AXIOM
ALTERNATIVE INVESTMENTS

Axiom European Financial Debt Fund Limited

(Registered number 61003)

Annual Report and Financial Statements
for the year ended 31 December 2017

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HIGHLIGHTS

	31 December 2017	31 December 2016
Net assets	£79,364,000	£58,010,000
Net asset value ("NAV") per Ordinary Share	104.43p	95.21p
Share price	105.25p	92.50p
Premium/(discount) to NAV	0.79%	(2.85)%
Profit for the year/period	£9,743,000	£1,339,000
Dividend per share declared in respect of the year/period[1]	6.00p	6.00p
Total return per Ordinary Share *(based on NAV)*[2]	+16.15%	+1.59%
Total return per Ordinary Share *(based on share price)*[2]	+20.43%	-3.15%
Ordinary Shares in issue	75,999,351	60,930,764

[1] Only 4.50p of the 6.00p per Ordinary Share dividends declared out of the profits for the year ended 31 December 2017 had been deducted from the 31 December 2017 NAV as the dividend of 1.50p per Ordinary Share announced on 17 January 2018, payable to shareholders on record at 2 February 2018, and which was paid on 23 February 2018, had not been provided for in these financial statements at 31 December 2017 as, in accordance with IFRS, it was not deemed to be a liability of the Company at that date.

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

www.axiom-ai.com

An authorised closed-ended investment company, incorporated under the Companies (Guernsey) Law, 2008.

REGISTERED IN GUERNSEY No. 61003

OVERVIEW AND INVESTMENT STRATEGY

General information

Axiom European Financial Debt Fund Limited (the "Company") was incorporated as an authorised closed-ended investment company, under the Companies (Guernsey) Law, 2008 (the "Law") on 7 October 2015 with registered number 61003. Its Ordinary Shares were admitted to trading on the Specialist Fund Segment ("SFS") (formerly the Specialist Fund Market) of the London Stock Exchange on 5 November 2015 ("Admission").

Investment objective

The investment objective of the Company is to provide Shareholders with an attractive return, while limiting downside risk, through investment in the following financial institution investment instruments:

- Regulatory capital instruments, being financial instruments issued by a European financial institution which constitute regulatory capital for the purposes of Basel I, Basel II or Basel III or Solvency I or Solvency II;
- Other financial institution investment instruments, being financial instruments issued by a European financial institution, including without limitation senior debt, which do not constitute regulatory capital instruments; and
- Derivative instruments, being CDOs, securitisations or derivatives, whether funded or unfunded, linked or referenced to regulatory capital instruments or other financial institution investment instruments.

Investment policy

The Company will seek to invest in a diversified portfolio of financial institution investment instruments. The Company will focus primarily on investing in the secondary market although instruments may also be subscribed in the primary market where the Investment Manager, Axiom Alternative Investments SARL ("Axiom"), identifies attractive opportunities.

The Company will invest its assets with the aim of spreading investment risk.

For a more detailed description of the investment policy, please see the Company's Prospectus, which is available on the Company's section of the Investment Manager's website (http://www.axiom-ai.com/web/data/prospectus/ENG/AEFD-prospectus-UK.pdf).

CHAIRMAN'S STATEMENT

I am pleased to present our report for the year ended 31 December 2017.

Results

The Company performed well in 2017. Taking into account dividends paid, the total return per share over the year net of all expenses was 16.15%, which is comfortably ahead of our long-term target return of 10% p.a. net of operating expenses.

In brief, the markets continued to recover after their difficult start to 2016. The regulatory background remained stable and financial institutions were busy in the process of restructuring their capital instruments to meet their future regulatory requirements. Our Investment Manager, Axiom Alternative Investments SARL, was active on the Company's behalf and gives a detailed, comprehensive report on both the markets and portfolio composition on pages 4 to 15 of this document and so I shall not repeat that here.

The Company reported a net profit after tax for the year ended 31 December 2017 of £9.7 million (2016: £1.3 million), representing earnings per Ordinary Share of 15.88p (2016: 2.44p).

The Company's NAV at 31 December 2017 was £79.4 million (104.43p per Ordinary Share) (2016: £58.0 million, 95.21p per Ordinary Share).

Dividends

The Company declared four dividends each of 1.50p per Ordinary Share in relation to the year: one was declared after the balance sheet date and was paid on 23 February to Shareholders on the register at 2 February. During the period, actual payments of 6.15p were made, being the May, August and November dividends of 1.50p each and the 1.65p dividend in respect of the period ended 31 December 2016 which was paid on 24 February 2017.

Placing programme and fundraisings

On 8 May 2017, we refreshed the Placing Programme Prospectus to enable the Company to expand by placing new shares at not less than the prevailing NAV (cum income) per share at the time of issue plus a premium to cover the costs and expenses of the relevant placing.

In line with the terms of the new Placing Programme, the Company completed a placing of 15,068,587 new Ordinary Shares on 12 December 2017, at 106.11p per new Ordinary Share. This raised gross proceeds of £15.99 million.

Following the year end, the Company completed a further placing on 13 February 2018, raising gross proceeds of £8.85 million through the issue of 8,229,174 new Ordinary Shares at a price of 107.50p per new Ordinary Share.

Outlook

The markets in which the Company operates continue to perform well as rates steadily increase. The process of transitioning to the new capital bases therefore continues and generates further opportunities as our Investment Manager notes on page 15.

The Board accordingly continues to look forward with confidence for the foreseeable future.

William Scott
Chairman
10 April 2018

INVESTMENT MANAGER'S REPORT

1. Market developments

January saw a continuation of the strong rebound of the banking sector seen at the end of 2016.

The first support came from regulations. As the new Trump administration set a new tone towards more forbearance, if not a repeal of the current framework, the Basel Committee struggled to reach a consensus on risk-weighted asset ("RWA") floors and postponed its meeting to March. Objections came from European regulators as output floors risked undermining some national models.

Fundamentals also improved as higher rates helped bank revenues and market volatility in quarter 4 2016 profitability of IBs. Unicredit was about to launch its record EUR 13 billion capital increase and BCP in Portugal announced a EUR 1.3 billion rights issue.

Lastly, valuations got further support from M&A headlines. In Italy, UBI reached a deal to purchase three regional good banks. Intesa was rumoured to mount a bid for Generali operations, together with Allianz. The Novo Banco sale progressed with Lone Star, the HSH Nordbank sale process was launched and BAWAG bid for a German private bank.

New issuance was very active with two Additional Tier 1 ("AT1") transactions (Intesa and Standard Chartered) and one issue of Mutual Certificates by Rabobank. Six Tier 2 ("T2") deals were launched and new Tier 3s ("T3") were printed by banks in France and, despite the absence of the relevant law, in Spain.

Danske Bank, Irish Life and Permanent and DNB called their step-up legacy T1s at the first call date. Tenders were announced by Groupama and Old Mutual.

February was mixed as debt markets suffered from a widening of French and Italian Treasury yields. Still, bank subordinated debt remained in strong demand: legacy instruments, and later in the month AT1s.

Fundamentals continued to improve. The annual earnings season overall showed better asset quality (loan provisions down, NPL ratios down), controlled costs (down on an underlying basis) and sustained revenues despite the 2016 low rate environment. We would highlight the excellent results of ABN Amro, De Volksbank, Coventry Building Society and Erste Bank. In Italy, the restructuring process of ailing institutions was taking more time as the ECB locked horns with the EC on the scope of Monte dei Paschi's capital plan and a merger plan was being finalised for Veneto Banca and Vicenza.

Regulations marked a pause, as banks and regulators waited for the outcome of the Basel meeting in early March and the proposal by EBA chairman Enria of a new Europe-wide Asset Management Company for NPLs did not find any consensus.

New issuance was quiet with one Barclays AT1 in GBP at a 7.25% coupon, one PBB T2 in EUR and Spanish issuers exploring T2 issuance. Call activity of legacy instruments was very active on the other hand: Barclays (7.1% Pref, 6.375% UT2), ING (7.2% Pref), SocGen (5.922%, frn T1s), BNP (5.019% T1), Aareal Bank (7.125% TruPS) and, last but not least, BBVA (two step-up T1s that had passed their first call date and traded in the high 80s).

March was a strong month. The Subfin index tightened by more than 30bp reducing their lag on AT1s, rates fell back slightly after Trump's failure in repealing Obamacare, and geopolitical risks towards French elections receded.

Credit fundamentals continued their progress with more capital raises: Deutsche Bank for EUR 8 billion to address all remaining concerns about its viability, and potentially Credit Suisse as an alternative to the listing of its Swiss retail operations. AIB in Ireland closed the earnings season with 200bp of CET1 generated since June, paving the way for a future IPO. Raiffeisen in Austria released strong financials of its new structure following the merger of RZB and RBI.

On the restructuring front, Monte dei Paschi got its precautionary recapitalisation approved, alongside a reduction of the capital to be injected. Co-Operative Bank launched a sale process, Popular in Spain explored asset sales to strengthen capital, the sale of Novo Banco became subject to a LME and Caixa Geral received the EC approval to proceed with its recapitalisation.

INVESTMENT MANAGER'S REPORT *(continued)*

Regulatory pressure continued to ease as the Basel Committee got closer to a compromise on the "output floors" initially expected to constrain capital ratios.

Primary issuance was active with circa USD 20 billion of senior Holdcos, nine T2s, five AT1s, including the first one in Portugal, and the first Restricted T1 by an insurer.

Prices were further supported by a number of par calls (Bank of Ireland UK, RBS 5.6457%, BBVA 5.919%, Lloyds 4.385%) and tenders from Commerzbank, Credit Suisse, Banco BPM and more importantly Crédit Agricole targeting six legacy T1s including its 6.637% and CMS bonds despite their cheap reset spreads.

April saw a brutal relief rally after Macron's victory in the first round of the French elections.

While the uncertainty of the polls kept the Subfin above 200bp, it tightened by more than 30bp in the last week. Bank equities jumped 6% and AT1s, led by French names, surged above their historical highs. Even with these moves, financials kept their lag against corporates. As a comparison, EUR HY Corpo (BEUH) stood at 2.7% while EUR HY Fins (BEUHFI) offered 3.7%.

The surprise announcement of general elections in the UK to strengthen Theresa May's government triggered a reaction of cohesion across the 27 other EU members. Brexit negotiations will be difficult with each side so self-confident. However, cash which sat on the sidelines was being deployed and valuations found new clearing levels where fundamentals took precedence over political uncertainties.

The quarter 1 earnings season contributed to support the rally with profit increases from Swedish banks and strong top-line revenues from Santander, BBVA and Lloyds, while Credit Suisse confirmed its plan to raise CHF 4 billion of new equity.

Deutsche Bank successfully raised its EUR 8 billion and was then focused on profits and growth. It was believed that Banco Popular could have resorted to another capital raise over the coming months. The Spanish bank had to restate some provisions related to its NPLs and replaced the management who coordinated the previous capital raise in June 2016. The bank was now exploring a range of scenarios to keep its capital flexibility with assets sales and even a possible merger.

In Italy, the sector benefited from precautionary recapitalisations being rumoured for Veneto Banca and Popolare di Vicenza. The framework was increasingly seen by regulatory authorities as an alternative tool to resolution, under the condition that the affected banks were solvent.

Primary activity was limited to two new AT1 deals by Erste Bank and Santander, both limited in size, and one T2 by Credito Valtellinese. Credit Suisse called two legacy T1s in USD.

May started with Emmanuel Macron's victory in the second round of the French elections, continuing the positive trend initiated in April and supporting the banking sector overall.

The primary pipeline was active in AT1s with HSBC, BBVA, Unicredit and Sabadell (inaugural). In the last week of the month, AT1 valuations dropped from their highs as the EBA released an opinion, although purely consultative, on the redrafting of the CRD/CRR package to prevent any distribution priority for AT1s under a breach of the Combined Buffer.

At the instrument level, developments were more mixed. Legacy instruments benefited from redemptions of bonds trading below par (Deutsche Pfandbriefbank, Banco BPM and Deutsche Postbank) and the announcement by French mutual BPCE of its MREL issuance policy and the subsequent call of its discounted legacy bonds. On the other hand, RBI and Crédit Logement refrained from clarifying their capital strategies towards their legacy T1s.

