.5bn according to Lambert Smith Hampton, a fall of 20% on 2018.

INVESTMENT ADVISER'S REPORT (CONTINUED)

PROPERTY INVESTMENT MARKET (CONTINUED)

Retail, at just under £5.0bn of transactions, recorded its lowest annual volume on record, and shopping centre investment fell below £1.0bn for the first time in 20 years. On a more positive note, the alternatives sector performed strongly in 2019, and is now an established mainstream asset class. According to Lambert Smith Hampton, the 'Living' sector (Student Housing, Hotels and PRS/BTR residential) took a market share of around a third of total transaction volumes in 2019 – more than Industrial and Retail combined. The single largest deal of Q4 2019 was in the healthcare sector – a £1.5bn acquisition of a portfolio of acute care hospitals.

MSCI All Property total returns for 2019 stood at 1.2%, with Retail at -6.8% dragging down overall performance. Negative rental and capital value growth is accelerating, primarily driven by retail but amplified as the level of rental growth slowed in offices, industrial and hotels, which no longer offsets the decline in retail performance.

FINANCE MARKETS

According to Bank of England data, net lending to UK property slowed sharply in Q4 2019 and it is hard to avoid the conclusion that this was election related, given the fourth quarter is often a busy period in finance markets. Net lending for the quarter of £836 million compared to £2.28 billion in Q3 and £2.76 billion in Q2. Whilst debt outstanding to property is at its highest level since 2014, as a share of overall (economy-wide) debt, real estate exposure remains low at 6.9%.

Moving into 2020, data for January and February reported net new lending by banks and building societies of £231 million, a relatively modest level notwithstanding improved confidence following the election outcome. We expect to see Covid-19 weigh heavily on banks' lending appetite for the remainder of 2020, with efforts focused on managing loan books and supporting existing customers rather than growth. Moreover, we anticipate that banks' management and credit committee time will be focused on implementing the Government's lending programmes to SMEs and corporates, as a higher priority than property lending.

During the year we did not see any material changes in lending parameters or pricing, albeit we did observe compression in the pricing of certain types of mezzanine debt over the latter part of 2019, specifically larger loans secured by trophy properties. We would also highlight what we perceive as the ongoing and market-wide discipline in maintaining lending covenants (LTV and ICR/income) with the 'cov-lite' packages now commonly seen in the corporate lending markets not featuring regularly in property lending. Whilst we are aware that many of these covenants have been waived by lenders across the market (on a widespread but temporary basis) owing to the Covid-19 disruption, as and when market conditions normalise they will continue to offer a protection mechanism to lenders.

PORTFOLIO PROFILE AND ACTIVITY

The Group's investment portfolio underwent a positive transformation during the year, with strong investment activity totalling approximately £58 million offsetting two repayments – the £22.4 million Commercial Regional Space loan and the £8.0 million Ramada Gateshead loan – along with the longer term refinancing of the Northlands loan.

The Group's Meadow, Halycon and Carrara loans were all extended during the period allowing shareholders to continue to benefit from these accretive investments, with the additional benefit of further fees and renewed prepayment protection.

The repayment of lower-yielding loans (in particular Commercial Regional Space), and their replacement with higher-returning investments, has led to a significant

improvement in the weighted average loan coupon, which at year end was 7.51% (31 January 2019: 6.23%). Moreover, the newer loans carry meaningful arrangement and exit fees, such that the projected weighted average IRR for loans concluded during the year is circa 9.4%.

Over the reporting period the Group's investments have generally continued to perform in line with business plans, albeit challenges were seen in the Quattro and BMO loans. The former fell behind on interest payments whilst a capital expenditure programme was concluded, whilst the latter did not repay on its scheduled maturity date as the sponsor's refinancing efforts were delayed. In each case there is line of sight to the matter being rectified, and we do not consider any capital to be at risk.

Following year end, in March 2020, the Group advanced a new £7.8 million loan commitment to a vehicle controlled by Seybourne Estates, secured by an industrial estate in Merseyside. The loan is structured on a three-year term, carries an initial LTV ratio of 60.3% and is accretive to shareholders.

Also in March 2020, the Group received repayment of the £21.5 million Meadow loan, following successful completion of the business plan and a sale of the underlying property securing the loan. The repayment was accompanied by exit and prepayment fees totalling approximately £0.7 million.

Following these changes, the portfolio comprises ten loans with a weighted average LTV of 68.2%, and a weighted average coupon rate of 7.48%. The average unexpired loan term at the date of these accounts is 2.06 years.

PORTFOLIO OUTLOOK

As discussed above, in response to the Covid-19 pandemic the UK Government announced extreme measures to slow down the spread of the virus amongst the population. These measures, which were announced on 20th March 2020 and followed by emergency legislation on 24th March, included the closure of all pubs, restaurants, leisure and sports facilities; school closures; restrictions on non-essential travel; and enforced social distancing including in the workplace. At the time of writing these arrangements will remain in place for a minimum period of six weeks, although some European governments are now beginning to ease such restrictions giving a pointer to the UK's potential exit from lockdown. The emergency legislation also gave protections to tenants for non-payment of rents in addition to the economic support packages.

As discussed elsewhere in this report, the full and consequential impacts of Covid-19 are not yet known and cannot be estimated with any certainty given their unprecedented nature, however the Group has compiled a portfolio of sectoral and geographically diverse loans secured by first ranking mortgages on a hold to maturity basis. The Investment Adviser believes the Group's loan portfolio continues to be satisfactorily secured, with a weighted average exposure of 65.8% LTV at year end and a highest individual exposure of 80.6%, and able to withstand the impacts of a short term lockdown of the UK economy as discussed in the Viability Statement on page 20.

Following the repayment of the Group's Meadow loan and the subsequent investment activity, the ongoing transition of the investment portfolio away from its initial legacy investments to a sustainable, diversified and high-quality blend of commercial property loans has essentially been completed. The portfolio investments each carry strong coupons and a mixed maturity profile, and provide the basis for a fully covered dividend and a degree of capital appreciation in the future.

INVESTMENT ADVISER'S REPORT (CONTINUED)

LOAN PORTFOLIO

The review of the loan portfolio refers to the performance of the loans for the year to 31 January 2020. The Investment Adviser continues to work closely with Borrowers to ascertain the immediate and consequential impacts of the UK lockdown on their underlying tenants and business plans. Whilst the long-term effects on the UK economy and commercial property sectors will remain unclear until after the UK's exit strategy is revealed, any forward-looking statements in this report reflect the latest information available as at 6 May 2020.

As set out above, as at 31 January 2020, the Group's portfolio comprised ten loans with an aggregate principal balance outstanding of £120.77 million.

A summary of each of the individual loans as at 31 January 2020 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.

Following the successful execution of the key element of the borrower's business plan with the London Mayor granting planning consent for a major residential-led redevelopment of the site, the property was sold in March 2020 and the loan was repaid in full.

Property profile

Number of properties	1
Property value (£m)	35.6
Property value (£/sq. ft.)	383.0
Property area (sq. ft.)	92,882
Number of tenants	1
Weighted lease length (yrs)	1.2

Debt profile

Day one debt (£m)	18.07
Debt outstanding (£m)	21.50
Original term (yrs)	4.5
Maturity	June 2020
Current LTV (%)	60.4
Loan exposure (£/sq. ft.)	231.2

Halcyon

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

During the loan term, certain assets have been sold or refinanced with the loan being paid down accordingly. Given the continued stable performance, the loan term has been extended to December 2020. However, a repayment of the facility is expected in advance of the scheduled loan maturity.

With the loan being secured by a portfolio of defensive freehold ground rent investments, the security position is considered strong.

Property profile

Number of properties	17
Property value (£m)	8.7
Property value (£/sq. ft.)	33
Property area (sq. ft.)	263,545
Number of tenants	17
Weighted lease length (yrs)	82.4

Debt profile

Day one debt (£m)	8.60
Debt outstanding (£m)	5.73
Original term (yrs)	5.0
Maturity	December 2020
Current LTV (%)	65.2
Loan exposure (£/sq. ft.)	21.8

INVESTMENT ADVISER'S REPORT (CONTINUED)

LOAN PORTFOLIO (CONTINUED)

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 over 80 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.

As with the Halycon loan which has common sponsorship, the stable performance encouraged the Company to extend the loan term to December 2020, albeit a repayment of the facility is expected in advance of the scheduled loan maturity.

Given the Group's senior position in the capital structure against the superior freehold interest in the asset, the security position remains very strong.

Property profile	
Number of properties	1
Property value (£m)	2.0
Property value (£/sq. ft.)	81.7
Property area (sq. ft.)	24,470
Number of tenants	1
Weighted lease length (yrs)	80.9

Debt profile	
Day one debt (£m)	1.30
Debt outstanding (£m)	1.30
Original term (yrs)	5.0
Maturity	December 2020
Current LTV (%)	65.0
Loan exposure (£/sq. ft.)	53.1

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. Sponsorship of the loan has since moved from BMO to Capreon Asset Management.

During the year, the loan was extended to October 2019 and although the Company offered terms to refinance the loan on a longer-term basis, the sponsor did not accept these and is pursuing a separate refinancing strategy. As a result of delays to this refinancing the loan did not repay on its contractual maturity date. The Company has reserved its rights in this respect and is charging default interest.

Property profile	
Number of properties	15
Property value (£m)	30.6
Property value (£/sq. ft.)	96.5
Property area (sq. ft.)	318,036
Number of tenants	51
Weighted lease length (yrs)	8.8

Debt profile	
Day one debt (£m)	16.00
Debt outstanding (£m)	15.79
Original term (yrs)	2.0
Maturity	October 2019
Current LTV (%)	51.5
Loan exposure (£/sq. ft.)	49.7

INVESTMENT ADVISER'S REPORT (CONTINUED)

LOAN PORTFOLIO (CONTINUED)

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 carried an initial LTV ratio of 83.7%, at the top end of the Group's investment parameters, however owing to a valuation increase at one of the properties the current LTV is 80.6%.

During the year, the sponsor fell behind on interest payments on the loan as a value-add capital expenditure programme at the largest asset affected working capital. All rights have been reserved in respect of this default, however the new leases secured as a direct result of this capital expenditure have significantly increased net rental income at portfolio level which will ease cashflow pressures in coming quarters. Moreover, contracts have exchanged with a non-refundable deposit paid for the sale one of the portfolio assets which, if completed, will lead to a significant reduction in capital exposure.

As noted in prior years, the loan is structured with a profit participation component, however no value is currently ascribed to this.