Fundamentals deteriorated markedly towards the end of the month in Spain. The situation of Banco Popular in Spain deteriorated further as the poor handling of the provision needs combined with the lack of concrete actions towards asset sales or capital raising, increased the pressure on its management to deliver on the M&A process.

INVESTMENT MANAGER'S REPORT *(continued)*

June saw a number of developments in European banks, starting with the resolution of Banco Popular, followed in Italy by those of Veneto Banca and Popolare di Vicenza, ending with adverse moves in rates triggered by further tapering rhetoric from central bankers.

While AT1s and equities rebounded in a sign of relief after Banco Popular, subordinated debt saw a strong dispersion with volatile movements on subordinated instruments issued by medium-sized banks with significant NPL ratios and limited market access.

The most significant moves took place in senior debt. Not only did senior unsecured bonds not get impacted in either resolution but the announcement of other restructurings like the Co-Operative Bank in the UK, or Monte Paschi in Italy, confirmed the protection of senior liabilities.

Senior debt valuations were further supported by the EU council's decision to fast track legislation aimed at the creation of non-preferred senior bank debt. This resulted in a buffer protecting the existing senior debt, alongside a structural protection for the operational subsidiaries.

In another development, Itraxx announced that Holdcos would replace Opcos in its financials indices from September. This created a technical squeeze where Snrfin and Subfin indices both tightened by a historical 20bp over the month.

Fundamentals continued to improve with rating upgrades (RBS, Sabadell, Bank of Ireland, AIB, de Volksbank), new IPOs like AIB or Unicaja and more bad loan disposals, in Italy in particular with Banco BPM, Credito Valtellinese and Banca Carige.

Overall, this provided a favourable backdrop for the issue of a new AT1 by HSBC and two inaugural AT1s by Caixabank and RBI. Legacy instruments were also supported by the call of BPCE Eur CMS, after a cryptic announcement in their quarter 1 results, which triggered a lagging rally in CMS-linked and other floating discounted instruments such as Crédit Logement.

July saw another leg of appreciation in a context of low volatility supported by dovish comments from the Central banks. The banking sector continued its normalisation and credit spreads were converging towards corporate credit, with Itraxx Senior Financial index now inside Itraxx Main (50bp vs. 52bp respectively).

A combination of factors drove investor appetite: the resolution of the Venetian banks; the approval of the Monte dei Paschi recapitalisation; the continued postponement of Basel IV on RWA floors; the wider adoption of the new Senior Non-Preferred format; and another proposal for a European-wide bad bank to deal with the sector's NPL backlog. We would also highlight the announcement by RBS of its settlement with the FHFA on US RMBS claims for USD 4.75 billion and the closing of Unicredit's sale of NPLs for EUR 16.2 billion.

On the other hand, the EBA warned about the negative impact of IFRS9 on bank capital levels, RBI failed to list 15% of its Polish unit, due to a lack of demand, and NordLB postponed a portfolio sale of shipping NPLs. Also, Banca Carige still had to finalise its capital raise and Novo Banco needed to secure the commitments of senior bondholders into its LME.

Finally, the earnings season started well despite a disappointing quarter in FICC for investment banks: strong asset quality updates; sustained capital generation; and upbeat guidance from management.

Instruments with the highest beta benefited most from this context, in particular AT1s. Bankia issued its first Basel III bond with a coupon of 6%. Demand for legacy floaters remained strong, with some like Crédit Logement retracing their recent price drop.

The first week of **August** saw the highest point in bank valuations in the year to date. Investor concerns about ECB tapering, a soft print in US inflation and geopolitical frictions in the Far East then took over to leave the Subfin index slightly wider by 6bp at the end of the month. Italian financials underperformed after Berlusconi suggested a new currency for Italy's monetary sovereignty ahead of the elections to be held by April 2018.

INVESTMENT MANAGER'S REPORT *(continued)*

The earnings season continued to deliver some strong results with NPL and shipping exposure reductions (Commerzbank, NordLB), lower provisions and higher capital (Unicredit, Crédit Agricole). The German sector was unsettled by the stress test results for the smaller banks. Restructurings progressed further with Novo Banco selling its life insurance unit GNB Seguros Vida while Cooperative Bank and Monte Paschi proceeded with capital issuance. In the UK, RBS posted some historically strong earnings while Provident Financial released a very negative trading update with a weaker collection in home credit alongside a FCA investigation.

In new issuance, Barclays issued a GBP 1.25 billion PerpNC7 AT1 at 5.875% and Spanish issuers continued to issue Non-Preferred Seniors following the passing of legislation (Caixabank, BBVA). In redemptions, RBS did not call its non-step T1s (7.64% and 7.0916%) but called its 6.99% USD and 6.666% CAD step-ups. ING called a floating Perpetual (ex-8.439%) and Natixis its 6.307% step-up, as expected.

Subordinated financials continued their move higher throughout **September**, with a tightening of 17bp for the SubFin iTraxx index.

Regulations saw the Senior Non-Preferred ("NPS") format being proposed in Italy, after Spain in June and Belgium in August.

NPL strategies also made good progress. The Single Supervisor conceded some flexibility in the execution of the banks' disposal strategies. Liberbank was about to sell a EUR 800 million real estate portfolio, while BBVA was in talks with Cerberus over the sale of a EUR 2 billion portfolio. In Ireland, Permanent TSB was working on a plan to sell EUR 2.68 billion of NPLs as AIB worked on its Redwood portfolio of residential mortgages. In Italy, where the EC granted a 12-month extension to the GACS scheme for senior tranche of securitisations, Banco BPM was about to sell a EUR 2 billion bad loan portfolio and a EUR 3 billion securitisation for 2018. Banca Carige was expected to sell its EUR 1.4 billion bad loan portfolio. Unicredit was also preparing for a second NPL deal for a book value between EUR 1-1.5 billion.

The sector continued to strengthen with Liberbank's rights issue aimed at increasing asset coverage, and the successful recapitalisation of Co-Operative Bank.

On the back of these improvements, rating agencies were upgrading bank issuers. Santander's NPS to Baa1, BNP senior to Aa3 and NPS to Baa1, ING Bank senior to Aa3, NatWest Bank to Positive outlook.

Finally the M&A theme was back at the front of the stage: after Abanca, Unicaja and CaixaBank stated interest in bidding for Liberbank; Unicredit was rumoured to have approached the German State about Commerzbank; and Banque Internationale, a Luxembourg based bank, was sold by its Qatar owner to a Chinese conglomerate.

On new issues, Nationwide tapped its CCDS with EUR 500 million while a number of names issued AT1s (Julius Baer, Jyske Bank, NIBC Bank, Santander, ABN Amro) and smaller issuers issued T2s (Yorkshire Building Society, Popolare Alto Adige, Volksbank Wien). More importantly, new SNP issuance by less frequent names like Belfius triggered a strong appreciation of T2 debt.

More bonds got called: BPCE CMT, BNP 7.436%, RBIAV step-up (finally) and some less well-flagged like Crédit Agricole 7.375%, INTNED 6.2% and NIBC 7.375%.

Subordinated financials continued their move higher at the same pace in **October**, as the tail risk of Catalonia's independence receded and the ECB adopted a more dovish stance, talking about QE recalibration rather than tapering.

On the regulatory front, the Basel Committee remained far from an agreement on RWA minima as European banks defended their interests by pushing for the review of trading books, a measure detrimental to their US rivals. The ECB announced a consultation on NPL measures but the national interests again prevailed with the Bank of Italy voicing strong opposition. Regulators also increasingly mentioned the discontinuation of LIBOR, but with the objective to limit disruption.

The earnings season revealed some strong capital accretion by a number of banks in the UK (RBS and Lloyds), Spain and Italy (Unicredit), while others achieved meaningful progress on their NPLs (Caixabank, Liberbank). The only negative was the poor performance at Barclays and Deutsche Bank investment banks.

INVESTMENT MANAGER'S REPORT *(continued)*

The trend towards rating upgrades continued: Caixabank to BBB at Fitch, Santander UK on watch positive at Fitch and Erste Bank to A- at S&P.

The consolidation theme across the sector did not abate as Novo Banco completed its sale to Lone Star, HSH was gathering bids and Commerzbank nominated two advisors for possible M&A scenarios. Also Liberbank was about to launch its rights issue and Carige's completion of its LME paved the way for its own capital raise.

The earnings blackout period prevented banks from issuing bonds. Only ASR, a Dutch insurer, launched the first Restricted T1 instrument in Euros. Aareal Bank called a floating rate note valued at 95.00 which triggered a rally of discounted legacy instruments.

The sector continued its march upwards in **November** for a fourth consecutive month, despite a small correction at the beginning of the month.

The quarter 3 results highlighted once again the positive trends in the sector: higher capital ratios (Unicredit, Intesa, Commerzbank), improving asset quality (ABN Amro, Crédit Agricole), guidance towards annual profits for 2017 (Commerzbank, NDB) and new targets announced in investor days for Credit Suisse, Societe Generale and BPCE.

The EBA Transparency Exercise also disclosed a clear improvement in banks' exposure to NPLs, particularly in peripheral countries such as Spain and Portugal (we published a note on this - available on our website). In the UK, the regulator published the results of its stress tests, confirming the resilience of the sector in the context of Brexit. Lastly, the rating agencies further confirmed the trend: the British banking sector reported a positive outlook at S&P, while Italian banks and Raffeisen Banking Group in Austria were upgraded by S&P and Moody's respectively.

On the regulatory front, the ECB delayed its initiative of mandatory provisioning of new NPLs by coordinating with the Commission. On the other hand, the timing was imminent for Basel IV: international regulators were expected to announce an agreement on 7 December, with a minimum of RWAs at 72.5%.

Meanwhile the sector continued its consolidation: Crédit Agricole acquired Banca Leonardo, Cattolica bought the insurers of Banco BPM and Popolare, and BBVA announced targeting acquisitions in the United States. Belfius and Deutsche AM started preparing their IPO.

The primary market was active with AT1s issued by BNP (USD 750 million), BBVA (USD 1 billion), Sabadell (EUR 400 million) and Nordea (EUR 750 million), T2s (Sainsbury Bank, Vivat, and BCP) as well as Restricted T1 (AT1 format for insurers) from QBE (EUR 400 million) and Direct Line (GBP 350 million). In the universe of legacy instruments, corporate actions continued with a tender from Crédit Logement on its legacy T1 floater.

December was another supportive month for the financial sector. European politics provided some relief with Brexit negotiations reaching a deal for phase 1 and a mixed but constructive result in the Catalonia elections.

The regulatory reform reached a milestone with a positive compromise on the Basel III framework and the ECB released its 2018 capital targets for banks with similar requirements.

In restructurings, Banca Carige completed its capital increase. In Germany, NordLB worked on strengthening its capital buffers and HSH Nordbank was about to select a new buyer.

Ratings continue their upwards trend: such as countries like Portugal or Ireland (both upgraded at Fitch) and banks like Clydesdale Bank (Moody's).

In December, we would highlight the non-call of the PRUFIN 7.75% to the benefit of our portfolio holdings and the strong moves in EURUSD basis at year end. Unicredit and Shawbrook issued new AT1s, while BCP in Portugal and Cattolica in Italy issued new T2s.

INVESTMENT MANAGER'S REPORT *(continued)*

2. Investment Objective and Strategy

The Company is a closed-ended fund investing in liabilities issued by European financial institutions, predominantly legacy T1s, T2s, and AT1s across five sub-strategies:

- Liquid Relative Value: instruments issued by large and strong quality institutions, with significant liquidity. These can be purchased on either primary or secondary markets.
- Less Liquid Relative Value: instruments issued by large and strong quality institutions, with limited liquidity due to past tenders or complex features (secondary market).
- Restructuring: instruments issued by institutions in preparation or implementation of a restructuring process (secondary market).
- Special Situations: instruments issued by entities in run-off, under a merger process or split between several entities (secondary market).
- Midcap Origination: instruments issued by small institutions or small subsidiaries of larger institutions (primary market).