Property profile	
Number of properties	3
Property value (£m)	11.2
Property value (£/sq. ft.)	283
Property area (sq. ft.)	38,038
Number of tenants	7
Weighted lease length (yrs)	12.6

Debt profile	
Day one debt (£m)	9.00
Debt outstanding (£m)	9.00
Original term (yrs)	3.0
Maturity	January 2021
Current LTV (%)	80.6
Loan exposure (£/sq. ft.)	236.6

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. Subsequently, the loan was increased to £16.70 million in support of the borrower's business plan.

The loan is secured by a five-storey office block comprising 114,364 sq. ft., and is currently leased to 21 tenants with a contracted rent of £1.47 million per annum. The refurbishment programme completed during the period, and an increase in value was reported in line with business plan.

Property profile	
Number of properties	1
Property value (£m)	25.3
Property value (£/sq. ft.)	221.2
Property area (sq. ft.)	114,364
Number of tenants	21
Weighted lease length (yrs)	5.4

Debt profile	
Day one debt (£m)	14.20
Debt outstanding (£m)	16.70
Original term (yrs)	4.0
Maturity	May 2022
Current LTV (%)	66.0
Loan exposure (£/sq. ft.)	146.0

INVESTMENT ADVISER'S REPORT (CONTINUED)

LOAN PORTFOLIO (CONTINUED)

Southport

A £15.0 million loan commitment, of which £13.8 million has been drawn, secured by a hotel and leisure complex in Southport, Merseyside. The initial loan to value ratio was 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. During the period, significant progress was made on the rooms renovation works and, following period end, substantially all business plan works across the hotel had been completed.

Following the Covid-19 outbreak, the UK Government mandated the closure of all UK hotels save for those supporting key workers or vulnerable groups. Accordingly the hotel and ancillary leisure units are currently closed for trading and the Company is working closely with the loan Sponsor to preserve asset value and the trading prospects of the business during the period of enforced lockdown.

Property profile	
Number of properties	1
Property value (£m)	21.0
Property value (£/bedroom)	157,894
Property Value (£/sq. ft.)	N/a
Bedrooms	133
Property area (sq. ft.)	N/a

Debt profile	
Day one debt (£m)	12.50
Debt outstanding (£m)	13.77
Original term (yrs)	4.0
Maturity	April 2023
Current LTV (%)	65.6
Loan Exposure (£/bedroom)	103,532

Northlands

This portfolio was originally financed by the Group following its Initial Public Offering and, given the strong and stable performance of this portfolio over a number of years, the Group entered into a full refinancing of the facility during the year. The new loan commitment is £12.5 million, including a capital expenditure facility to support the next phase of the sponsor's business plan. Approximately £9.2 million has been drawn to date.

The loan is secured by a highly diversified mixed-use portfolio of high street retail, office and tenanted residential units located predominantly in London and the South East, with an LTV at period end of 56.8%.

Property profile	
Number of properties	14
Property value (£m)	16.2
Property value (£/sq. ft.)	226.1
Property area (sq. ft.)	129,085
Number of tenants	113
Weighted lease length (yrs)	1.0

Debt profile	
Day one debt (£m)	9.00
Debt outstanding (£m)	9.24
Original term (yrs)	3.0
Maturity	October 2022
Current LTV (%)	56.8
Loan exposure (£/sq. ft.)	71.5

INVESTMENT ADVISER'S REPORT (CONTINUED)

LOAN PORTFOLIO (CONTINUED)

RoyaleLife

On 5 September 2019 the Group entered into a £24.6 million commitment with an affiliate of RoyaleLife, the UK's leading provider of bungalow homes, secured by a portfolio of ten assets in the residential bungalow homes sector.

The facility forms part of a larger four-year, £142.7 million loan originated by the Investment Adviser, and the Group is participating alongside two other funds managed by the Investment Adviser.

The initial loan drawn down was £20.3 million (Group's share), with the balance comprising a capital expenditure commitment in support of the borrower's business plan. Approximately £22.5m had been drawn by period end.

Following Government guidance issued following the Covid-19 outbreak, all of the residential home sales across the portfolio which have exchanged contracts will see their completion dates deferred until lockdown restrictions are eased. The Group is monitoring the effects this may have on the loan cashflows.

Property profile

Number of properties	10
Property value (£m)*	29.2
Number of tenants	n/a
Weighted lease length (yrs)	n/a

* pro rata based on Company's share of total loan

Debt profile

Day one debt (£m)	20.27
Debt outstanding (£m)	22.46
Original term (yrs)	4.0
Maturity	October 2023
Current LTV (%)	76.9

LBS

On 23 September 2019, the Group entered into a £6.5 million loan commitment with a fund advised by LBS Properties, secured by a multi-let office property in Farringdon, London.

The loan carried an initial LTV ratio of 69.0%, and includes a capital expenditure commitment in support of the borrower's business plan which includes a full refurbishment of the property. During the year the sponsor secured full vacant possession of the property, and following period-end, the refurbishment works completed ahead of schedule. The property is now on the market for rent.

Property profile

Number of properties	1
Property value (£m)	7.1
Property value (£/sq. ft.)	702.5
Property area (sq. ft.)	10,107
Number of tenants	0
Weighted lease length (yrs)	0

Debt profile

Day one debt (£m)	4.92
Debt outstanding (£m)	5.27
Original term (yrs)	2.0
Maturity	October 2021
Current LTV (%)	74.2
Loan exposure (£/sq. ft.)	521.3

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.

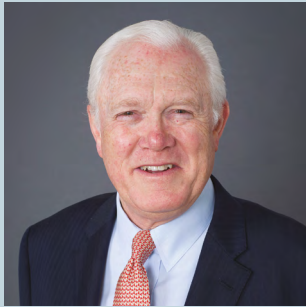
CASH MANAGEMENT POLICY

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 at a general meeting of the Company.

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. He is chairman of European Assets Trust PLC and a non-executive director and chairman of the Audit Committee 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, Remuneration 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, Guernsey Portfolios PCC 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
Independent 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. Mr Huntley is an Associate of the Institute of Financial Services (Trustee Diploma).

COMMITTEE MEMBERSHIP:

Audit and Operational Risk Committee, Investment Risk Committee, Nomination Committee, Remuneration 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 and SQN Asset Finance 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, Remuneration 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 2020. This Report of the Directors should be read together with the Corporate Governance Report on pages 25 to 32.

GENERAL INFORMATION

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 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 2019	8 March 2019	12 April 2019	1.5
Interim dividend	30 April 2019	3 July 2019	26 July 2019	1.5
Interim dividend	31 July 2019	26 September 2019	8 November 2019	1.5
Interim dividend	31 October 2019	13 December 2019	24 January 2020	1.5
Interim dividend	31 January 2020	27 March 2020	1 May 2020	1.5

SHARE CAPITAL

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.

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.

SHAREHOLDINGS OF THE DIRECTORS

The Directors with beneficial interests in the shares of the Company as at 31 January 2020 and 2019 are detailed below:

Director	Ordinary Shares of £1 each held 31 January 2020	% holding at 31 January 2020	Ordinary Shares of £1 each held 31 January 2019	% holding at 31 January 2019
Jack Perry	50,000	0.04	50,000	0.04
Stuart Beevor	30,000	0.02	30,000	0.02
Paul Meader	80,000	0.06	25,000	0.02
Patrick Firth	10,000	0.01	10,000	0.01
Mark Huntley	10,000	0.01	10,000	0.01

With the exception of Paul Meader, who purchased an additional 32,000 shares in March 2020, Directors' beneficial interests in the shares of the Company as at 6 May 2020 are unchanged from those disclosed above.

REPORT OF THE DIRECTORS (CONTINUED)

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.

SUBSTANTIAL SHAREHOLDINGS

As at 31 January 2020, 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	23,040,036	18.99
Canopus	12,276,107	10.12
TDC Pensionskasse	10,653,156	8.78
Premier Miton Investors	10,300,000	8.49
Intermediate Capital Group	10,000,000	8.24
Brewin Dolphin, Stockbrokers	7,538,367	6.21
Brooks Macdonald	7,478,418	6.17

In addition, the Company also provides the same information as at 24 April 2020, being the most current information available.

Shareholder	Shareholding	% holding
Close Brothers Asset Management	23,208,536	19.33
Canopus	12,276,107	10.12
TDC Pensionskasse	10,653,156	8.78
Premier Miton Investors	10,300,000	8.49
Intermediate Capital Group	10,000,000	8.24
Brooks Macdonald	7,494,921	6.18
Brewin Dolphin, Stockbrokers	7,336,634	6.05

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

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 has not purchased any shares for treasury or cancellation during the year or to date. During the year the Board considered if such a purchase of shares would be appropriate and concluded that it would not be in the best interests of shareholders.

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.

REPORT OF THE DIRECTORS (CONTINUED)

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 2020 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 33 to 35.

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 and 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.

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

CHANGE OF CONTROL

There are no agreements that the Company considers significant and to which the Company is party that may affect its control following a takeover bid.

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 fully invested at 31 January 2020, with loans advanced at amortised cost representing 101% of the total equity attributable to the owners of the Company. Following the year end and repayment of the Meadow loan the Company's Revolving Credit Facility

was repaid and at the date of this report the Company has unallocated cash resources in excess of £5.0m. 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.

The Directors have considered the immediate and potential impacts of Covid-19 on the Company as reflected in the Viability Statement below. The Company enters this period of uncertainty in a strong financial position with no debt drawn under the RCF and unallocated cash reserves.

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 2023, which is deemed appropriate given:

- (i) the maturity profile of the Group's current loan portfolio from April 2019 to October 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 remain 2-3 years; and
- (iv) the date of the next scheduled continuation vote being 2022 which the Board presumes will be passed.

The Group's capital has remained substantially invested and can be reinvested under the new investment policy utilising the 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 30 to 32. The Investment Adviser and the Board evaluated the resilience of the Group to the occurrence of these risks in severe yet plausible scenarios as at the date of these financial statements. This evaluation has applied through the following key scenarios to the portfolio of loans prevailing at 31 January 2020 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");

REPORT OF THE DIRECTORS (CONTINUED)

VIABILITY STATEMENT (CONTINUED)

■ 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 further considered the impact of Brexit on the performance of the loan portfolio, and the Group's ability to redeploy capital. Following the UK General Election in December 2019 and the UK's subsequent withdrawal from the European Union on 31 January 2020, the Bank of England's Consensus forecast for 2020 was for the UK economy to show modest growth (1.1% GDP growth), with stable employment and inflation in line with target. This positive outlook was mirrored by an increase in property investment activity following the general election. In its latest Budget announcement, the Government forecast modestly improving GDP growth in the medium term. As such, and given the diverse nature of the underlying portfolio, the Company does not consider that BREXIT and UK trade negotiations will have a materially adverse impact on the economy or the portfolio.