3. Trade activity and positioning

January 2017: strong rebound alongside rate increases

- Liquid Relative Value: the Company participated in the new issues by Intesa, StanChart and Rabobank certificates, and bought French AT1s. The Company held Groupama and Old Mutual into the exchanges.
- Less Liquid Relative Value: the Company sold long-duration GBP legacy instruments as GBP rate increases had not impacted cash prices yet.
- Special Situations: the Company increased its holdings of discount perps on banks in Austria, Netherlands and Germany and insurance in France.
- Restructuring: the Company sold Monte dei Paschi seniors at 98.25 (bought at 94.75 in December) and bought Deutsche Bank AT1 as litigation was resolved.
- Midcap Origination: the Company bought a rare T2 instrument issued by a mutual insurer in Spain.

February 2017: resilience driven by calls as French election risk loomed

The Company continued to benefit from calls (SocGen FRN was in the top 3 holdings), the rally in legacy T1 instruments (floaters in particular) and AT1s, and lost on its exposures to Italian banks.

- Liquid Relative Value: the Company sold its positions on French AT1s and switched into UK and German issuers, as the uncertainty around the French elections grew.
- Less Liquid Relative Value: following the redemptions by Barclays and BBVA, the Company sold its Barclays prefs (above par) and increased its holding of Santander (same format as BBVA's that got called). The Company sold its position on HSBC discounted bonds.
- Special Situations: the Company increased its holding in Aareal FRN, as the issuer announced the active management of its legacy capital structure.
- Restructuring: the Company reduced its holdings of DB AT1s and Unicredit AT1s, following the execution of the capital raise.
- Midcap Origination: the Company bought a new T2 issued by PBB, which came to the market ahead of the expected redemption of its legacy T1.

INVESTMENT MANAGER'S REPORT *(continued)*

March 2017: calls continued as DB raises raised capital

The Company continued to benefit from calls: it owned two RBS T1s approaching their call, the BBVA 5.919% and the rare Bank of Ireland UK (only GBP 32 million outstanding).

- Liquid Relative Value: the Company participated in the new AT1 issue by Santander UK and purchased some Spanish T2s.
- Less Liquid Relative Value: the Company increased its holdings of Fixed-to-Fixed Perpetuals and legacy T1s issued by smaller UK issuers.
- Special Situations: having reduced on Floating Perpetuals at the peak, the Compnay again increased its exposure to specific instruments whose capital recognition had been confirmed in the latest annual disclosure by banks.
- Restructuring: the Company was still exposed to Monte Paschi, Popular and Novo Banco's insurer but was no longer exposed to Co-Operative Bank.
- Midcap Origination: the Company participated in the new AT1 issue by Caixa Geral.

April 2017: strong earnings season on the back of Macron's victory

The Company benefited strongly from the market performance through its cash being fully deployed and the appreciation of its CDS positions on French banks.

- Liquid Relative Value: the Company reduced its holdings in Commerzbank and Groupama and participated in the new AT1 issue by Erste Bank. It sold its remaining position in Barclays AT1 at 102 (bought at 99.10 in November 2015).
- Less Liquid Relative Value: the Company increased further its holdings of a French Fixed-to-Fixed and a legacy step-up issued by a retail bank in Hungary.
- Special Situations: the Company increased slightly its exposure to RBI in Austria, in anticipation of a future exchange.
- Restructuring: the Company sold a legacy T1 in Deutsche Postbank coming up for call above 99.00 (bought at 94.00 in February 2016) and increased its holding on Popular and Liverpool Victoria subordinated bonds.
- Midcap Origination: the Company participated in the new T2 issue by Credito Valtellinese.

May 2017: BPCE calls

The Company continued to benefit strongly from the market performance while keeping its AT1 exposure in the Liquid Relative Value bucket at a low level.

- Liquid Relative Value: the Company sold its Lloyds AT1s and participated in the new AT1 issues in Unicredit and Sabadell, as well as BPER T2s.
- Less Liquid Relative Value: the Company built a holding in BPCE CMS ahead of their future call.
- Special Situations: the Company sold its holding in Old Mutual the day after the AGM presentation where management suggested the bonds could stay under a new South Africa-listed sub-holding.
- Restructuring: the Company started managing down its exposure to Banco Popular on 11 May.
- Midcap Origination: the Company participated as one of the anchor investors in the AT1 issued by One Savings.

INVESTMENT MANAGER'S REPORT *(continued)*

June 2017: Popular entered resolution and senior debt rallies

The Company offset its exposure to Popular's resolution with significant gains on senior debt and other Opco positions that were put in place via CDS on single names and Itraxx indices, in anticipation of the preferential treatment of seniors, whether through a resolution or the new non-preferred legislation. Specifically:

- Liquid Relative Value: the Company sold its AT1 and T2 positions in medium sized issuers in Spain and Italy (Sabadell, Caixabank, Emilia Romagna) and took part in RBI's inaugural AT1.
- Less Liquid Relative Value: the Company increased its holding in BPCE CMS ahead of their future call, and increased its portion of Fixed-to-Fixed instruments.
- Special Situations: the Company increased its holding in HSBC discos and DPB bonds issued via SPVs. After the new RBI AT1, it sold RZB CMS above 92.00 (bought between 63.00 and 85.50 over the last year).
- Restructuring: the Company closed the month with exposure to Vicenza seniors, ahead of their transfer to Intesa. It switched its exposure to Co-Op seniors around 98.00 (bought at 86.5 late May) into a smaller amount of Co-Op subordinated bonds.

July 2017: resolution risk reduced as Italy dealt with its banking sector

The Company remained fully invested throughout the month. The cash proceeds from its sales in the restructuring bucket were reinvested selectively into bonds with high carry and defensive positions in Discount Perps issued by SPVs.

- Liquid Relative Value: the Company took part in Bankia's new AT1.
- Less Liquid Relative Value: the Company increased further its portion of Fixed-rate Perpetuals from French and UK issuers.
- Special Situations: the Company increased further its holding in HSBC discos and DPB SPV-issued bonds.
- Restructuring: the Company sold its positions in Monte dei Paschi as bonds fully reflected the conversion value through the recapitalisation and reduced its holding in senior bonds issued by Vicenza, now part of Intesa.
- Midcap Origination: the Company participated in a club deal for a T2 issued by a low-risk bank in Italy.

August 2017: ECB started tapering debate

The Company reduced exposure to BBVA and Santander senior CDS as the levels had adjusted to reflect the upcoming Senior Non-Preferred issuance. The Company continued to capture opportunities in illiquid bonds with carry: legacy perpetual instruments with fixed rates or floating rates with floors, issued by banks and insurers.

The Company held the RBS bonds that got called (6.666% bought at 109.6 in August 2016 and called at 113.3, and RBS 6.99% bought at 111.6 and called at 114) and none of those left uncalled. One of the Company's largest positions was BPCE USD CMT ahead of the call in September.

In the restructuring segment, the Company held some NDB legacy T1s whose valuations increased by more than 5pts after the results, and received equity in Co-Operative Bank. The Company was not exposed to Provident Financial debt at the time of its profit warning but bought a marginal position after on weakness (lowest level bought at 82, now valued above 95).

INVESTMENT MANAGER'S REPORT *(continued)*

September 2017: Non-Preferred Senior became a standard format

The Company benefited from the calls announced on BPCE CMT and RZB step-up and sold its positions after the price moved above 100.00. More specifically across strategies:

- Liquid Relative Value: ahead of the Catalonia referendum, the Company switched its exposure to domestic banks like Bankia AT1s and some of its Cajama T2s into the new Santander AT1s and Virgin Money AT1s.
- Less Liquid Relative Value: the Company sold part of its position on BNP Fixed-to-Fixed after the move to the next call date triggered an increase of more than 2pts.
- Special Situations: the Company invested selectively across discounted bonds issued by French and Austrian banks.
- Restructuring: the Company increased its exposure to Provident Financial seniors.
- Midcap Origination: the Company reduced its holdings that had performed well such as Sparekassen Sjaelland, Principality Building Society and NIBC CMS (bought at 77.75 sold at 85.50). It took part in the new AT1 issues by NIBC Bank and Grenke AG, as well as the new T2 issued by Popolare dell'Alto Adige.

October 2017: Aareal called its legacy bonds, political risk in Europe receded

The Company benefited from the call of Aareal Bank as the bond had been a top 10 holding since February.

- Liquid Relative Value: the Company took part in the new RT1 issue by ASR, and sold its Julius Baer AT1 against it.
- Less Liquid Relative Value: the Company increased its holding of USD Fixed-to-Fixed issued by insurance companies.
- Special Situations: the Company sourced further illiquid discounted floaters issued by national champions, and a rare T2 insurance bond within the Novo Banco structure.
- Restructuring: the Company took part in the remarketing of a rare German legacy bond.
- Midcap Origination: the Company reduced its holdings that had performed well such as Credito Emiliano and a T2 issued by an Italian Popolare bank.

November 2017: earnings trend continued, regulatory push on NPLs got delayed

The Company benefited from the tender by Crédit Logement. We tendered half of the position for the new T2 given the value offered in the spread. Both issues have traded well after the offer: 100.75% for T2 and 92.25% for T1 (vs. 91.5% tender price).

- Liquid Relative Value: the Company took part in the RT1 issue by Direct Line and the new T2 by Vivat insurance in the Netherlands.
- Less Liquid Relative Value: the Company continued to increase its holding of UK PIBS and other fixed perpetuals and sold its positions in OSB legacy bonds and a low-carry RBS perpetual.
- Special Situations: following the Nordea AT1 issuance, the Company built a position in Nordea discounted floaters that were excluded from the transfer of liabilities under Finnish law.
- Restructuring: the Company increased its holding in a rural lender in Spain, following the analysis of the data disclosed by the EBA.
- Midcap Origination: the Company took part in the new Sainsbury Bank T2 and sold its Grenke Leasing AT1.

December 2017: Basel Committee finally agreed

The Company increased its size by 24% following a successful fourth placing on 21 December. It deployed its new capital essentially in carry positions such as Fixed-to-Fixed bonds from the largest banks in France and the UK and Fixed perpetuals issued by building societies in the UK in Less Liquid Relative Value.

In Liquid Relative Value, the Company maintained its exposure to the AT1 segment through a derivative but took a short position on a Spanish bank identified as vulnerable to a new set of regulatory measures from the EBA.

In Special Situations, the Company added selectively on two specific discounted floaters.

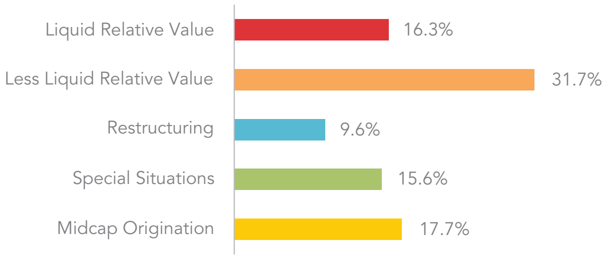
In Restructuring, the Company took part in the new BCP and Cattolica T2s and bought written down legacy T1s issued by a German lender.

Lastly, in Midcap Origination, the Company took part in the new Shawbrook AT1.