Since the Consensus Forecast was issued, and as caveated in the Budget announcement, a global pandemic has been declared in response to the spread of the Covid-19, with many countries taking dramatic steps to stem the spread of the virus, including closing schools, businesses and even borders. Until very recently the UK remained in the 'containment' stage with very few restrictions being imposed, but the Government has warned of a more widespread impact and took measures within its Budget to support the economy, and small businesses in particular, through this period.

Following the emergency measures taken by the UK Government in March 2020, in response to the rapid spread of Covid-19, which include the shut-down of the hospitality, leisure and non-essential retail sectors and with associated travel restrictions impacting the wider economy, the Investment Adviser has prepared and the Board considered an additional viability analysis, the "Covid-19 Stress Scenario". The principal assumptions underpinning the Covid-19 Stress Scenario are that:

- UK economy will remain in full shut-down for three months,
- there will be a gradual easing of restrictions and business as usual will resume after six months, and
- scheduled maturities and repayments will be delayed until the banking systems recover and business as usual resumes.
- the Company will remain a responsible lender and not seek to enforce security if borrowers breach covenants as a result of the UK lockdown or related legislation.

The impact of this scenario has been considered for each investment with outcomes ranging from a full deferral of interest in the hospitality and non-food retail sectors where recovery will be delayed through to partial payment in the ground rents office and industrial sectors. Business plans linked to constructions, capital expenditure, and sales are assumed to be delayed by at least six months with a gradual recovery commencing in the final quarter of 2020.

Outcomes of the Covid-19 Stress Scenario have also been further stressed by a 20% reduction in interest income in line with the Base Case scenario outlined above.

Having conducted a robust analysis of the above scenarios and stresses applied to each, the Directors remain satisfied that the Group can, in all quarters, meet its liabilities as they fall due and remains viable over the period under consideration to May 2023. In the most severe stress scenarios, whilst the Company would maintain positive cashflow, this would be insufficient to cover a full target dividend until normal, pre Covid-19, levels of business activity resume in the UK, which we assume to be in 2021.



LBS, Reception

REPORT OF THE DIRECTORS (CONTINUED)

DIRECTORS' RESPONSIBILITIES TO STAKEHOLDERS

Section 172 of the UK Companies Act 2006 applies directly to UK domiciled companies. Nonetheless the AIC Code requires that the matters set out in section 172 are reported on by all companies, irrespective of domicile. This requirement does not conflict with Guernsey company law.

Section 172 recognises that directors are responsible for acting in a way that they consider, in good faith, is the most likely to promote the success of the Company for the benefit of its

shareholders as a whole. In doing so, they are also required to consider the broader implications of their decisions and operations on other key stakeholders and their impact on the wider community and the environment. Key decisions are those that are either material to the Company or are significant to any of the Company's key stakeholders. The Company's engagement with key stakeholders and the key decisions that were made or approved by the Directors during the year are described below.

Stakeholder Group	Methods of Engagement	Benefits of Engagements
<p>Shareholders The major investors in the Company's shares are set out on page 19.</p> <p>Continued access to capital is vital to the Company's longer term growth objectives, and therefore, in line with its objectives, the Company seeks to maintain shareholder satisfaction through:</p> <ul style="list-style-type: none"> ■ Capital preservation, and ■ Payment of regular and sustainable dividends 	<p>The Company engages with its shareholders through the issue of regular portfolio updates in the form of RNS announcements and quarterly factsheets.</p> <p>The Company provides in depth commentary on the investment portfolio, corporate governance and corporate outlook in its semi-annual financial statements.</p> <p>In addition, the Company, through its broker and Investment Adviser undertake regular roadshows to meet with existing and prospective investors to solicit their feedback and understand any areas of concern.</p> <p>The Board receives quarterly feedback from its Broker in respect of their investor engagement and investor sentiment.</p>	<p>In the financial year the Company issued:</p> <ul style="list-style-type: none"> ■ 5 Portfolio updates by way of RNS ■ 4 Quarterly fact sheets. <p>Through its Roadshows the Company met with nine major shareholders.</p> <p>None of the Company's investments is impaired or considered to be at risk of loss.</p>
<p>Borrowers The Group's principal clients are its Borrowers to whom the Group provides term finance.</p> <p>The Board believes that the Company and its Investment Adviser have a duty to act fairly in respect of its Borrowers and that strong engagement with Borrowers drives favourable outcomes for stakeholders and Borrowers themselves, and can be a key source of new business through refinance, referral or recommendation.</p>	<p>The Group engages with its Borrowers through its Investment Adviser.</p> <p>The Investment Adviser forms and maintains a close working relationship with Borrowers through the underwriting and execution of new loans, and the ongoing quarterly monitoring of such loans over their respective terms.</p> <p>The Board monitors the timeliness and quality of these engagements through its regular engagement with the Investment Adviser and the Company's Investment Risk Committee.</p> <p>The Investment Adviser works closely with borrowers to support the delivery of their business plans.</p>	<p>During the course of the year the Investment Adviser has undertaken and the Company's IRC has reviewed four monitoring reports.</p> <p>One loan is past due and a second is in breach of covenant. The Investment Adviser is working with both Borrowers to seek a consensual outcome which allows the Borrower to maintain control over its property assets whilst not increasing the risk profile of the Company.</p> <p>There have been no Borrower complaints.</p> <p>Five loans have been subject to additional financing, term extension, or repayment and refinance, which could be viewed as a strong indication of positive Borrower engagement.</p>
<p>Service Providers The Company does not have any direct employees; however it works closely with a number of service providers (the Investment Adviser, Administrators, Company Secretary, brokers and other professional advisers) whose interests are aligned to the success of the Company.</p> <p>The quality and timeliness of their service provision is critical to the success of the Company.</p>	<p>The Company's Management Engagement Committee has identified its key service providers. On an annual basis it undertakes a review of performance based on a questionnaire through which it also seeks feedback.</p> <p>Furthermore, the Board and its sub-committees engage regularly with its service providers on a formal and informal basis.</p> <p>The Management Engagement Committee will also regularly review all material contracts for service quality and value.</p>	<p>The Feedback given by the service providers is used to review the Company's policies and procedures to ensure open lines of communication, operational efficiency and appropriate pricing for services provided.</p>

REPORT OF THE DIRECTORS (CONTINUED)

DIRECTORS' RESPONSIBILITIES TO STAKEHOLDERS (CONTINUED)

Stakeholder Group	Methods of Engagement	Benefits of Engagements
<p>Lenders The Company has a three-year Revolving Credit Facility.</p> <p>The Facility provides the Company with a flexible funding line which can be used to finance new investments or working capital and therefore its availability is a key component of the Company's ability to remain fully invested and minimise cash drag.</p>	<p>The Company's engagement with its Bankers is primarily through its Investment Adviser who provides regular reports to the Bank and has an open line of communication in respect of the ongoing operation and maintenance of the Facility.</p> <p>The Investment Adviser provides feedback to the Board and the Investment Risk Committee in terms of actual and planned utilisation of the Facility as well as covenant compliance.</p>	<p>The Facility has continued to operate and remain available throughout the period, and no issues or concerns have been raised by the Bank.</p>
<p>Community & Environment As an Investment Company whose purpose is the provision of, and investment in commercial real estate debt, the Company's direct engagement with the local Community and the Environment is limited.</p> <p>However the Board recognises the role the Company can play in terms of the environment by supporting and guiding Borrowers to find environmentally friendly sustainable solutions in the maintenance of their properties and delivery of their business plan objectives more generally.</p>	<p>As discussed above the Board actively engages with the Company's service providers on a regular basis.</p> <p>Within its Investment Strategy, the environmental and social impact of the properties on which the Company's loans are secured is an important consideration when making new investments.</p>	<p>In the year to 31 January 2020 the Company made four new loans, all of which included substantial capital expenditure facilities, generally to be applied towards the refurbishment of existing properties which has a substantially lower environmental impact than demolition and redevelopment.</p> <p>Such refurbishments generally seek to improve the energy performance of the target properties as well as providing improved working or living environments for their occupiers.</p> <p>The ESG report on page 25 provides further information on the Investment Adviser's approach to this important subject.</p>

KEY DECISIONS

Key decisions are defined as both those that are material to the Group, but also those that are significant to any of our key stakeholder groups as discussed above.

In making the following key decision the Board considered the outcome from its stakeholder engagement as well as the need to maintain a reputation for high standards of business conduct and the need to act fairly between the members of the company:

During the year the Board decided to maintain its quarterly dividend at 1.5pence per share for the period during which the portfolio was being transitioned.

The Board was satisfied, given the Company's investment pipeline, that dividend cover would be restored, and took the decision to maintain its quarterly dividend in light of shareholder feedback obtained through the Investment Adviser's and the Broker's direct engagement with existing and potential shareholders.

FINANCIAL RISK MANAGEMENT POLICIES AND PROCEDURES

Financial Risk Management Policies and Procedures are disclosed in Note 11 on pages 56 to 60.

PRINCIPAL RISKS AND UNCERTAINTIES

Principal Risks and Uncertainties are discussed in the Corporate Governance Report on pages 30 to 32.

SUBSEQUENT EVENTS

Significant subsequent events have been disclosed in Note 19 to the Financial Statements on page 63.

ALTERNATIVE PERFORMANCE MEASURES

The Directors believe that the performance indicators detailed in the Financial Highlights and Financial Summary on pages 1 and 2, which are typical for entities investing in real estate debt, will provide shareholders with sufficient information to assess how effectively the Group is meeting its objectives. The alternative performance measures are described in the table on page 64.

ANNUAL GENERAL MEETING

The AGM of the Company will be held at 2.00pm BST on 25 September 2020 at Floor 2, Trafalgar Court, Les Banques, St Peter Port, Guernsey, GY1 4LY, subject to any alterations brought about by Covid-19. Details of the resolutions to be proposed at the AGM, together with explanations of the AGM arrangements, will appear in the Notice of Meeting to be distributed to shareholders.

Subject to the restrictions in place as a result of Covid-19 it is intended that members of the Board will be in attendance at the AGM and will be available to answer shareholder questions. The Board will keep the arrangements for the AGM under review.

By order of the Board



JACK PERRY
Chairman

6 May 2020

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 ensuring that 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 performance, business model and strategy.

The Directors are also responsible under the AIC Code to promote the success of the Group for the benefit of its members as a whole and in doing so have regard for the needs of wider society and other stakeholders.

As part of the preparation of the Annual Report and Consolidated Financial Statements the Directors have received reports and information from the Company's Administrator and Investment Adviser. The Directors have considered, reviewed and commented upon the Annual Report and Financial Statements throughout the drafting process in order to satisfy itself in respect of the content.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the website (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, is 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

6 May 2020



PATRICK FIRTH
Director

6 May 2020

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.

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 is available on the AIC's website, www.theaic.co.uk.

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 which report against the Corporate Governance Code or AIC Code are deemed to meet the GFSC Code.

The AIC Code 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 provides better information to shareholders.

The Board monitors developments in corporate governance to ensure the Board remains aligned with best practice and has welcomed new recommendations introduced by the AIC in 2019 regarding the Board's culture and values and relationships with key stakeholders.

Throughout the year ended 31 January 2020, 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 Code, 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 34.

ENVIRONMENTAL SOCIAL AND GOVERNANCE REPORT

As an investment company, the Group's activities only have a limited impact on the environment. The Group has no employees and its offices are based in Guernsey and Luxembourg with a majority of the directors based in those locations, thus minimising the need for numerous or lengthy flights to attend Board meetings, with the associated environmental impact.

The Board believes that it is in shareholders' interests to consider environmental, social and governance factors when selecting and retaining investments. The parent of the Investment Adviser is a longstanding signatory to the UN Principles for Responsible Investment and has a fully formalised and embedded Responsible Investing Policy which is applied to all investment decisions. The policy includes influencing on ESG matters through direct engagement, assessment screening and monitoring of each investment opportunity.

The parent of the Investment Adviser has continued throughout the year to develop its ESG policies and procedures, including this year adding a specific climate change policy, and is collaborating across the industry to raise standards and joining the new PRI Investor Reference Group on Corporate Reporting. Its responsible investment policy is available to view at <https://www.icgam.com/strategies/~/media/Files/1/ICGAM-V2/responsible-investing-documents/2019-icg-responsible-investing-policy.pdf>

The Board relies on the Investment Adviser to apply its Responsible Investment Policy and any associated ESG considerations to investments made by the Group. As a lender to rather than direct owner of real estate assets, the Group is generally in a position only to influence rather than control the ESG impacts of its borrowers. However the Board is pleased to note that several of the Group's investments make specific and positive contributions to ESG, including for example via capital expenditure projects supported by the Group's financing facilities which lead to improved environmental and energy performance; or offering positive social benefits such as the provision of residential retirement living.

Moreover, the Board is pleased to note that the parent of the Investment Adviser, Intermediate Capital Group plc, is named as a constituent of the FTSE4Good index. This means that it has been independently assessed according to the FTSE4Good criteria by FTSE Russell (the trading name of FTSE International Limited and Frank Russell Company) 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 practices. The FTSE4Good indices are used by a wide variety of market participants to create and assess responsible investment funds and other products.

CULTURE AND VALUES

The Board recognises that its tone and culture is important and will greatly impact its interactions with shareholders and service providers as well as the development of long-term shareholder value. The importance of sound ethical values and behaviours is crucial to the ability of the Company to achieve its objectives successfully.

The Board individually and collectively seeks to act with diligence, honesty and integrity. It encourages its members to express differences of perspective and to challenge but always in a respectful, open, cooperative and collegiate fashion. The Board encourages diversity of thought and approach and chooses its members with this approach in mind. The governance principles that the Board has adopted are designed to ensure that the Company delivers long term value to its shareholders and treats all shareholders equally. All shareholders are encouraged to have an open dialogue with the Board.

CORPORATE GOVERNANCE REPORT (CONTINUED)

CULTURE AND VALUES (CONTINUED)

The Board recognises that the Company will take investment and other risks in order to achieve its objectives but these risks are monitored and managed and the Company seeks to avoid excessive risk-taking in pursuit of returns. A large part of the Board's activities are centred upon what is necessarily an open and respectful dialogue with the Investment Adviser. The Board believes that it has a very constructive relationship with the Investment Adviser whilst holding them to account and questioning the choices and recommendations made by them.

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 to act 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. All Directors are members of professional bodies and serve on other boards, which ensures that they are kept abreast of the latest technical developments in their areas of expertise. 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 leads the Board and is responsible for its overall effectiveness in directing the Company. The Chairman must be independent and is appointed in accordance with the Company's Articles of Incorporation. In considering the independence of the Chairman, the Board took note of the provisions of the AIC Code relating to independence and has determined that Mr Perry is an independent director.

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. At each meeting the Board follows a formal agenda that covers the business to be discussed. Directors meet regularly with the senior management employed by the Investment Adviser both formally and informally to ensure the Board remains regularly updated on all issues. The Board visits the Investment Adviser, at least annually. This year due to Covid-19 restrictions, the visit to the Investment Adviser has been postponed. The Board also has regular contact with the Administrator, and 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 to enable it to discharge its duties.

The Company has adopted a share dealing code for the Board and will seek to ensure compliance by the Board and relevant personnel of the Investment Adviser and other third party service providers with the terms of the share dealing code.

BOARD TENURE AND RE-ELECTION

All Directors were appointed in November 2012 therefore no member of the Board has served for longer than eight 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.

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 as noted further below.

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 Company in accordance with the policy adopted by the Board and will be put forward for re-election at the forthcoming AGM.

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 remains 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 during 2020 ensuring that the Company complies with the 2019 AIC Code.

CORPORATE GOVERNANCE REPORT (CONTINUED)

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 2019: £50,000). The Chairman of the Audit and Operational Risk Committee is entitled to annual remuneration of £40,000 (31 January 2019: £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 2019: £37,500). The other independent Directors are entitled to annual remuneration of £35,000 (31 January 2019: £35,000).

On 12 December 2019 the Remuneration Committee recommended no change to Directors' fees, therefore Directors' fees will remain at the same level as below for the year ended 31 January 2021.

Director	1 February 2019 to 31 January 2020 £	1 February 2018 to 31 January 2019 £
Jack Perry	50,000	50,000
Patrick Firth	40,000	40,000
Paul Meader	37,500	36,875
Stuart Beevor	35,000	35,000
Mark Huntley	35,000	35,000

The Company Directors' fees for the year amounted to £197,500 (31 January 2019: £196,875) with outstanding fees of £49,375 due to the Directors at 31 January 2020 (31 January 2019: £49,375) (see Note 8).

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

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 should it occur.

The Board's responsibilities for the Annual Report are set out in the Directors' Responsibility Statement on page 24. 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. New Directors will receive an induction on joining the Board and the Board assesses the training needs of Directors on an annual basis.

The Board formally met five times during the year and 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. Representatives of the Investment Adviser attend relevant sections of the Board meetings by invitation and the Directors also liaise with the Investment Adviser whenever required and there is regular contact outside the Board meeting schedule.

CORPORATE GOVERNANCE REPORT (CONTINUED)

DUTIES AND RESPONSIBILITIES (CONTINUED)

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	Remuneration Committee Meeting
	5	4	5	4	1	2	1
Stuart Beevor	5	1	5	4	1	2 ⁽³⁾	1
Patrick Firth ⁽¹⁾	4	4	4	3 ⁽²⁾	1	2	n/a
Mark Huntley	5	4	4 ⁽³⁾⁽⁴⁾	4	1	1 ⁽³⁾	1
Paul Meader	5	3	5	4	1	2	1
Jack Perry	5	2	5 ⁽³⁾	4 ⁽³⁾	1	2	n/a

Footnotes

⁽¹⁾ Absent due to a family bereavement

⁽²⁾ Appointed 7 March 2019

⁽³⁾ As an Observer only

⁽⁴⁾ Appointed 25 March 2020

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.

CONFLICTS OF INTEREST

A Director has a duty to avoid a situation in which he or she has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the interests of the Company. The Board requires Directors to declare all appointments and other situations that could result in a possible conflict of interest and has adopted appropriate procedures to manage and, if appropriate, approve any such conflicts. The Board is satisfied that there is no compromise to the independence of those Directors who have appointments on the boards of, or relationships with, companies outside the Company.

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) 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 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 the Investment Adviser and Administrator whenever necessary, and have access to the services of the Company Secretary.

AUDIT AND OPERATIONAL RISK COMMITTEE

The Audit and Operational Risk Committee is chaired by Mr Firth and also comprises Mr Beevor and Mr Meader, who held office throughout the year, and Mr Huntley who was appointed on 25 March 2020. 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 33 to 35.

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, Mr Firth and Mr Mortimer, a representative of the Investment Adviser. With the exception of Mr Firth who was appointed on 7 March 2019, all committee members held office throughout the year. Mr Christie, a representative of Luxco, retired from the Investment Risk Committee on 7 March 2019. The Investment Risk Committee meets not less than twice a year pursuant to its terms of reference which are available on the Company's website.

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.

CORPORATE GOVERNANCE REPORT (CONTINUED)

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 meets 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 other principal service providers to the Company. The Audit and Operational Risk Committee also report on their relationship with the external auditor.

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 last met on 12 December 2019. 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.

Board Performance Evaluation

In accordance with Provision 26 of the AIC Code, the Board is required to undertake a formal and rigorous evaluation of its performance on an annual basis. The Board believes that annual evaluations are helpful and provide a valuable opportunity for continuous improvement. Such an evaluation of the performance of the Board as whole, the Audit and Operational Risk Committee, the Nomination Committee, the Management Engagement Committee, the Remuneration Committee, individual Directors and the Chairman is carried out under the mandate of the Nomination Committee.

The internal evaluation conducted by the Nomination Committee during the year took the form of self-appraisal questionnaires and discussion to determine effectiveness and performance as well as the Directors' continued independence. The responses were consolidated and anonymised and common themes identified in order for the Nomination Committee to determine key actions and next steps for improving Board and Committee effectiveness and performance.

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.

The Nominations Committee has also reviewed the composition, structure and diversity of the Board, 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 that all Directors should be considered as Independent in accordance with the provisions of the AIC Code and have the time available to discharge their duties effectively.

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

Succession Planning

The Nomination Committee recognises the continuing importance of planning for the future and ensuring that succession plans are in place. To assist with the Board agreed succession plan the Nomination Committee has engaged an executive search consultant, OSA, who have been asked to provide a list of suitable candidates.

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, knowledge and time commitments 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. 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.

REMUNERATION COMMITTEE

The Remuneration Committee is chaired by Mr Huntley and also comprises Mr Beevor and Mr Meader all of whom held office from 12 December 2019 when the Remuneration Committee was formed. The Remuneration Committee is responsible for recommending and monitoring the level and structure of remuneration for all the Directors, including any compensation payments, taking into account the time commitments and responsibilities of Directors and any other factors which it deems necessary, including the recommendations of the AIC Code. The Remuneration Committee meets at least once a year pursuant to its terms of reference and last met on 12 December 2019. During this meeting the Remuneration Committee conducted a review of the level of Directors' fees and recommended to the Board that the Directors' fees should remain unchanged.

INTERNAL CONTROL AND FINANCIAL REPORTING

The Directors acknowledge that they are responsible for establishing and maintaining the Group's and the Company's systems 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;

CORPORATE GOVERNANCE REPORT (CONTINUED)

INTERNAL CONTROL AND FINANCIAL REPORTING (CONTINUED)

- 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 34.