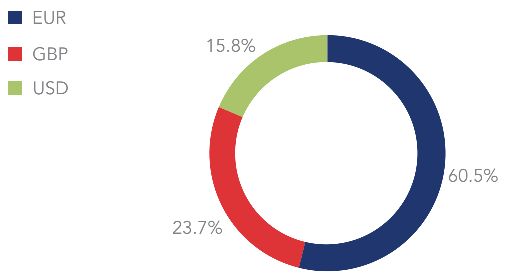
INVESTMENT MANAGER'S REPORT *(continued)*

4. Portfolio (as at 31 December 2017)

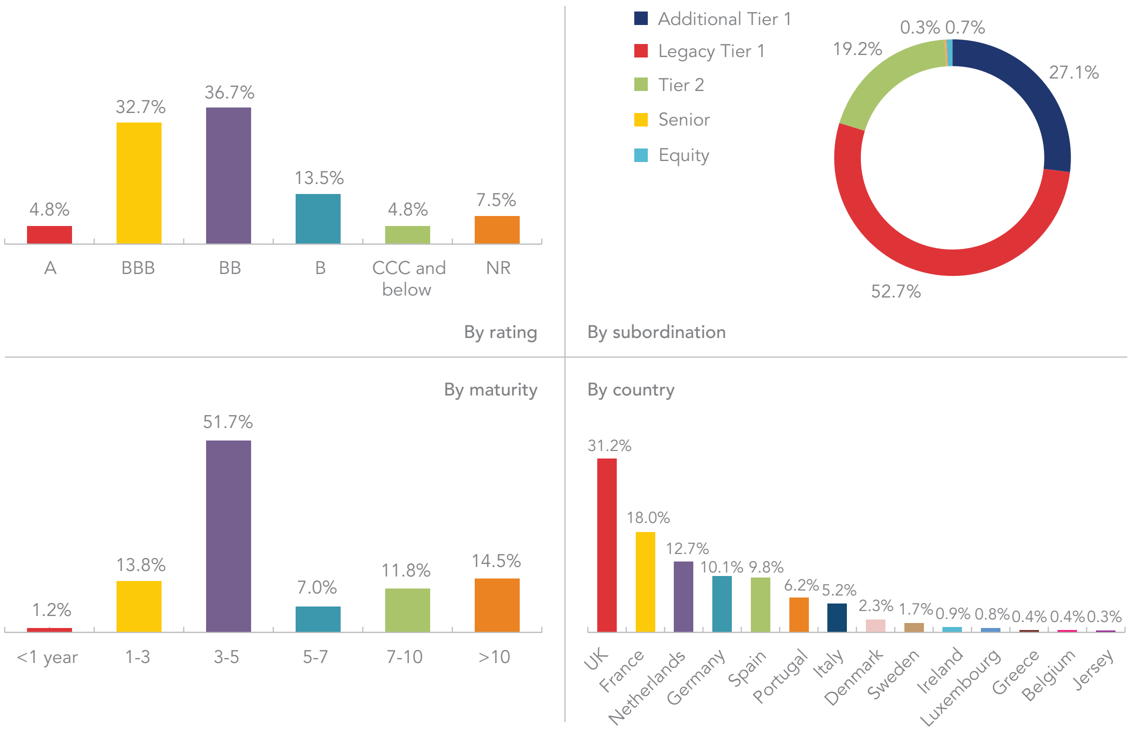
Strategy Allocation (as a % of investments held)



Denomination (as a % of investments held)



Portfolio Breakdown (as a % of investments held)



INVESTMENT MANAGER'S REPORT *(continued)*

5. Company metrics (as at 31 December 2017)

Share price and NAV	GBp	Portfolio information	
Share price (mid)	105.25	Modified duration*	3.11
NAV per share (daily)	104.43	Sensitivity to credit*	5.21
Dividends paid over last 12 months	6.15	Positions	89
Share in issue	75,999,351	Average price	96.01
Market capitalisation (GBP mn)	79.989	Running yield	5.26%
Total net assets (GBP mn)	79.364	Yield to perpetuity*	6.30%
Premium/(Discount)	0.79%	Yield to call*	7.25%

"Modified duration" measures the sensitivity of bond prices to interest rates
"Sensitivity to credit" measures the sensitivity of bond prices to credit spreads
"Yield to call" is the yield of the portfolio at the expected repayment date of the bonds
"Yield to perpetuity" is the yield of the portfolio assuming that securities are not repaid but kept outstanding to perpetuity.

Total Shareholder Return (growth in NAV per share, plus dividends per share paid in the period

Total Performance			
3 months	6 months	1 year	Annualised Since inception
4.30%	8.65%	16.14%	7.67%

Monthly Performance	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Annual
2015											0.19%	-1.48%	-1.29%
2016	-4.02%	-4.59%	3.57%	1.16%	2.62%	-1.97%	2.83%	1.69%	-0.21%	2.06%	-1.60%	1.91%	2.92%
2017	2.67%	0.93%	1.12%	2.01%	1.72%	-1.41%	1.86%	0.58%	1.76%	2.72%	1.31%	0.23%	16.14%

6. NAV evolution

INVESTMENT MANAGER'S REPORT *(continued)*

7. Outlook

Over 2017, despite a number of political uncertainties in France, UK, Spain, and Italy, the European financial sector has continued its normalisation. Banks have continued to improve their capital ratios and reduce their NPL stocks. As rates started to increase, so did their profitability outlook.

A number of ailing institutions have also been resolved in Spain, Portugal and Italy, as well as in the UK.

Overall, the regulatory framework and the resolution mechanisms have gained in clarity and, to some extent, predictability.

In 2018 banks are expected to continue to face some pressure on their NPLs, especially in Italy, and also prepare issuance of a new layer of capital, called MREL (minimum requirement for own funds and eligible liabilities). Consolidation and M&A will remain a theme, in particular in the insurance sector. We also expect consensual restructurings to continue and digitalisation to become an increasingly important driver in the transformation of the business models.

In this context, financial institutions have more visibility in their capital planning for the transition of their liabilities into the new regulatory framework. We expect legacy instruments to continue being called or tendered. 2018 should see the repayments of the first generation of new style instruments that will reach their first call date. For the institutions whose perimeter is deemed to change, liability management exercises should remain a pattern. Finally, new issuance activity should continue to offer investment opportunities.

For the above reasons, our outlook is constructive and we believe the Company is well positioned in capturing the value of the sector.

Gildas Surry
Axiom Alternative Investments SARL
10 April 2018

INVESTMENT PORTFOLIO

	£'000	% of NAV
Investments in capital instruments at fair value through profit or loss		
Bonds		
Shawbrook Group PLC 7.875% Perp 12/08/22	4,873	6.14
BNP Paribas SA 4.875% Perp 10/17/18	4,634	5.84
Achmea BV 6.000% Perp 11/01/18	3,666	4.62
HBOS Capital Funding LP 6.850% Perp 03/23/18	2,283	2.88
Banque Federative du Credit Mutuel SA 0.843% Perp 02/25/19	2,237	2.82
OneSavings Bank PLC 9.125% Perp 05/25/22	2,218	2.80
Hongkong & Shanghai Banking Corporation 1.625% Perp 04/27/18	2,073	2.61
Virgin Money Holdings UK PLC 7.875% Perp 07/31/19	2,048	2.58
Dresdner Funding Trust I 8.151% 06/30/31	1,962	2.47
Banco Santander SA 5.250% Perp 09/29/23	1,877	2.36
Banco Comercial Portugues SA 4.500% 12/07/27	1,778	2.24
Saxo Bank 9.750% 02/26/20	1,721	2.17
NIBC Bank NV 6.000% Perp 10/15/24	1,707	2.15
UniCredit SpA 6.625% Perp 06/03/23	1,595	2.01
Vivat NV 6.250% Perp 11/16/22	1,485	1.87
Societa Cattolica di Assicurazioni SC 4.250% 12/14/27	1,367	1.72
Caixa Geral de Depositos Finance 1.441% Perp 03/30/18	1,329	1.68
Deutsche Postbank Funding Trust I 0.876% Perp 06/02/18	1,298	1.64
Santander Perpetual SA 1.275% 06/10/18	1,243	1.57
Caixa Sabadell Preferentes SAU 1.621% Perp 04/14/18	1,192	1.50
Banco de Credito Social Cooperativo SA 7.750% 06/07/22	1,133	1.43
ASR Nederland NV 4.625% Perp 10/19/27	1,084	1.37
Fuerstenberg Capital Dritte GmbH 5.310% Perp 06/30/20	988	1.24
BNP Paribas Fortis SA 1.671% Perp	954	1.20
Nordea Bank AB 0.891% Perp 03/17/18	921	1.16
Royal Bank of Scotland Group PLC 5.250% Perp 03/30/18	901	1.14
Credit Logement SA 0.819% Perp 03/16/18	860	1.08
Caja deReunidos Cia de Seguros y Reaseguros SA 8.000% 02/17/26	847	1.07
Deutsche Bank Capital Finance Trust I 1.750% Perp 06/27/18	808	1.02
Fuerstenberg Capital II GmbH 5.625% Perp 06/30/18	773	0.97
BNP Paribas SA 6.250% Perp 10/17/18	772	0.97
BNP Paribas SA 6.500% Perp 03/06/18	763	0.96
GNB Cia de Seguros de Vida SA 1.871% 12/19/22	726	0.91
Aegon NV 5.185% Perp 10/14/18	681	0.86
Aegon NV 6.000% Perp 07/21/18	659	0.83
HSB Group Inc 2.632% 07/15/27	655	0.83
Mitsubishi UFJ Investor Services & Banking Luxembourg SA 4.171%	618	0.78
Prudential PLC 7.750% Perp 03/23/18	609	0.77
Skipton Building Society 12.875% Perp	600	0.76
Sainsbury's Bank PLC 6.000% 11/23/27	524	0.66
Norddeutsche Landesbank Girozentrale 8.500% Perp 06/29/20	490	0.62
GNB Cia de Seguros de Vida SA 3.171% Perp 06/19/18	478	0.60
Banque Federative du Credit Mutuel SA 0.924% Perp 06/15/18	471	0.59
Direct Line Insurance Group PLC 4.750% Perp 12/07/27	403	0.51
Newcastle Building Society 12.625% Perp	396	0.50
Bank of Scotland PLC 9.375% Perp	395	0.50
HSH N Funding II Via Banque de Luxembourg 7.250% Perp 03/30/18	391	0.49
Coventry Building Society 12.125% Perp	388	0.49
Santander Finance Capital SAU 2.000% Perp 03/18/19	370	0.47
Royal Bank of Scotland Group PLC 5.500% Perp 06/30/18	360	0.45

INVESTMENT PORTFOLIO *(continued)*

	£'000	% of NAV
Investments in capital instruments at fair value through profit or loss *(continued)*		
Bonds *(continued)*		
Coventry Building Society 12.125% Perp	343	0.43
Credit Mutuel Arkea SA 1.003% Perp 07/05/18	318	0.40
Nordea Bank AB 3.500% Perp 03/12/25	312	0.39
ERB Hellas Funding Ltd 6.000% Perp 04/09/18	297	0.37
Ageasfinlux SA 1.021% Perp	283	0.36
BCP Finance Co 1.745% Perp 03/09/18	278	0.35
Credito Emiliano SpA 3.625% 07/10/27	264	0.33
Banca Carige SpA 5.000% 12/22/22	236	0.30
Barclays Bank PLC 1.438% Perp 02/26/18	228	0.29
Leeds Building Society 13.375% Perp	224	0.28
DZ Bank Perpetual Funding Issuer Jersey Ltd 0.171% Perp 04/16/18	224	0.28
Santander UK PLC 6.222% Perp 05/24/19	210	0.26
BA-CA Finance Cayman 2 Ltd 1.019% Perp 03/22/18	207	0.26
BA-CA Finance Cayman Ltd 1.019% Perp 04/28/18	199	0.25
Deutsche Postbank Funding Trust III 0.914% Perp 06/07/18	182	0.23
Aegon NV 1.506% Perp 06/08/25	163	0.21
Banco Santander SA 5.500% Perp 05/05/18	160	0.20
Bank of Scotland PLC 13.625% Perp	138	0.17
Newcastle Building Society 10.750% Perp	133	0.17
Banco Popular Espanol SA 8.000% 07/29/21	105	0.13
Santander UK PLC 8.625% Perp	80	0.10
Caixa Geral de Depositos Finance 2.469% Perp 03/18/18	55	0.07
Santander UK PLC 6.984% Perp 02/09/18	34	0.04
Banco Popular Espanol SA 8.250% 10/19/21	22	0.03
Veneto Banca SpA	0	0.00
Popular Capital SA 6.000% Perp 04/20/18	0	0.00
Popular Capital SA 1.321% Perp 03/06/18	0	0.00
	67,299	84.80
Other capital instruments		
Ecclesiastical Insurance Group PLC 8.625% Perp	1,384	1.74
Lloyds Banking Group PLC 9.250% Perp	801	1.01
Bank of Ireland 12.625% Perp	684	0.86
National Westminster Bank PLC 9.000% Perp	614	0.77
Co-Operative Bank PLC Subscription Shares	485	0.61
Aviva PLC 8.375% Perp	220	0.28
Aviva PLC 8.750% Perp	210	0.26
Standard Chartered PLC 7.375% Perp	184	0.23
Standard Chartered PLC 8.250% Perp	179	0.23
Natixis SA Perp	30	0.04
General Accident PLC 7.875% Perp	23	0.03
	4,814	6.06
Total investments in capital instruments at fair value through profit or loss	72,113	90.86