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 Report 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 relevant updates regarding their policies and procedures, 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. This process has been in place for the year under review and up to the date of approval of this Annual Report and Financial Statements. It is reviewed by the Board and is in accordance with the FRC's internal control publication: Guidance on Risk Management, Internal Control and Related Financial and Business Reporting.

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 February 2019. 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.

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.

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. This has been achieved via the Audit and Operational Risk Committee and Investment Risk Committee. The Committees 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, through these committees, 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. This 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 adhered to.

The Board can confirm that it has undertaken a robust assessment of the principal risks facing the Company. In its most recent assessment of risks the Board has considered the particular risks that the Company may face as a result of Covid-19 either directly or indirectly. The risks set out below represent a snapshot of the Company's current principal risk profile. These risks have been ranked considering the magnitude of potential impact, probability and taking into account the effectiveness of existing controls. 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.

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)

PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)

The Directors have identified the following as the key risks faced by the Company as the impact of Covid-19 begins to be felt on the UK and global economies:

Risks relating to Group structure:

Description	Nature of Risk	Potential Impact	Mitigation
Non-payment of interest	<p>Rising corporate insolvencies and working capital challenges may mean some businesses, including tenants of the Company's borrowers, are unwilling or unable to pay rents.</p> <p>Moreover, in the wake of Covid-19 the UK government has announced various measures which remove some of the actions available to a landlord if a tenant fails to pay rent.</p>	<p>Rental income is generally the primary source of income for the Company's borrowers and has a direct link, in most cases, to the borrower's ability to service its debt obligations and pay interest.</p> <p>The Board expects that many tenants will take advantage of the newly-announced changes to the legal arrangements in order to defer or fail to pay rents when due, and retain cashflow to support their businesses. It also expects that some tenants will fail and the borrowers may be unable quickly to replace the lost income.</p> <p>Should a material number of the tenants in the properties securing the Company's investments fail to pay rents, the Company may, consequently, experience a shortfall in receipts of interest over the coming quarters.</p>	<p>The Board and the Investment Adviser have stepped up their monitoring of all the Company's investments and the Investment Adviser is working with its borrowers to understand the potential immediate and medium-term impact of Covid-19 on their rental profile and property business plans, including ability to service interest.</p> <p>Should any shortfall in interest payments be experienced, it is anticipated the outstanding interest will be capitalised and received by the Company at a later date.</p> <p>The Company has entered this period of uncertainty with a strong cash position and no borrowings as of the date of signing these financial statements and, consequently, is well positioned to endure any temporary shortfall of interest and continue to meet its liabilities as they fall due for the foreseeable future.</p>
Fall in collateral values, and accuracy of valuations	<p>Material sections of the UK economy have been temporarily shut down, and market liquidity for real estate assets is likely to be affected.</p> <p>Property values are typically linked to a property's ability to generate cashflows in the form of rental income. The property industry may not therefore be able to accurately value UK commercial real estate.</p>	<p>The unprecedented nature of the pandemic and economic support packages put in place by the UK and other governments mean that the near- and medium-term impacts on property valuations may be difficult to accurately determine.</p> <p>Moreover, the Royal Institution of Chartered Surveyors (RICS) has determined that Covid-19 is a matter which creates material uncertainty in terms of property valuations, and that the industry should only issue new valuations on a suitably qualified basis.</p> <p>The combined effects of the above may impact the Company's ability to accurately determine collateral values and test financial covenants, and to appropriately consider the permanent impairment of any particular investment.</p> <p>Additionally, the Company's borrowers may find it challenging to secure sales or refinancing of the underlying properties, in order to allow for timely repayment of the loans.</p>	<p>The Company invests on a hold to maturity basis and as such its loans are not directly exposed to short-term volatility in the valuation of the underlying real estate on which its loans are secured.</p> <p>Further, the Company currently enjoys a strong balance sheet with a healthy cash surplus and no leverage, and as such the Company has the ability to extend loans where its borrowers are unable to sell or refinance properties due to the market dislocation.</p> <p>The Company's underlying property portfolio is diversified by sector, region and tenant base, and as such is not overly exposed to any one property sector which may be harder hit by, or slower to recover from, the economic impacts of Covid-19.</p>

CORPORATE GOVERNANCE REPORT (CONTINUED)

PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)

Risks relating to Group structure:

Description	Nature of Risk	Potential Impact	Mitigation
Uncertain Economic Outlook	The UK, like other governments around the world, has taken extraordinary and unprecedented measures to insulate the UK economy against the impacts of a forced shut-down across many sectors of commerce.	<p>The economic support announced by the UK Government to date is in excess of 15% of 2019's gross domestic product. The near-and medium-term impacts of these measures in supporting business, maintaining employment and enabling the economy to recover are unknown.</p> <p>The impacts of such uncertainty on the Company are two-fold:</p> <p>a) Likely negative impacts on the existing loan portfolio in terms of interest receipts and property valuations as discussed above; and</p> <p>b) Likely positive impacts on the risk profile and returns achievable in making new investments.</p> <p>Uncertainty in the economic outlook, the depth of recession and recovery path, may make it more challenging for the Company to exercise appropriate judgement in managing existing investments.</p> <p>In periods of heightened economic uncertainty, it is also likely that property transaction volumes will fall making it more difficult for the Company to deploy capital on an appropriate risk-adjusted basis.</p> <p>Further, in times of such uncertainty the Company may not be able to raise new share capital to take advantage of potential new lending opportunities.</p>	<p>The Company has recently completed the repositioning of its loan book, and as such does not expect a material volume of repayments across its current portfolio in the near term.</p> <p>The existing loan book is well diversified with a robust weighted average LTV of 67.9% as at the date of signing these financial statements, which the Board expects to prove generally resilient against the likely impacts of Covid-19, at least in the short term, although the properties securing some investments may take longer to fully recover.</p> <p>As at the date of signing these financial statements, the Company benefits from a strong cash position and access to its revolving credit facility, which will enable the Investment Adviser, acting with due caution, to take advantage of what are expected to be favourable lending conditions as and when the economy begins to recover.</p>

The Company's principal risk factors are fully set out in the Company's 2018 Prospectus, available on the Company's website (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.

In summary, the above risks are mitigated and managed by the Board through continual review, policy setting and updating of the Company's detailed risk matrix 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

6 May 2020



PATRICK FIRTH
Director

6 May 2020

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, who held office throughout the year and Mr Huntley who was appointed on 25 March 2020. 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 the Group's 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 its findings formally 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 the Audit and Operational Risk Committee has the opportunity to meet the external auditor 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 where there has been discussion with the external auditor including the 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 the external auditor and recognises the necessary professional scepticism their role requires.

MEETINGS

During the year ended 31 January 2020, the Audit and Operational Risk Committee met formally on 5 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;

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

MEETINGS (CONTINUED)

- 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 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.

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 focused their work on disclosures required in the Annual Report following new requirements under the AIC Code, emerging risks, environmental, social and governance matters and on subsequent event disclosures which considered the potential impact of Covid-19 on the Group.

The Audit and Operational Risk Committee also focused on continuing to embed IFRS 9 and in particular 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 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 30 to 32 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.

EXTERNAL AUDIT

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

The external auditor is required to rotate the audit partner every five years. The current Deloitte LLP lead audit partner, Mr David Becker, started his tenure in 2020 (in respect of the year ended 31 January 2020) and his current rotation will end with the audit of the 2024 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.

REPORT OF THE AUDIT AND OPERATIONAL RISK COMMITTEE (CONTINUED)

EXTERNAL AUDIT (CONTINUED)

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 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 the external auditor 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;
- the robustness of the auditor in handling key accounting and audit judgements; and
- a summary of the FRC's Audit Quality Review report for Deloitte and discuss the findings with the audit partner to determine if any of the indicators in that report had particular relevance to this year's audit of the Company. Specifically the Audit and Operational Risk Committee discuss the extent of the auditors' challenge of estimates and assumptions in key areas of judgement, including asset valuations and impairment testing and the quality of the firm's audit of revenue.

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 2021.

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.

Subject to the Covid-19 restrictions being lifted, 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

6 May 2020

INDEPENDENT AUDITOR'S REPORT

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

1. OPINION

In our opinion the financial statements of ICG-Longbow Senior Secured UK Property Debt Investments Limited ('the Company') and its subsidiary ('the Group'):

- give a true and fair view of the state of the group's affairs as at 31 January 2020 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 19.

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





2. 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 (the '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.

3. SUMMARY OF OUR AUDIT APPROACH

Key audit matters	<p>The key audit matters that we identified in the current year were:</p> <ul style="list-style-type: none"> ■ the assessment of expected credit losses on loans advanced; and ■ inappropriate recognition of income from loans. <p>Within this report, key audit matters are identified as follows:</p> <ul style="list-style-type: none">  Newly identified  Increased level of risk  Similar level of risk  Decreased level of risk
Materiality	<p>The materiality that we used for the Group Financial Statements in the current year was £2.4 million which was determined as 2% of the Net Asset Value.</p> <p>We also applied a lower materiality threshold of £407,000 based on 5% of income from loans.</p>
Scoping	<p>Our scope provides full scope audit of 100% of the loans advanced, income from loans and net assets of the Group.</p>
Significant changes in our approach	<p>There have been no significant changes in our approach from the prior year.</p>

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

4. CONCLUSIONS RELATING TO GOING CONCERN, PRINCIPAL RISKS AND VIABILITY STATEMENT

4.1. 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 the Covid-19 pandemic and 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.

4.2. 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 30-32 that describe the principal risks, procedures to identify emerging risks, and an explanation of how these are being managed or mitigated;
- the directors' confirmation on page 30 that they have carried out a robust assessment of the principal and emerging risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the directors' explanation on pages 20-21 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.

Going concern is the basis of preparation of the financial statements that assumes an entity will remain in operation for a period of at least 12 months from the date of approval of the financial statements.

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

Viability means the ability of the Group to continue over the time horizon considered appropriate by the directors.

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

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

5. 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.