INVESTMENT PORTFOLIO *(continued)*

	£'000	% of NAV
Derivative financial assets at fair value through profit or loss		
Sale and repurchase agreement in respect of Bankinter SA 8.625% Perp 05/10/21	893	1.13
BNP Paribas SA Senior CDS 12/20/27	168	0.21
Markit iTraxx Europe Subordinated Financial Index 06/20/22	155	0.20
Societe Generale SA Senior CDS 12/20/22	153	0.19
Lloyds Bank PLC Senior CDS 12/20/22	130	0.16
Standard Chartered Bank Senior CDS 12/20/22	119	0.15
Markit iTraxx Europe Subordinated Financial Index 12/20/21	104	0.13
ING Bank NV Subordinated CDS 12/20/22	66	0.08
Lloyds Bank PLC Subordinated CDS 12/20/22	56	0.07
Intesa Sanpaolo SpA Senior CDS 12/20/22	54	0.07
GBP/USD foreign currency forward	54	0.07
Societe Generale SA Subordinated CDS 12/20/22	42	0.05
Caixa Bank SA Senior CDS 12/20/19	27	0.03
UniCredit SpA Subordinated CDS 12/20/19	14	0.02
UniCredit SpA Subordinated CDS 12/20/20	6	0.01
Euro Bond Future March 2018	3	0.00
RR Future March 2018	2	0.00
Derivative financial assets at fair value through profit or loss	2,046	2.58
Derivative financial liabilities at fair value through profit or loss		
Sale and repurchase agreement in respect of Achmea BV 6.000% Perp 11/01/18	(2,534)	(3.19)
Sale and repurchase agreement in respect of BNP Paribas SA 4.875% Perp 10/17/18	(2,432)	(3.06)
Sale and repurchase agreement in respect of Banque Federative du Credit Mutuel SA 0.843% Perp 02/25/19	(1,369)	(1.73)
GBP/EUR foreign currency forward	(445)	(0.56)
UniCredit SpA Subordinated CDS 12/20/22	(108)	(0.14)
Intesa Sanpaolo SpA Subordinated CDS 12/20/22	(43)	(0.06)
Royal Bank of Scotland Group PLC Subordinated CDS 12/20/22	(27)	(0.03)
Markit iBoxx USD Contingent Convertible Liquid Developed Markets AT1 Index	(0)	(0.00)
Derivative financial liabilities at fair value through profit or loss	(6,958)	(8.77)
Axiom Premium Multi Strategies	2,345	2.95
Short position in respect of Bankinter SA 8.625% Perp 05/10/21 covered by sale and repurchase agreement	(838)	(1.06)
Cash and cash equivalents	16,808	21.17
Collateral accounts for derivative financial instruments at fair value through profit or loss	3,143	3.96
Other receivables and prepayments	672	0.85
Bank overdrafts	(9,249)	(11.65)
Other payables and accruals	(718)	(0.90)
Net assets	**79,364**	**100.00**

PRINCIPAL RISKS

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

Macroeconomic risk

Adverse changes affecting the global financial markets and economy as a whole, and in particular European financial debt markets, may have a material negative impact on the performance of the Company's investments. In addition, the Company's non-Pounds Sterling investments may be affected by fluctuations in currency exchange rates. Prices of financial and derivative instruments in which the Company invests are subject to significant volatility due to market risk.

The Company may use derivatives, including options, short market indices, credit default swaps ("CDS"), and others, to mitigate market-related downside risk, but the Company is not committed to maintaining market hedges at any time.

The Company has a systematic hedging policy with respect to currency risk. The assets denominated in currencies other than Pounds Sterling are hedged by the Company (to a certain extent) by using currency forward agreements to buy or sell a specified amount of Pounds Sterling on a particular date in the future.

Historically, foreign exchange hedging has undermined many closed-ended investment funds, as a result of sharp movements in the foreign exchange rates leaving large hedging losses which could not be met as assets were illiquid and banks were under severe balance sheet strain and could not offer forbearance on facilities in breach.

The Company is exposed to foreign exchange hedging risks but this risk is mitigated by the following:

- As at 31 December 2017, 76.3% (2016: 75.3%) of the investment portfolio is not held in Pounds Sterling (60.5% in Euro and 15.8% in US Dollars (2016: 46.5% in Euro, 25.3% in US Dollars, 2.2% in Danish Krone and 1.3% in Canadian Dollars));
- Based on the worst case scenario observed in monthly spot movement in the past 10 years, our worst case expected hedging loss on expiry would be 10.12% of NAV;
- Our portfolio trading liquidity is such that it would take one day, in normal circumstances, to liquidate sufficient assets to meet such an anticipated worst case loss; and
- In "stressed" markets, we estimate it would take three days to raise such liquidity.

Over the next three years there is likely to be significant uncertainty in European markets due to the UK Referendum decision to leave the European Union ("Brexit"). As we approach the end of the two year negotiation period, and into any transitional or implementation period it is possible that there will be increased volatility in European financial markets.

Investment risk

There are certain risks associated with the Company's investment activities that are largely a result of the Company's investment policy (e.g. a portfolio concentrated on European financial debt) and certain investment techniques which are inherently risky (e.g. short selling).

There are numerous risks associated with having a concentrated portfolio and the primary risk management tool used by the Company is the extensive research performed by the Investment Manager prior to investment, along with the ongoing monitoring of a position once held in the Company's portfolio. The Board reviews portfolio concentration and receives a detailed overview of the portfolio positions quarterly, and more frequently if necessary.

The Company's activities may include short selling which theoretically could result in unlimited loss. The Company enters into these positions infrequently, often using CDS or other derivative positions to obtain economic short exposure, or to hedge certain positions, and relies on extensive due diligence prior to entering into a short position.

The Investment Manager reports to the Board at each quarterly Board meeting or more frequently, as necessary, on developments and risks relating to portfolio positions, financial instruments used in the portfolio and the portfolio composition as a whole.

PRINCIPAL RISKS *(continued)*

Counterparty risk
The Company has credit and operational risk exposure to its counterparties which will require it to post collateral to support its obligations in connection with forwards and other derivative instruments. Cash pending investment or held on deposit will also be held with counterparties. The insolvency of a counterparty would result in a loss to the Company which could be material.

In order to mitigate this risk the Company seeks to trade only with reputable counterparties that the Investment Manager believes to be creditworthy. The Investment Manager negotiates its International Swaps and Derivatives Association ("ISDA") agreements to include bilateral collateral agreements. In addition, cash held is only with financial institutions with short term credit rating of A-1 (Standard & Poor's) or P-1 (Moody's) or better.

Exposure to counterparties is monitored by the Investment Manager and reported to the Board each quarter.

Credit risk
The Company may use leverage to meet its investment objectives. The Company will also use forward contracts to hedge its non-Pounds Sterling assets. In order to do this, it will need to have in place credit lines with one or more financial institutions.

Due to market conditions or other factors credit lines may be withdrawn and it might not be possible to put in place alternative arrangements. As such, the ability to meet the Company's investment objective and/or hedging strategy may not be met.

The Investment Manager monitors the use of credit lines and reports to the Board each quarter.

Share price risk
The Company is exposed to the risk that its shares may trade at a significant discount to NAV or that the market in the shares will be illiquid. To mitigate this risk the Company increased the frequency of the publication of its NAV to daily and has retained the Broker to maintain regular contact with existing and potential shareholders. In addition, the Company may instigate a share buyback programme in an attempt to reduce the discount. The Board monitors the trading activity of the shares on a regular basis and addresses the premium/discount to NAV at its regular quarterly meetings.

From 1 January 2017 to 31 December 2017, the Company's shares traded at an average discount to NAV of 1.89% (2016: 3.34% premium). The discount rose to 6.80% on 3 November 2017 as the NAV increased as a result of improved market conditions. The premium rose to 4.34% on 9 June 2017 as the restructuring of Banco Popular was realised. At the year end the shares traded at a 0.79% premium to NAV.

Regulatory risk
Changes in laws or regulations, or a failure to comply with these, could have a detrimental impact on the Company's operations. Prior to initiating a position, the Investment Manager considers any possible legal and regulatory issues that could impact the investment and the Company. The Company's advisers and service providers monitor regulatory changes on an ongoing basis, and the Board is apprised of any regulatory inquiries and material regulatory developments on a quarterly basis.

Brexit may, in time, lead to divergence in regulatory regimes between the UK and the European Union and may create additional investment and trading opportunities. However, in a process which is yet to be determined, it is too early to fully appreciate what these opportunities will be or when they will present themselves.

Reputational risk
Reputational damage to the Company or the Investment Manager as a result of negative publicity could adversely affect the Company. To address this risk, the Company has engaged the Broker and a public relations firm to monitor media coverage and actively engage with media sources as necessary. The Board receives an update from the Broker and the Investment Manager on a quarterly basis and considers measures to address concerns as they arise.

ENVIRONMENTAL, EMPLOYEE, SOCIAL AND COMMUNITY ISSUES

As an investment company, the Company does not have any employees or physical property, and most of its activities are performed by other organisations. Therefore, the Company does not combust fuel and does not have any greenhouse gas emissions to report from its operations, nor does it have direct responsibility for any other emissions producing sources.

The Investment Manager does not consider the impact that an entity in which the Company invests may have on the community. However, the Board believes that the Company does not have any direct impact on the community or environment and, as a result, does not maintain policies in relation to these matters.

GENDER DIVERSITY

The Board of Directors of the Company currently comprises three male Directors. Further information in relation to the Board's policy on diversity can be found in the Directors' Remuneration Report on page 37.

KEY PERFORMANCE INDICATORS

The Board uses the following key performance indicators ("KPIs") to help assess the Company's performance against its objectives. Further information regarding the Company's performance is provided in the Chairman's Statement and the Investment Manager's Report.

Dividends per Ordinary Share

As set out in the Prospectus, the Company intends to distribute all of its income from investments, net of expenses, by way of dividends on a quarterly basis. The Company may retain income for distribution in a subsequent quarter to that in which it arises in order to smooth dividend amounts or for the purposes of efficient cash management. On admission, it was the intention for the Company to pay dividends totalling at least 6.00p per share in respect of the period from Admission to 31 December 2016.

The Company announced dividends of £3,882,000 (6.00p per Ordinary Share) for the year ended 31 December 2017 (2016: 6.00p per Ordinary Share) (see note 6 for further details). The Company has met the 6.00p dividend per share target for both 2016 and 2017 and expects to continue to be able to pay out dividends of this level in the future.

NAV and total return

In line with the Prospectus, the Company is targeting a net total return on invested capital in excess of 10% p.a. over a seven year period.

The Company achieved a total return of 16.15% in the year ended 31 December 2017 (2016: 1.59%). This positive performance for 2017 compares favourably to the Company's long term target return of 10% p.a. net of operating expenses, and the Board believes that both the target rate of return and dividend policy remain achievable.

Over the period since inception, the total return was 7.66% p.a., which is below the long term target return of 10% p.a., but is in excess of what is required to meet its dividend target of 6.00p per share.

Premium/discount of share price to NAV

The Board regularly monitors the premium/discount of the price of the Ordinary Shares to the NAV per share. Should the discount of share price to NAV become unacceptable to the Board, the Company may buy back some of its shares. Accordingly, the Board puts forward a proposal to Shareholders at the Annual General Meeting to renew the authority to buy back shares.

At 31 December 2017 the share price was 105.25p (2016: 92.50p), a 0.79% premium to NAV (2016: 2.85% discount).