5.1. The assessment of expected credit losses (ECL) on loans advanced

<p>Key audit matter description</p>	<p>As at 31 January 2020, loans measuring £121.65 million (2019: £108.56 million) are carried at amortised cost less any expected credit losses allowance as disclosed in Note 2 (iv) 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 income from loans.</p> <p>Judgements over the level of any expected credit losses could significantly affect these key performance indicators. The assessment of ECL is considered to be the most critical accounting judgment and estimate made in applying the Group's accounting policies as described in Note 3 to the financial statements. The specific areas of judgement include:</p> <ul style="list-style-type: none"> ■ The determination of the appropriate assumptions underlying ECL analysis; ■ The impact of loan-specific matters and macroeconomic factors that might indicate significant increase in credit risk (SICR), objective evidence of impairment and default on an individual loan or on the entire loan portfolio. Some of the factors include; and <ul style="list-style-type: none"> ■ movement in loan to value and interest cover ratios since date of initial recognition (i.e. deterioration in assets security); ■ covenant breaches; ■ delinquency in contractual payments including unexpected modifications to contractual cash flows; ■ borrower's actual performance in relation to business plan; ■ changes to the contractual documentation that could indicate financial stress on the part of the borrower; and ■ other signs of financial stress. ■ The determination of key inputs of the ECL model such as probability of default (PD) and loss given default (LGD).
<p>How the scope of our audit responded to the key audit matter</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> ■ obtaining an understanding of relevant controls relating to the estimation of ECL; ■ reviewing the loan due diligence documents (including third party property valuations) in respect of each loan in existence at balance sheet date; ■ 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. To achieve this, we: <ul style="list-style-type: none"> ■ performed a review of the 'Loans Monitoring Report' to assess evidence of significant increase in credit risk or objective evidence of impairment arising from factors mentioned in our description of the key audit matter; ■ considered the reasonableness of criteria used by management in defining significant increase in credit risk ('SICR') and Default; and ■ evaluated the reasonableness of estimates applied to determine the PD and LGD, including how forward looking information was considered in this regard. ■ involving our credit specialists in challenging the ECL model, the PD, the LGD and ultimately the ECL established for each loan; and ■ 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.
<p>Key observations</p>	<p>Having carried out the procedures, we determined that the assumptions were reasonable and the resultant ECL estimate was within an acceptable range.</p>

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

5.2. Inappropriate recognition of income from loans <>

<p>Key audit matter description</p>	<p>Income from loans advanced totalled £8.15m for the year ended 31 January 2020 (2019: £7.20m), with further other income of £0.35m (2019: £0.44 million) received as a result of repayments (see note 5 to the financial statements). 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 ECL assessment 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 f) and Note 3 to the financial statements.</p>
<p>How the scope of our audit responded to the key audit matter</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> ■ obtaining an understanding of the relevant controls relating to the recognition of income from loans; ■ 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 ECL assessment; ■ 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; ■ evaluating the impact of any impairments on the recognition of income recorded in the period; ■ evaluating the impact of any prepayments or exit fees from early repayments on the income recorded in the period; and ■ tracing scheduled coupon payments to bank statements.
<p>Key observations</p>	<p>Having carried out the procedures, we determined that interest income and loan related fees are appropriately accounted for in the financial statements.</p>

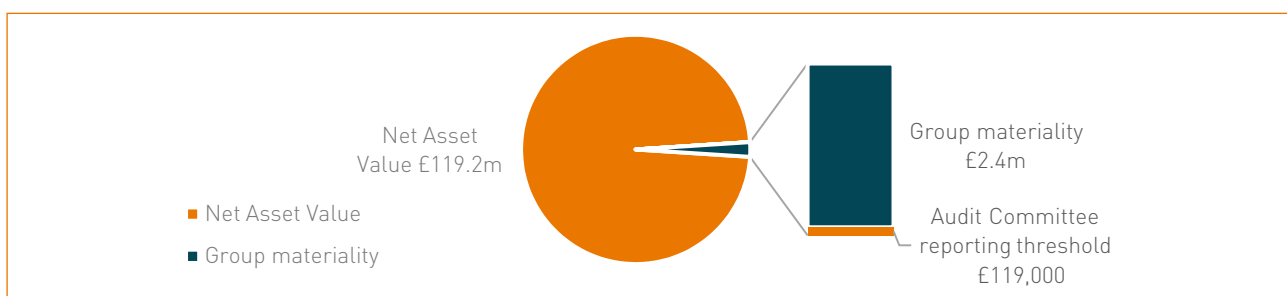
6. OUR APPLICATION OF MATERIALITY

6.1. 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:

<p>Group Materiality</p>	<p>£2.4 million (2019: £2.4 million)</p>
<p>Basis for determining materiality</p>	<p>2% (2019: 2%) of Net Asset Value.</p> <p>We have applied a lower materiality threshold of £407,000 (2019: £382,000) based on 5% of income from loans (2019: 5% of net income).</p>
<p>Rationale for the benchmark applied</p>	<p>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.</p> <p>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.</p>



INDEPENDENT AUDITOR'S REPORT (CONTINUED)

6. OUR APPLICATION OF MATERIALITY (CONTINUED)

6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Group Performance Materiality was set at 70% of group materiality for the 2020 audit (2019: 70%). In determining performance materiality, we considered the following factors:

- our risk assessment, including our assessment of the group's overall control environment; and
- our past experience of the audit, which has indicated a low number of corrected and uncorrected misstatements identified in prior periods.

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £119,000 (2019: £120,200), 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.

7. AN OVERVIEW OF THE SCOPE OF OUR AUDIT

7.1. Scoping

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 group audit engagement team.

Our audit scope provides full scope audit coverage of 100% of the Group's income from loans, loans advanced and 100% of net assets. Our audit focus was on the parent entity and its wholly owned subsidiary, ICG-Longbow Senior Debt S.A., which holds the portfolio of loan investments of the Group.

At the group level, we have tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no additional risks of material misstatement on the aggregated financial information of the Group.

7.2. Our consideration of the control environment

The accounting function for the Group is provided by Ocorian Administration (Guernsey) Limited and Ocorian Services (Luxembourg) S.à r.l ('the Administrators'). We have obtained an understanding of relevant controls at the Administrators that are relevant to the accounting cycles (business processes) of the Group.

8. 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.

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.

We have nothing to report in respect of these matters.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

9. 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.

10. 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. This description forms part of our auditor's report.

11. MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

11.1. 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.

12. 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 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.



DAVID BECKER
For and on behalf of Deloitte LLP
Recognised Auditor
St Peter Port, Guernsey

6 May 2020

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 January 2020

	Notes	1 February 2019 to 31 January 2020 £	1 February 2018 to 31 January 2019 £
Income			
Income from loans	2 f)	8,148,411	7,196,384
Other fee income from loans	2 g)	354,300	439,207
Income from cash and cash equivalents		10,790	6,657
Total income		8,513,501	7,642,248
Expenses			
Investment advisory fees	13,14	1,192,620	1,211,925
Other expenses	17	680,927	919,445
Finance costs	18	245,582	–
Directors' remuneration	13	197,500	196,875
Audit fees for the Company	15	69,275	40,000
Audit fees for the Subsidiary	15	15,143	12,953
Total expenses		2,401,047	2,381,198
Profit for the year before tax		6,112,454	5,261,050
Taxation charge	4	2,173	2,803
Profit for the year after tax		6,110,281	5,258,247
Total comprehensive income for the year		6,110,281	5,258,247
Basic and diluted Earnings per share (pence)	9	5.04	4.36

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

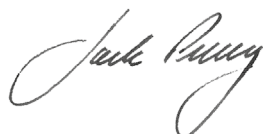
The Group has no recognised gains or losses for either period other than those included in the results above, therefore, no separate statement of other comprehensive income has been prepared.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 January 2020

	Notes	31 January 2020 £	31 January 2019 £
Assets			
Cash and cash equivalents	7	3,383,841	12,370,129
Trade and other receivables	6	1,285,466	126,654
Loans advanced at amortised cost	5	121,649,346	108,561,477
Total assets		126,318,653	121,058,260
Liabilities			
Loans and borrowings	16	5,200,000	–
Other payables and accrued expenses	8	2,002,151	773,871
Total liabilities		7,202,151	773,871
Net assets		119,116,502	120,284,389
Equity			
Share capital	10	119,115,310	119,115,310
Retained earnings		1,192	1,169,079
Total equity attributable to the owners of the Company		119,116,502	120,284,389
Number of ordinary shares in issue at year end	10	121,302,779	121,302,779
Net Asset Value per ordinary share (pence)	9	98.20	99.16

The Financial Statements were approved by the Board of Directors on 6 May 2020 and signed on their behalf by:



JACK PERRY
Chairman

6 May 2020



PATRICK FIRTH
Director

6 May 2020

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 January 2020

	Notes	Number of shares	Share capital £	Retained earnings £	Total £
As at 1 February 2019		121,302,779	119,115,310	1,169,079	120,284,389
Profit for the year		-	-	6,110,281	6,110,281
Dividends paid	10	-	-	(7,278,168)	(7,278,168)
As at 31 January 2020		121,302,779	119,115,310	1,192	119,116,502

For the year ended 31 January 2019

	Notes	Number of shares	Share capital £	Retained earnings £	Total £
As at 1 February 2018		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)
As at 31 January 2019		121,302,779	119,115,310	1,169,079	120,284,389

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 January 2020

	Notes	1 February 2019 to 31 January 2020 £	1 February 2018 to 31 January 2019 £
Cash flows generated from operating activities			
Profit for the year		6,110,281	5,258,247
Adjustments for non-cash items and working capital movements:			
Movement in other receivables		(1,158,812)	75,528
Movement in other payables and accrued expenses		1,235,535	(242,282)
Movement in tax payable		(7,255)	(21,656)
Loan amortisation		460,101	(750,171)
		6,639,850	4,319,666
Loans advanced less arrangement fees		(44,621,285)	(16,592,089)
Loans repaid		31,073,315	21,112,449
Net loans advanced less arrangement fees		(13,547,970)	4,520,360
Net cash (used in)/generated from operating activities		(6,908,120)	8,840,026
Cash flows used in financing activities			
Proceeds from issue of shares	10	-	4,302,600
Share issue costs paid	10	-	(44,380)
Net amounts drawn down on loan facility	16	5,200,000	-
Dividends paid	10	(7,278,168)	(7,214,267)
Net cash used in financing activities		(2,078,168)	(2,956,047)
Net movement in cash and cash equivalents		(8,986,288)	5,883,979
Cash and cash equivalents at the start of the year		12,370,129	6,486,150
Cash and cash equivalents at the end of the year		3,383,841	12,370,129

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 January 2020

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. With effect from 29 April 2019, the registered office address is Floor 2, PO Box 286, Trafalgar Court, Les Banques, St Peter Port, Guernsey, GY1 4LY.

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 2020.

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 2020 have been prepared in accordance with IFRS as adopted in the EU and the Companies Law and on the historical cost basis as modified for the measurement of certain financial instruments.

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.

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 7	Financial Instruments Disclosures (Amendments regarding pre-replacement issues in the context of the IBOR reform)	1 January 2020
IFRS 9	Financial Instruments (Amendments regarding pre-replacement issues in the context of the LIBOR reform)	1 January 2020
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

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.