William Scott
Chairman
10 April 2018

BOARD OF DIRECTORS

William Scott *(Chairman)*
Bill is an independent non-executive director of a number of investment companies and funds. He was formerly Senior Vice President with FRM Investment Management Limited, a leading manager of institutional funds of hedge funds in Guernsey and now part of Man Group Plc. Prior to this, he was a director at Rea Brothers (which became part of the Close Brothers group in 1999 and where he was a director of Close Bank Guernsey Limited). He is a Chartered Accountant, holds the Securities Institute Diploma and is a Chartered Fellow of the Chartered Institute for Securities and Investment. He is also a Chartered Wealth Manager.

Bill currently serves on one Premium London listed fund board, Pershing Square Holdings, Ltd., and has served on several others. He has served continuously on Premium London listed boards for over 16 years.

John Renouf *(Chairman of the Audit Committee and Senior Independent Director)*
John is a qualified accountant and was employed by FRM Investment Management Limited, which is now a wholly owned subsidiary of Man Group Plc, as a Director then Managing Director. Prior to this, John was employed on a part time basis by Collins Stewart to assist in its development of offshore funds and he also spent over ten years with Royal Bank of Canada Offshore Fund Managers Limited in Guernsey. In this role he had overall responsibility for the management and administration of Royal Bank of Canada's offshore funds in the Channel Islands together with funds managed and administered on a third party basis.

John currently holds a number of directorships of funds and fund management companies.

Max Hilton
Max returned to Guernsey from New York in 2008 and formed the predecessor firm to Clarus Risk. He previously worked for JP Morgan Securities Inc in New York within proprietary equities and was responsible for managing a global equities portfolio. Prior to this Max had worked at Ziff Brothers Investments in New York and London as a Senior Associate within the quantitative strategy group. Max has a BSc (Hons) Economics from the University of London and has held the CFA designation since 2001. Since 2009 he has served as Chair of the CFA UK Performance and Risk Measurement Special Interest Group.

DIRECTORS' REPORT

The Directors of the Company are pleased to present their report and audited financial statements for the year ended 31 December 2017.

Principal activity

The principal activity of the Company is to provide Shareholders with an attractive return, while limiting downside risk, through investment in certain financial institution investment instruments as detailed on page 2.

Amendment of investment policy

At the Annual General Meeting a minor change to the investment policy was approved. This broadened the definition of European Financial Institutions to include instruments that are issued by (i) financial institutions in the EEA (i.e. including countries other than the UK and the members of the EU, as per the Company's current investment mandate) and Switzerland and (ii) entities which are not financial institutions but which are subsidiaries of such institutions.

Results and Dividends

The results of the Company for the year are shown on page 45.

As set out in the Prospectus, the Company intends to distribute all of its income from investments, net of expenses, by way of dividends on a quarterly basis. The Company may retain income for distribution in a subsequent quarter to that in which it arises in order to smooth dividend amounts or for the purposes of efficient cash management.

The Company announced dividends of 6.00p per Ordinary Share for the year ended 31 December 2017, of which 4.50p per Ordinary Share were provided for in these financial statements. In accordance with IFRS, dividends are only provided for when they become a contractual liability of the Company. Therefore, the fourth dividend of £1,140,000 (1.50p per Ordinary Share) had not been provided for at 31 December 2017 as, in accordance with IFRS, it was not deemed to be a liability of the Company at that date.

The Directors do not recommend the payment of a final dividend for the financial year.

Net assets

At 31 December 2017, the Company had net assets of £79,364,000 (2016: £58,010,000).

Capital structure and share issues

The Company was incorporated on 7 October 2015. On 3 November 2015 the Company issued 50,737,667 Ordinary Shares for £1 each raising gross proceeds of £50.74 million (£49.71 million net of issue costs). The Company's IPO was successfully completed on 5 November 2015 and its Ordinary Shares were admitted to trading on the Specialist Fund Segment (formerly the Specialist Fund Market) of the London Stock Exchange.

On 4 March 2016, the Company completed an additional placing of 3,945,555 new Ordinary Shares at 90.00p per new Ordinary Share, raising gross proceeds of £3.55 million (£3.50 million net of issue costs). A further placing of 6,247,542 new Ordinary Shares at 96.50p per new Ordinary Share was completed on 4 October 2016, raising gross proceeds of £6.03 million (£5.93 million net of issue costs).

On 8 May 2017 the Company issued a new Prospectus to enable it to continue its placing programme, enabling it to continue to raise capital in an efficient and cost-effective manner for the period of one year. On 21 December 2017, the Company completed another placing of 15,068,587 new Ordinary Shares at 106.11p per new Ordinary Share, raising gross proceeds of £15.99 million (£15.36 million net of issue costs).

On 13 February 2018 the Company completed a further placing of 8,229,174 new Ordinary Shares at 107.50p per new Ordinary Share, raising gross proceeds of £8.85 million (£8.71 million net of issue costs).

Further details are provided in note 20 to the financial statements.

DIRECTORS' REPORT *(continued)*

Going concern

After undertaking prudent and robust enquiries, and assessing all data relating to the Company's liquidity, the Directors have a reasonable expectation that the Company 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 Company. For this reason, they have adopted the going concern basis in preparing the financial statements.

Viability statement

The Directors have assessed the prospects of the Company over the three year period to 31 March 2021. The Directors believe this period to be appropriate as any forecast beyond three years would likely produce figures that are too uncertain to be meaningful.

In their assessment of the viability of the Company, the Directors have considered the Company's principal risks and uncertainties together with the Company's income and expenditure projections. The Directors also noted the relatively liquid nature of the Company's portfolio which could be utilised to meet funding requirements, if necessary.

The Company has processes for monitoring operating costs, share price discount, the Investment Manager's compliance with the investment objective and policy, asset allocation, the portfolio risk profile, counterparty exposure, liquidity risk, foreign exchange risk and financial controls.

Based on the above evaluation, the Directors concluded that there is a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the three year period to 31 March 2021.

Litigation

So far as the Directors are aware, no litigation or claim of material importance is pending or threatened against the Company.

Internal control and financial reporting

The Board is responsible for establishing and maintaining the Company's system of internal control. Internal control systems are designed to meet the particular needs of the Company and the risks to which it is exposed, and, by their very nature, provide reasonable, but not absolute, assurance against material misstatement or loss. The key procedures which have been established to provide effective internal controls are as follows:

- The Administrator is responsible for the provision of administration and company secretarial duties;
- The duties of investment management, custody of assets, and accounting are segregated. The procedures are designed to complement one another;
- The Directors of the Company clearly define the duties and responsibilities of their agents and advisers in the terms of their contracts;
- The Board reviews financial information produced by the Company's Investment Manager and the Administrator on a regular basis; and
- On an ongoing basis, compliance reports are provided by the Investment Manager and Administrator at each Board meeting.

The Company does not have an internal audit department. All of the Company's management functions are delegated to third parties and it is therefore felt that there is no need for the Company to have an internal audit function.

The Board has considered the FRC guidance on risk management, internal control and related financial and business reporting. The Board is responsible for ensuring the maintenance of a robust system of internal control and risk management and for reviewing the effectiveness of the Company's overall internal control arrangements and processes following recommendations from the Audit Committee.

The appointment of the Investment Manager as the Alternative Investment Fund Manager ("AIFM") under the Alternative Investment Fund Managers Directive means that it is responsible for operating the Company's internal system of control and for initially reviewing its effectiveness. Such systems are however designed to minimise the risk and not entirely eliminate risk; they can provide only reasonable assurance against material misstatement or loss.

DIRECTORS' REPORT *(continued)*

Financial risk profile
The Company's financial instruments comprise investments at fair value through profit or loss, cash and cash equivalents, other receivables and other payables that arise directly from the Company's operations.

The Board has ultimate responsibility for risk management. Given that there are certain inherent risks related to the business and operations of the Company, the Board believes that developing an effective risk management strategy is crucial to the ongoing viability of the Company. In connection thereto, the Board carries 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 main financial risks are market risk (comprising price risk, foreign currency risk and interest rate risk), credit risk and liquidity risk. Further details are given in note 23 to the financial statements. The principal risks faced by the Company are outlined on pages 19 to 20.

Material contracts
The Company's material contracts are with:

- Axiom, which acts as Investment Manager and AIFM (note 8a);
- Elysium Fund Management Limited ("Elysium" or the "Administrator"), which acts as Administrator and Company Secretary (note 8b);
- Winterflood Securities Limited ("Winterflood"), which acts as Broker [1] (note 8c);
- CACEIS Bank France, which acts as Depositary (note 8e); and
- Link Market Services (Guernsey) Limited, which acts as Registrar (note 8d).

[1] On 31 October 2017, Liberum Capital Limited ("Liberum") ceased to act as Broker to the Company and Winterflood was appointed as Broker and financial adviser to the Company.

Taxation

The Company is exempt from taxation in Guernsey, and it is the intention to conduct the affairs of the Company to ensure that it continues to qualify for exempt company status for the purposes of Guernsey taxation. The Company pays a fixed fee of £1,200 per annum to maintain exempt company status.

The Company has a number of investments in bonds issued in Italy. Until 6 September 2016, as a Guernsey registered Company, any income received on Italian bonds suffered Italian withholding tax at 26%. In addition, Italian withholding tax was calculated, by the Depositary, and either charged or received on the purchase or sale of bond interest bought or sold with bonds at a rate of 26%. From 6 September 2016, foreign investors resident in Guernsey became entitled to benefit from exemption on interests on Italian Government and Corporate bonds and therefore no further Italian withholding tax has been payable.

Substantial shareholdings
As at 31 December 2017, the Company was aware of the following interests of 3% or more in the Company's voting rights:

Shareholder	Number of Ordinary Shares	Percentage holding
Axiom Alternative Investments SARL	14,142,757	18.61
Serimnir Fund	13,769,672	18.12
Turcan Connell Asset Management	9,942,171	13.08
Capfi Delen Asset Management	7,105,000	9.35
Smithfield Funds	6,559,172	8.63
Premier Fund Managers Limited	6,125,718	8.06
Brooks Macdonald	5,001,824	6.58
Banque SYZ	3,823,197	5.03
Alvis Asset Management	3,600,000	4.74
Janus Henderson Investors	2,590,673	3.41

DIRECTORS' REPORT *(continued)*

Substantial shareholdings *(continued)*
As at the date of signing this report, the Company was aware of the following interests of 3% or more in the Company's voting rights:

Shareholder	Number of Ordinary Shares	Percentage holding
Axiom Alternative Investments SARL	14,142,757	16.79
Serimnir Fund	13,769,672	16.35
Turcan Connell Asset Management	9,866,580	11.71
Capfi Delen Asset Management	7,105,000	8.44
Smithfield Funds	6,559,172	7.79
Premier Fund Managers Limited	6,125,718	7.27
Brooks Macdonald	5,001,824	5.94
Fidelity International	4,666,824	5.54
Banque SYZ	4,017,397	4.77
Alvis Asset Management	3,600,000	4.27
Janus Henderson Investors	2,590,673	3.08

Letters of appointment and election of Directors
Biographies of the Directors are set out on page 23 and demonstrate the wide range of skills and experience each brings to the Board. The Directors were identified and interviewed prior to their appointments and advice was taken in respect of their appointments from the Company's other relevant advisers.

All three of the Directors are independent Non-Executive Directors who were appointed on 7 October 2015 and served throughout the period and to the date of signing of this report.

Each Director signed a letter of appointment to formalise their engagement as a Director. Copies of the letters of appointment are available on request from the Company Secretary and will be available at the Annual General Meeting ("AGM").

At every AGM any Director:

- Who has been appointed by the Board since the previous AGM;
- Who has held office at the time of the two preceding AGMs and who did not retire at them; or
- Who has held office with the Company, other than employment or executive office for a continuous period of nine years or more at the date of the meeting,

shall retire from office and may offer himself for re-appointment by the Shareholders.

Directors' interests
At 31 December 2017 and at the date of signing this report, the Directors did not have any interests in the shares of the Company.

During the year, no Director had a material interest in a contract to which the Company was a party (other than their own letter of appointment).

Political donations
The Company made no political donations during the year to organisations either within or outside of the EU.

Corporate Governance
The Corporate Governance Report can be found on pages 30 to 32.