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 Directors have considered the immediate and potential impacts of Covid-19 on the Company by performing additional severe stress tests on the Group's cash flow forecasts covering at least the next 12 months and are satisfied that the Group can meet its liabilities as they fall due over this period. Further detail regarding the assumptions adopted when forming this conclusion can be found in the Viability Statement on page 20.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. ACCOUNTING POLICIES (CONTINUED)

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) Foreign currencies

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in Consolidated Statement of Comprehensive Income.

f) Interest income

In accordance with IFRS9 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.

g) 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.

h) 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.

i) 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).

j) Dividends

Dividends payable are recognised as distributions in the financial statements when the Company's obligation to make payment has been established. Dividends paid during the year are disclosed in the Consolidated Statement of Changes in Equity. Dividends declared post year end are disclosed in Note 19.

k) 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.

l) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. ACCOUNTING POLICIES (CONTINUED)**i) Financial instruments (continued)***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 Other Comprehensive Income 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.

ii) 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.

iii) 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.

iv) 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. The Group has adopted a simplified model for trade receivables where lifetime ECL is estimated and does not materially differ from the twelve-month ECL.

v) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. ACCOUNTING POLICIES (CONTINUED)

i) Financial instruments (continued)

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.

vi) 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).

vii) 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 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.

viii) 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.

ix) 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 a simplified approach was used.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. ACCOUNTING POLICIES (CONTINUED)

l) Financial instruments (continued)

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.

- 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.

x) 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.

If terms are substantially different the original asset is derecognised and a new financial asset is recognised. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial asset. If the modification is not substantial, the difference between: (1) the carrying amount of the liability before the modification; and (2) the present value of the cash flows after modification is recognised in profit or loss as the modification gain or loss within other gains and losses as explained in paragraph above.

xi) 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.

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.

m) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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 loss given default. 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 heightened credit risk. In assessing the ultimate ECL in relation to these loans, the Board has made assumptions regarding the collateral value and headroom over the principal loan amounts.

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 l). 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)). The Directors also 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. Given the low probability of exercise and undeterminable exercise date, the value attributed to these embedded derivatives is considered to be Enil (31 January 2019: Enil).

4. TAXATION

The Group's tax charge of £2,173 (31 January 2019: £2,803) consists of taxes and non-deductible VAT levied on Luxco. The net wealth tax charge was £2,173 for the financial year ended 31 January 2020 (31 January 2019: Enil). The net wealth tax charge, set at a rate of 0.5% (31 January 2019: 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 Enil for 2020 (31 January 2019: Enil) set by the Luxembourg Tax Administration.

	1 February 2019 to 31 January 2020 £	1 February 2018 to 31 January 2019 £
Net wealth tax – current year	4,162	-
Net wealth tax – prior year	(1,989)	-
Fixed income tax – current year	-	(285)
Non-deductible VAT	-	3,088
	2,173	2,803

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5. LOANS ADVANCED

(i) Loans advanced

	31 January 2020	31 January 2020	31 January 2019	31 January 2019
	Principal advanced £	At amortised cost £	Principal advanced £	At amortised cost £
Meadow	21,500,000	21,970,264	21,500,000	21,941,471
Northlands	9,241,378	9,073,080	8,500,000	8,692,447
Halcyon	5,732,465	5,864,797	6,423,280	6,570,708
Carrara	1,300,000	1,339,542	1,300,000	1,331,708
Ramada	–	–	7,982,500	8,151,125
Commercial Regional Space	–	–	22,400,000	22,620,181
BMO	15,793,727	15,870,152	15,793,727	15,807,533
Quattro	9,000,000	9,063,450	9,000,000	9,007,986
Affinity	16,700,000	16,934,764	14,322,039	14,438,318
Southport	13,769,804	13,790,726	–	–
RoyaleLife	22,462,491	22,525,659	–	–
LBS	5,269,651	5,216,912	–	–
	120,769,516	121,649,346	107,221,546	108,561,477

(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. The BMO loan was due to be repaid in October 2019 and the Investment Adviser is in discussion with the borrower regarding an extension and partial repayment. No element of the loan is considered to be impaired. For further information and the associated risks see the Investment Adviser's Report, the Statement of Principal Risks on pages 30 to 32 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 I).

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5. LOANS ADVANCED (CONTINUED)

(iii) IFRS 9 – Impairment of Financial Assets

In accordance with the Group's Accounting Policy for Financial Instruments as set out in Note 2 l) (iv) 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 2020 has been reviewed. Of the two loans identified as Stage Two assets in the previous reporting year one has since repaid in full while the other is still identified as Stage 2. An additional two loans showed a deterioration in their internal credit rating since 31 January 2019 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 2020

	Stage 1	Stage 2	Stage 3	Total
Principal advanced	79,275,789	41,493,727	–	120,769,516
Gross carrying value	79,780,980	41,868,366	–	121,649,346
Less ECL allowance	–	–	–	–
	79,780,980	41,868,366	–	121,649,346

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

The three Stage 2 loans at 31 January 2020 were Quattro, BMO Portfolio and Spectrum.

The Stage 2 loan, Quattro, was identified as a Stage 2 asset at 31 January 2019 following a deterioration in credit rating as a result of a reduction in interest cover as the interest reserve was utilised. The loan currently has interest arrears of £174,223 (reduced from £324,223). New lettings have now been secured improving interest cover and giving the loan a positive outlook, therefore a provision for impairment is not deemed necessary against this loan.

In the case of BMO the deterioration in credit rating was due to a fall in the Interest Cover Ratio due to a step up in interest rate. The Loan maturity was extended in April 2019 by 6 months. As at 31 January 2020 the loan is in payment default and default interest is now being charged with all surplus cash being trapped. Whilst the loan is in default, the Group's capital exposure is well secured, and the operational performance of the portfolio is good therefore a provision for impairment is not deemed necessary against this loan.

In the case of Spectrum the deterioration in credit rating was the reflection of increased LTV as the capex facility was fully drawn. The Investment Adviser is closely monitoring letting progress and considers that there is no objective evidence of incurred losses and therefore the loan is not recognised as a Stage 3 loan.

All other loans showed no deterioration and were considered as Stage 1 assets with no ECL over a twelve month period.

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

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 £3.062 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 two and three grade deterioration in the credit rating of each loan as if they were all Stage 2 Assets and considered the impact of impairment over the life of the loans. A one grade deterioration in credit rating (e.g. BBB to BB) is broadly equivalent to a 5% increase in LTV ratio or 10% reduction in ICR.

A three-grade stress on the portfolio would result in two loans (Quattro and LBS) moving to sub-standard and a materially increased probability of default leading to 12 month expected losses of £117,573 and £68,841 respectively with an overall expected loss for the portfolio of £243,520.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5. LOANS ADVANCED (CONTINUED)**IFRS 9 Impairment – Sensitivity Analysis (continued)**

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 £37,707 and a three grade decrease in credit quality of each loan would result in an expected credit loss of £243,000.

	Reasonable possible shift	31 January 2020
LTV	+5%	£nil
ICR	-10%	
LTV	+10%	£37,707
ICR	-20%	
LTV	+15%	£243,000
ICR	-30%	

Other fee income from loans excluding capitalised loan repayments totalled £354,300 (31 January 2019: £439,207).

6. TRADE AND OTHER RECEIVABLES

	31 January 2020 £	31 January 2019 £
Other receivables	1,285,466	126,654

Other receivables include accrued interest on loans receivable. There were no factors to indicate significant increase in credit risk or objective evidence of impairment or default at year end, hence no lifetime ECL was recognised on the balances. Please see comments in note 5 above in respect of the loan portfolio.

The Group has 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 £153,585 (31 January 2019: £272,423), representing cash held pending transfer to borrowers.

8. OTHER PAYABLES AND ACCRUED EXPENSES

	31 January 2020 £	31 January 2019 £
Investment advisory fees (see Note 13)	595,916	302,122
Taxes payable	(5,576)	1,679
Directors' remuneration (see Note 13)	49,375	49,375
Administration fees (see Note 13)	21,667	14,167
Broker fees	25,817	27,083
Audit fees	45,745	30,000
Loan interest	16,918	–
Other expenses	13,153	349,445
Trade creditors	1,239,136	–
	2,002,151	773,871

Trade creditors comprise amounts payable to borrowers. The Group has 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

9. EARNINGS PER SHARE AND NET ASSET VALUE PER SHARE

Earnings per share

	1 February 2019 to 31 January 2020	1 February 2018 to 31 January 2019
Profit for the year (£)	6,110,278	5,258,247
Weighted average number of ordinary shares in issue	121,302,779	120,660,861
Basic and diluted EPS (pence)	5.04	4.36
Adjusted basic and diluted EPS (pence)	4.77	3.99

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 2020.

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 £354,300 (31 January 2019: £439,207).

There are no dilutive shares in issue at 31 January 2020 (31 January 2019: none).

Net Asset Value per share

	31 January 2020	31 January 2019
NAV (£)	119,116,502	120,284,389
Number of ordinary shares in issue	121,302,779	121,302,779
NAV per share (pence)	98.20	99.16

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

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 2020 £	31 January 2019 £
Authorised		
Ordinary shares of no par value	Unlimited	Unlimited

	Total No	Total No
Issued and fully paid:	121,302,779	121,302,779

	£	£
Share capital brought forward	119,115,310	114,857,090
Movements for the year:		
Ordinary shares issued on 27 March 2018	-	4,302,600
Share issue costs	-	(44,380)
Share capital	119,115,310	119,115,310

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

10. SHARE CAPITAL (CONTINUED)**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 2020 and 31 January 2019 are set out below:

1 February 2019 to 31 January 2020	Dividend per share Pence	Total dividend £
Interim dividend in respect of quarter ended 31 January 2019	1.50	1,819,542
Interim dividend in respect of quarter ended 30 April 2019	1.50	1,819,542
Interim dividend in respect of quarter ended 31 July 2019	1.50	1,819,542
Interim dividend in respect of quarter ended 31 October 2019	1.50	1,819,542
	6.00	7,278,168

1 February 2018 to 31 January 2019	Dividend per share Pence	Total dividend £
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

Additional interim dividend

On 27 March 2020, the Directors declared an interim dividend in respect of the quarter ended 31 January 2020 of £1,819,542 equating to 1.5 pence per ordinary share to shareholders on the register as at the close of business on 14 April 2020, Payable on 1 May 2020.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11. RISK MANAGEMENT POLICIES AND PROCEDURES (CONTINUED)

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 and drawing on the RCF.