DIRECTORS' REPORT *(continued)*

Auditor

Ernst & Young LLP has expressed its willingness to continue in office as the Company's auditor.

Disclosure of information to auditor

The Directors who held office at the date of approval of this report confirm that, so far as they are aware, there is no relevant audit information of which the Company's auditor is unaware and each Director has taken all steps that he ought to have taken as a Director to establish that the Company's auditor is aware of that information.

On behalf of the Board

William Scott
Chairman
10 April 2018

John Renouf
Director
10 April 2018

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Directors' Report and financial statements in accordance with applicable laws and regulations.

The Law requires the Directors to prepare financial statements for each financial period. Under the Law the Directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU").

The financial statements are required by law to give a true and fair view of the state of affairs of the Company as at the end of the financial period and of the profit or loss of the Company for that period. In preparing these financial statements the Directors are required to:

- Select suitable accounting policies and apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether the financial statements have been prepared in accordance with IFRS adopted by the EU; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Law. They are also responsible for safeguarding the assets of the Company and for the prevention and detection of fraud and other irregularities.

Responsibility Statement
Each of the Directors, whose names and functions are listed in the Directors' Report confirms that, to the best of each person's knowledge:

- the financial statements, prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company;
- the Strategic Report contained in the Annual Report includes a fair review of the development and performance of the business and the position of the Company together with a description of the principal risks and uncertainties that they face;
- the Annual Report and Audited Financial Statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for Shareholders to assess the Company's performance, business model and strategy; and
- the Annual Report and Audited Financial Statements includes information required by the UK Listing Authority for the purpose of ensuring that the Company and its undertakings comply with the provisions of the Listing Rules and the Disclosure Guidance and Transparency Rules of the UK Listing Authority.

This responsibility statement was approved by the Board of Directors on 10 April 2018 and was signed on behalf of the Board.

William Scott
Chairman
10 April 2018

John Renouf
Director
10 April 2018

CORPORATE GOVERNANCE REPORT

Companies with a listing on the Specialist Fund Segment of the Main Market of the London Stock Exchange are not required to comply with the UK Corporate Governance Code 2016 (the "Code"). The Company is committed to high standards of corporate governance and has sought to comply with those aspects of the Code that are considered by the Board to be practical and appropriate for an organisation of its size and nature and where, in the Board's opinion, they are of material benefit to the Company and/or its stakeholders. The Disclosure and Transparency Rules require the Company to, amongst other things: (i) make a corporate governance statement in its annual report and accounts based on the code to which it is subject, or with which it voluntarily complies; and (ii) describe its internal control and risk management arrangements.

The Company is a member of the Association of Investment Companies (the "AIC"). In applying the main principles set out in the Code, the Directors have considered the principles and recommendations of the AIC Code of Corporate Governance (the "AIC Code") by reference to the AIC Corporate Governance Guide for Investment Companies (the "AIC Guide") (which is available at www.theaic.co.uk). The AIC Code, as explained in the AIC Guide, addresses all the principles set out in the Code, as well as setting out additional principles and recommendations on issues that are of specific relevance to the Company as an investment company. The Board considers that reporting against the principles and recommendations of the AIC Code, and by reference to the AIC Guide (which incorporates the main principles of the Code) will provide better information to Shareholders.

The Directors recognise the value of the AIC Code and have taken appropriate measures to ensure that from Admission, the Company has complied and continues to comply, as far as possible given the Company's size and nature of the business, with the AIC Code, except as set out below:

Chairman – The Chairman of the Company is a member of the Audit Committee, but does not chair it. His membership of the Audit Committee is considered appropriate due to: the lack of perceived conflict; the small size of the Board; and because the Directors believe that he continues to be independent.

Internal audit function – No internal audit function is considered necessary because the Company is an externally managed investment company with no employees. Details of the Company's principal outsourced service providers are detailed in note 8.

Remuneration Committee, Nomination Committee and Management Engagement Committee – Due to the size and composition of the Board, the Directors deemed it inappropriate to establish a Remuneration Committee, Nomination Committee or a Management Engagement Committee. Instead, the functions of those committees are performed by the Board as a whole, which is comprised wholly of independent Non-Executive Directors.

Training and induction – No formal training or induction is in place for the Directors. However, all of the Directors are professionally qualified and are therefore required to undertake a sufficient amount of continuous professional development by their professional bodies.

Notice of AGM – The Company did not give Shareholders 20 working days' notice of its first AGM, as required by the AIC Code, it did however give Shareholders the notice as required by the Company's Articles of Incorporation. The Company intends to comply with this principle of the AIC Code for future AGMs.

CORPORATE GOVERNANCE REPORT *(continued)*

The Board and its Committees
The Board has delegated certain responsibilities to its Audit Committee. Given the size and nature of the Board it is felt appropriate that all independent Directors are members of the Audit Committee.

The roles and responsibilities of the Audit Committee are set out in the terms of reference and are summarised below.

Items are discussed and, as appropriate, matters are endorsed, approved or recommended to the Board by the Audit Committee. The chairman of the Audit Committee provides the Board with a summary of the main discussion points at the committee meeting and any decisions made by the committee along with any recommendations which require Board approval.

The Board may also delegate certain functions to other parties; in particular the Directors may delegate to the Investment Manager. However, the Directors retain responsibility for exercising overall control and supervision of the Investment Manager. Matters reserved for the Board include, amongst others, approval and oversight of the Company's investment activities by ensuring that the Company has complied with its investment restrictions. The Board also reviews the performance of the Company against its target return (as defined in the Prospectus) and, in light of the current market conditions, considers the strategy taken by the Investment Manager. Approval of the half-yearly report and financial statements, announcements, dividends and annual report and financial statements are also reserved for the Board.

Audit Committee
The Company's Audit Committee, comprising all the independent Directors of the Company, meets at least three times a year. John Renouf is the chairman of the Audit Committee.

The Audit Committee:

- Monitors the financial reporting process;
- Monitors the effectiveness of the Company's internal control and risk management systems;
- Monitors the annual statutory audit process;
- Reviews and monitors the independence of the Company's auditor in particular relation to the auditor's provision of additional services to the Company;
- Reviews the whistleblowing procedures of the Investment Manager; and
- Is responsible for recommending valuations of the Company's investments to the Board.

Board meeting attendance
During the year, the Company held twelve Board meetings and three Audit Committee meetings. Attendance at these meetings is detailed below:

	Number of meetings	
	Board	**Audit Committee**
William Scott	11/12	3/3
John Renouf	12/12	3/3
Max Hilton	12/12	3/3

CORPORATE GOVERNANCE REPORT *(continued)*

Board's performance evaluation

During the year, the Board undertook its first performance evaluation. The Board completed a broad-reaching questionnaire the results of which were collated and reviewed in detail. As part of the evaluation, the Board considered the independence of each Director and it was determined that overall the Board was fit for purpose.

Review of service providers

During the year the Board conducted a formal review of the Company's service providers and concluded that each of the Company's service providers had performed either satisfactorily or well.

Relations with Shareholders and AGM

The Company encourages two-way communication with both its institutional and private investors and intends to respond quickly to queries raised. All Shareholders have the opportunity to attend and vote, in person or by proxy, at the AGM which will be held at 10.30am on 3 July 2018. The notice of the AGM, which will be circulated to all registered Shareholders with at least twenty working days' notice, sets out the business of the meeting and an explanation of each proposed resolution. Separate resolutions are proposed in respect of each substantive issue.

Shareholders are encouraged to attend the AGM and to participate in the proceedings. The Chairman of the Board and other members of the Board, together with representatives of the Investment Manager, will be available to answer Shareholders' questions at the AGM. Proxy voting figures will be available to Shareholders at the AGM.

The Company has engaged the Broker and a public relations firm to monitor media coverage and actively engage with media sources as necessary. The Board receives an update from the Broker and the Investment Manager on a quarterly basis and considers measures to address concerns as they arise. The Investment Manager holds regular discussions with major Shareholders, the feedback from which is provided to, and greatly valued, by the Board. The Directors are available to enter into dialogue and correspondence with Shareholders regarding the progress and performance of the Company.

On behalf of the Board

William Scott
Chairman
10 April 2018

AUDIT COMMITTEE REPORT

Composition
The Audit Committee comprises all the independent Directors of the Company, all of whom have recent relevant financial experience, and is chaired by John Renouf. John Renouf has substantial business experience together with the necessary experience in accounting and auditing. Both Mr Renouf and Mr Scott are qualified accountants and Mr Hilton has experience in portfolio and risk management.

Responsibilities
The Audit Committee monitors the integrity of the financial statements of the Company, including its annual and half-yearly reports and any other formal announcement relating to its financial performance, reviewing and reporting to the Board on significant financial reporting issues and judgements which they contain, having regards to matters communicated to it by the external auditor.

The Audit Committee monitors potential changes to the Code, AIC Code and relevant legislation relating to the appointment of auditors, restrictions on the non-audit services provided by external auditors and the fees they receive.

The key responsibilities and principal activities of the Audit Committee, as identified in its terms of reference and other than as mentioned above, are as follows:

- To review, and challenge where necessary, the consistency of, and any changes to, significant accounting policies on a year-on-year basis;
- To review, and challenge where necessary, the methods used to account for significant or unusual transactions where different approaches are possible;
- To review, and challenge where necessary, any significant adjustments resulting from the audit;
- To review, and challenge where necessary, the going concern assumption;
- To review, and challenge where necessary, whether the Company has followed applicable regulatory and legal requirements and appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
- To review, and challenge where necessary, the clarity and completeness of disclosure in the Company's financial reports and the context in which statements are made;
- To review, and challenge where necessary, any valuations provided in relation to the Company's investments; and
- To review, and challenge where necessary, all material information presented with the financial statements, such as the strategic report and any corporate governance statements relating to audit management.

As the Company has no employees, the Company does not have a whistleblowing policy in place. However, the Audit Committee reviews the whistleblowing procedures of the Investment Manager and the external service providers to ensure that the concerns of their staff may be raised in a confidential manner.

Meetings
The Audit Committee meets at least three times a year at appropriate intervals in the financial reporting and audit cycle. Further meetings will take place should the chairman of the Audit Committee or other members require. Only the Audit Committee members have the right to attend and vote at these meetings. However, other individuals, such as representatives of the Investment Manager, other representatives from the finance function, including the administrator, of the Company and the external auditor may be invited to attend all or part of any meeting.

Primary areas of judgement in relation to the Annual Report and Financial Statements
The Audit Committee has considered the significant judgements made in the Annual Report and Financial Statements. The Audit Committee pays particular attention to the matters it considers to be important by virtue of size, potential impact, complexity and level of judgement.

The internal controls over financial reporting were considered, together with feedback from the Company's Investment Manager, Company Secretary and the Company's external auditor.

AUDIT COMMITTEE REPORT *(continued)*

Primary areas of judgement in relation to the Annual Report and Financial Statements *(continued)*

The Audit Committee has considered the valuation of unquoted investments. It is satisfied that the valuations are in accordance with the Company's accounting policies and that the carrying values used in these financial statements represent an appropriate fair value.

The Audit Committee has also considered the methodology used for revenue recognition and is satisfied that the revenue recognised in these financial statements represents the true value of revenue received in the year.

In addition, during the year, extensive discussion arose regarding the calculation of the Investment Manager's performance fee and the methodology used to calculate the performance fee was agreed. Therefore, the Audit Committee is satisfied that the performance fee included in the financial statements is accurate.

The Audit Committee met with the audit team during the audit process and, after considering the audit process and various discussions with Ernst & Young LLP ("EY"), the Investment Manager and the Administrator, are satisfied that the audit was undertaken in an effective manner and addressed the main risks. The Audit Committee received a report and supporting presentation from EY on its audit of the financial statements for the period. The Audit Committee read and discussed the Annual Report, with special attention to the considerations included above and the Audit Committee and the Board concluded that it is fair, balanced and understandable.

Internal audit

The Audit Committee and the Board have considered the need for an internal audit function and they have decided that the procedures employed by the Investment Manager and Administrator give sufficient assurance that a sound system of internal control is maintained. Therefore, an internal audit function is not considered to be necessary. However, in accordance with the Audit Committee's terms of reference, the requirement will be re-visited annually.