The following table shows the portfolio profile of the material financial assets at 31 January 2020 and 31 January 2019:

	31 January 2020 £	31 January 2019 £
Floating rate		
Cash	3,383,841	12,370,129
Fixed rate		
Loans advanced at amortised cost	121,649,346	108,561,477
	125,033,187	120,931,606

The timing of interest payments on the loans advanced is summarised in the table on page 59.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11. RISK MANAGEMENT POLICIES AND PROCEDURES (CONTINUED)

Credit risk (continued)

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, interest outstanding on loans and cash and cash equivalents and. As at 31 January 2020, the maximum credit risk exposure was £124,170,275 (31 January 2019: £119,591,675).

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.

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 Adviser's report on pages 5 to 14.

To diversify credit risk the Company maintains its cash and cash equivalents across four (31 January 2019: four) different banking groups as shown below. 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.

The table below shows the Company's cash balances and the credit rating for each counterparty:

	Rating	31 January 2020 £	31 January 2019 £
Royal Bank of Scotland Global Banking (Luxembourg) S.A.	A-	2,331,319	2,144,187
Lloyds Bank International Limited	A	99,996	3,386,029
Barclays Bank plc	A	34,388	3,385,247
Butterfield Bank (Guernsey) Limited ⁽¹⁾	BBB+	95,725	3,385,217
Royal Bank of Scotland International Limited	A-	822,413	69,449
		3,383,841	12,370,129

⁽¹⁾ Formerly ABN Amro CI

The carrying amount of these assets approximates their fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11. RISK MANAGEMENT POLICIES AND PROCEDURES (CONTINUED)

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 drawn by £5,200,000 at the year end.

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 2020 £
Meadow – principal	21,500,000	–	21,500,000
Meadow – interest and exit fees	1,282,637	–	1,282,637
Northlands – principal	–	9,241,378	9,241,378
Northlands – interest and exit fees	602,335	1,234,386	1,836,721
Halcyon – principal	5,732,465	–	5,732,465
Halcyon – interest and exit fees	473,046	–	473,046
Carrara – principal	1,300,000	–	1,300,000
Carrara – interest and exit fees	107,277	–	107,277
BMO – principal	15,793,727	–	15,793,727
BMO – interest and exit fees	76,425	–	76,425
CNM – principal	9,000,000	–	9,000,000
CNM – interest and exit fees	720,000	–	720,000
Affinity – principal	–	16,700,000	16,700,000
Affinity – interest and exit fees	1,253,381	2,034,740	3,288,121
Southport – principal	–	13,769,804	13,769,804
Southport- interest and exit fees	966,527	2,371,990	3,338,517
RoyaleLife – principal	–	22,462,491	22,462,491
RoyaleLife – interest and exit fees	2,166,224	7,974,263	10,140,487
LBS – principal	–	5,269,651	5,269,651
LBS – interest and exit fees	343,466	618,571	962,037
	61,317,510	81,677,274	142,994,784

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11. RISK MANAGEMENT POLICIES AND PROCEDURES (CONTINUED)**Liquidity risk (continued)**

	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	232,975	–	232,975
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
	89,556,790	26,959,178	116,515,968

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 1.01 years (31 January 2019: 0.42 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 2019: £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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

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.

Directors

The Directors' fees for the year amounted to £197,500 (31 January 2019: £196,875) with outstanding fees of £49,375 due to the Directors at 31 January 2020 (31 January 2019: £49,375) (see Note 8).

14. MATERIAL AGREEMENTS

Investment Adviser

Investment advisory fees for the year amounted to £1,192,620 (31 January 2019: £1,211,925), of which £595,916 (31 January 2019: £302,122) was outstanding at the year end (see Note 8).

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.

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 £95,188 (31 January 2019: £80,000) of which £15,000 (31 January 2019: £14,167) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

15. AUDITOR'S REMUNERATION

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

	31 January 2020 £	31 January 2019 £
Audit fees for the Company	69,275	40,000
Audit fees for the Subsidiary	15,143	12,953
Total Audit fees	84,418	52,953
Professional services in relation to the 2018 Prospectus	-	49,000
Professional services in relation to tax advice	12,000	-
Total non-audit fees	12,000	49,000

The non-audit fees were considered by the Board together with the Auditor and determined not to impact the Auditor's independence.

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 20% 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 is used towards maintaining and preserving liquidity, making new customer loans and payment of the fees, costs and expenses due. Three drawdowns were made during the year. The first drawdown was made in February 2019 for £3.5m and repaid in May 2019; the second draw down was made in September 2019 for £10m with £8.8m repaid in November 2019; the final draw down in December 2019 for £4m leaving the overall balance drawn down at £5.2m (31 January 2019: £nil) which was repaid on 13th March 2020. The Group has complied and expects to continue to comply with the covenants of the RCF.

17. OTHER EXPENSES

The other expenses shown in the Consolidated Statement of Comprehensive Income are made up as shown below.

	31 January 2020 £	31 January 2019 £
Luxco operating expenses	278,964	169,559
Broker fees	51,434	52,501
Administration fees	159,967	163,333
Regulatory fees	19,457	22,679
Listing fees	8,689	10,325
Legal & professional fees	26,561	413,221
Tax advice	12,000	-
Other expenses	123,855	87,827
	680,927	919,445

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

18. FINANCE COSTS

Finance costs comprise £90,836 (31 January 2019: £nil) relating to the revolving credit facility and £154,746 (31 January 2019: £nil) bank loan interest paid.

19. SUBSEQUENT EVENTS

In March 2020 the Group received repayment in full of the Meadow loan, following successful completion of the business plan and a sale of the underlying property.

In March 2020, the Group provided a new £7.8 million, three-year loan commitment to an affiliate of Seybourne Estates, to refinance an industrial estate in the North West.

In March 2020 the Group repaid drawings on its revolving credit facility in full.

On 27 March 2020, the Company declared a dividend of 1.5 pence per ordinary share in respect of the quarter ended 31 January 2020 payable on 1 May 2020.

As mentioned on page 9, Covid-19 is a developing situation with no measurable financial effect and as of the date of the financial statements, the assessment of this situation will need continued attention and will evolve over time. The directors consider Covid-19 to be a non-adjusting post period event and no adjustment is made in the financial statements as a result.

ALTERNATIVE PERFORMANCE MEASURES

Performance Measure	Definition	Reason for Use
Weighted Average Loan Coupon	The money weighted average rate of interest being charged on each investment at the relevant reporting date.	To provide shareholders with a means to assess whether the interest payable on the Group's loans reflects the risk of such loans; and whether this is in line with the Company's investment parameters and shareholders' return expectations.
Weighted Average Loan Maturity	The money weighted average period from the relevant reporting date until the Group's investments reach their contractual repayment date.	To provide transparency to the Company's investment outlook and likely level of loan repayments, and to assist shareholders in identifying whether the remaining duration of the loans reflects their own investment time frames.
Weighted Average Loan to Value Ratio	The money weighted average Loan to Value ratio at the relevant reporting date, calculated on the basis of the outstanding loan amount for each investment as a percentage of the most recent Market Value of the properties securing each investment.	To provide transparency to the Company's risk positioning and to demonstrate compliance with the investment restrictions.
Total Income per Share	The total income of the Group as disclosed in the Consolidated Statement of Comprehensive Income divided by the number of Ordinary Shares in issuance at the relevant reporting date.	To provide transparency to the Company's investment returns.
NAV per Share	The net asset value of the Company divided by the number of Ordinary Shares in issuance at the relevant reporting date.	To assist shareholders in assessing the performance of the Company over a period in relation to its Investment Objectives.
Dividend per Share	The total dividends per Ordinary Share declared and/or paid during the relevant reporting period.	To assist shareholders in assessing the performance of the Company in relation to its Investment Objectives.
Shareholder Total Return since IPO	Share price movements combined with dividends paid on the assumption that dividends have been reinvested.	To assist shareholders in assessing the total return earned over the life of the Company.
Share Price Premium/Discount	The percentage difference between the NAV per share and the quoted price of each Ordinary Share as at the relevant reporting date.	To assist shareholders in identifying and monitoring the performance of the Company.
Percentage Capital Invested	The aggregate value of the investments at amortised cost divided by total shareholder equity. Where the figure exceeds 100%, the investments will be partially funded by the Company's debt facility.	To assist shareholders in identifying and monitoring the performance of the Company and the level of gearing.

GLOSSARY OF CAPITALISED DEFINED TERMS

“**Administrator**” means Ocorian Administration (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;

“**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;

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

“**Bank**” means OakNorth Bank plc;

“**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 departure of the UK from the EU;

“**Cash-trap**” means a credit enhancement which allows the lender to hold back any surplus cashflows from the secured properties after payment of interest and other permitted expenses, should the borrower fail to meet defined income or value tests. Such surpluses are accumulated and may be set off against the loan balance in the event of a default under the facility documents, or released back to the borrower if the relevant tests are subsequently met.

“**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 2019 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;

“**Covid-19**” means the global coronavirus pandemic

“**CRS**” means Common Reporting Standard;

“**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;

“**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;

“**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;

“**GDP**” means gross domestic product;

“**GFSC**” means the Guernsey Financial Services Commission;

“**GIIN**” means Global Intermediary Identification Number;

“**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;

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

“**ICG**” means Intermediate Capital Group PLC;

“**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;

GLOSSARY OF CAPITALISED DEFINED TERMS (CONTINUED)

"**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;

"**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;

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

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

"**LBS**" means LBS Properties Limited;

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

"**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;

"**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;

"**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;

"**ONS**" means Office for National Statistics;

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

"**PRS/BTR**" means Private Rented Sector/Build to Rent;

"**Quattro**" means the Quattro Portfolio;

"**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;

"**RevPar**" means revenue per available room;

"**RoyaleLife**" means the RoyaleLife Portfolio;

"**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;

"**Southport**" means the Southport Hotel property;

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

"**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
Mark Huntley (Appointed 25 March 2020)

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

Remuneration Committee

Mark Huntley (*Chairman*)
Stuart Beevor
Paul Meader

Investment Adviser

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

Registered office

P.O. Box 286
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
P.O. Box 286
Floor 2
Trafalgar Court
Les Banques
St Peter Port
Guernsey
GY1 4LY

Effective from 6 April 2020

Ocorian Administration
(Guernsey) Limited
P.O. Box 286
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 Crevelt 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: 61G8VS.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

Butterfield Bank (Guernsey) Limited
PO Box 253
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

OakNorth Bank plc
6th Floor Nightingale House
3rd Floor 57 Broadwick Street
Soho
London
W1F 9QS

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.

ICG-Longbow Senior Secured UK Property Debt Investments Limited

P.O. Box 286
Floor 2, Trafalgar Court
Les Banques, St Peter Port, Guernsey
GY1 4LY, Channel Islands.

T +44 (0) 1481 742742
F +44 (0) 1481 742698

Further information available online:
www.lbow.co.uk