External audit

EY presented the detailed audit plan to the Audit Committee on 21 November 2017. The plan sets out the audit scope, the significant audit risks the Company faces, EY's position on audit independence, materiality, proposed timetable and audit fee. Following completion of the audit, the Audit Committee reviewed EY's effectiveness by:

- Discussing the overall risk-based audit process and the audit procedures taken to address the identified significant audit risks;
- Considering the feedback on the audit provided by the Investment Manager and the Administrator; and
- Considering the experience, involvement of specialists and continuity of the audit team, including the audit partner.

The feedback provided by the Investment Manager and the Administrator regarding the audit team's performance was positive. The Audit Committee acknowledged that the audit team, including the audit partner, comprised staff with appropriate levels of knowledge and experience. Accordingly, the Audit Committee has recommended to the Board that EY be reappointed as auditor at the forthcoming AGM. EY has expressed its willingness to continue in office.

Certain non-audit services may be provided by the external auditor, subject to the level of fees involved, which are not considered to impair the external auditor's independence or objectivity. The Audit Committee considered the safeguards in place to protect the external auditor's independence by taking into account EY's report to the Audit Committee that its objectivity had not been compromised. The Audit Committee agreed that the following services are prohibited from being provided by the external auditor: bookkeeping, payroll, administration services, management functions, executive recruiting and human resource services, broker-dealer services, expert services unrelated to their audit function and actuarial services. This list may also include any service that the Audit Committee determines not to be permissible.

For the year ended 31 December 2017, total fees charged by EY, together with amounts accrued at 31 December 2017, amounted to £139,000 (2016: £78,000), of which £61,000 related to audit services (2016: £25,000) and £78,000 related to reporting accountant work on the issue of the new Prospectus in May 2017 (2016: £53,000 reporting accountant work on the IPO).

On behalf of the Audit Committee

John Renouf
Chairman of the Audit Committee
10 April 2018

DIRECTORS' REMUNERATION REPORT

Due to the size and composition of the Board, the Directors deemed it inappropriate to establish a Remuneration Committee and a Nomination Committee.

The Directors, all of whom are independent non-executive Directors, are the only officers of the Company. Copies of the Directors' letters of appointment are available upon request from the Company Secretary and will be available for inspection at the AGM.

At every AGM any Director:

- Who has been appointed by the Board since the previous AGM;
- Who has held office at the time of the two preceding AGMs and who did not retire at them; or
- Who has held office with the Company, other than employment or executive office for a continuous period of nine years or more at the date of the meeting,

shall retire from office and may offer himself for re-appointment by the Shareholders.

Termination policy
Should a Director not be re-elected by Shareholders, or is retired from office under the Articles of Incorporation, the appointment shall be terminated with immediate effect and without compensation.

A Director may resign at any time by notice in writing to the Board in accordance with the Articles of Incorporation.

The Company may terminate a Director's appointment with immediate effect should the Director have:

- Committed any serious breach or (after warning in writing) any repeated or continued material breach of their obligations to the Company; or
- Been guilty of any act of dishonesty, fraud or serious misconduct or any conduct which (in the reasonable opinion of the Board) tends to bring the Director or Company into disrepute.

Remuneration policy
The Directors shall be paid such remuneration for their services as determined by the Board, save that, unless otherwise determined by the Company by ordinary resolution, the Directors' combined remuneration shall not exceed £200,000 per annum.

In setting the level of each non-executive Director's fee, the Company had regard to: the time commitments expected; the level of skill and experience of each Director; and the current market and levels of companies of similar size and complexity. Following this evaluation, the Board determined that the fees set out in this remuneration policy were appropriate.

Under the terms of their appointments as non-executive Directors, the Directors are entitled to the following annual fees:

	£
William Scott – *Chairman*	35,000
John Renouf – *Chairman of the Audit Committee*	32,500
Max Hilton	27,500

All of the Directors are also entitled to be paid all reasonable expenses properly incurred by them in attending general meetings, board or committee meetings or otherwise in connection with the performance of their duties. The Board may determine that additional remuneration may be paid, from time to time, to any one or more Directors in the event such Director or Directors are requested by the Board to perform extra or special services on behalf of the Company. The Directors do not participate in any discussions relating to their own fee, which is determined by the other Directors.

The Company does not pay any remuneration to the Directors for loss of office.

On termination of the appointment, Directors shall only be entitled to such fees as may have accrued to the date of termination, together with reimbursement in the normal way of any expenses properly incurred prior to that date.

DIRECTORS' REMUNERATION REPORT *(continued)*

Annual report on remuneration

Service contracts obligations and payment on loss of office

No Director has a service contract with the Company and, as such, no Director is entitled to compensation payments upon termination of their appointment or loss of office.

Total remuneration paid to each Director

The total remuneration of the Directors for the year ended 31 December 2017 was:

	Year ended 31 December 2017 £	Period from 7 October 2015 to 31 December 2016 £
William Scott	35,000	40,466
John Renouf	32,500	37,575
Max Hilton	27,500	31,795
Total	**95,000**	**109,836**

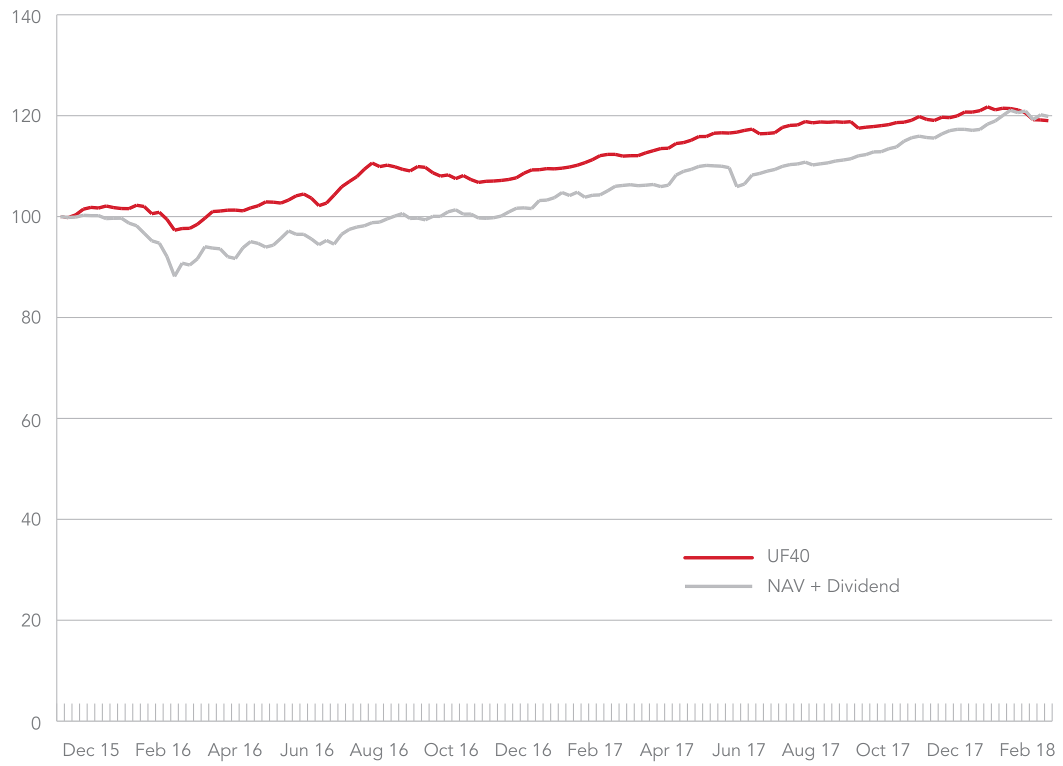
All of the above remuneration relates to fixed annual fees.

Directors are not eligible for bonuses, share options or long-term incentive schemes or other performance-related benefits. There are no pension arrangements in place for the Directors of the Company. Accordingly, there were no other items in the nature of remuneration, pension entitlements or incentive scheme arrangements which were paid or accrued to the Directors during the year/period.

During the year/period, no payments were made to persons who had previously been directors of the Company.

Share price total return

The graph below shows the total shareholder return (NAV plus dividend) for Shareholders of the Company, measured against the ICE BofAML GBP Financial Index, which the Company believes is the most appropriate comparative index. Both the total shareholder return and index have been rebased to 100 at the Company's launch on 5 November 2015.



DIRECTORS' REMUNERATION REPORT *(continued)*

Relative importance of spend on pay

The table below shows the proportion of the Company's income spent on pay.

	Year ended 31 December 2017 £'000	Period from 7 October 2015 to 31 December 2016 £'000
Total Directors' remuneration	95	110
Total dividend payments[1]	3,882	3,464

[1] Total dividend payments includes the interim dividends which were paid from the profits of the Company for the year ended 31 December 2017, including the dividend paid on 23 February 2018 of £1,140,000 which was not provided for at 31 December 2017 as, in accordance with IFRS, it was not deemed to be a liability of the Company at that date.

Directors' shareholdings in the Company

Directors are not required under the Company's Articles of Incorporation or letters of appointment to hold shares in the Company.

As at 31 December 2017, and at the date of this report the Directors did not hold any shares in the Company.

Board diversity

Currently the Board has three male Directors. The Directors consider the current Board structure, size and composition required, taking into account the challenges and opportunities facing the Company. In considering future candidates, the appointments will be made with regard to a number of different criteria, including diversity of gender, background and personal attributes, alongside the appropriate skills, experience and expertise.

The Board is committed to diversity at Board level and is supportive of increased gender diversity but recognises that it may not always be in the best interests of Shareholders to prioritise this above other factors. The Board will consider gender diversity, along with all other relevant factors when considering future Board appointments.

On behalf of the Board

William Scott
Chairman
10 April 2018

REGULATORY DISCLOSURES

AIFMD disclosures

In accordance with the Alternative Investment Fund Managers Directive ("AIFMD"), the Company is classified as an Alternative Investment Fund ("AIF") and has appointed the Investment Manager as its AIFM to provide portfolio management and risk management services to the Company in accordance with the investment management agreement.

The Investment Manager is a full-scope AIFM to the Company and therefore must comply with various organisational, operational, reporting, regulatory capital, conduct of business and transparency obligations.

Report on remuneration

The AIFMD requires certain disclosures to be made with regard to the remuneration policy of the Company's AIFM. The total remuneration of the staff of the Investment Manager during the year was £2,394,000 (2016: £1,770,000), comprising £1,500,000 fixed (2016: £1,536,000) and £894,000 variable (2016: £234,000) remuneration. There were 18 beneficiaries (2016: 16). The aggregate amount of remuneration of senior management and members of staff of the AIFM whose actions have a material impact on the risk profile of the Company during the year was £1,913,000 (2016: £1,370,000).

Key Information Document ("KID")

The Company's KID, which has been prepared in accordance with the requirements of the packaged retail investment products legislation, is available on the Company's section of the Investment Manager's website (www.axiom-ai.com).

Risk disclosures

The financial risk disclosures relating to the risk framework and liquidity risk, as required by the AIFMD, are set out in note 23.

Pre-investment disclosures

The AIFMD requires certain information to be made available to investors in AIFs before they invest and requires that material changes to this information be disclosed in the annual report of each AIF. The Company's Prospectus, which sets out information on the Company's investment strategy and policies, leverage, risk, liquidity, administration, management, fees, conflicts of interest and Shareholder information, is available on the Company's section of the Investment Manager's website (www.axiom-ai.com). There have been no changes to this information requiring disclosure. Any information requiring immediate disclosure pursuant to the AIFMD will be disclosed to the London Stock Exchange.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AXIOM EUROPEAN FINANCIAL DEBT FUND LIMITED

Opinion

We have audited the financial statements of Axiom European Financial Debt Fund Limited (the 'Company') for the year ended 31 December 2017 which comprise the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Financial Position, the Statement of Cash Flows and the related notes 1 to 27, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been properly prepared in accordance with the requirements of the Companies (Guernsey) Law, 2008.

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 below. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including 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.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Article 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.

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the annual report set out on pages 19 to 20 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation set out on page 25 in the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the Directors' Report set out on page 25 in 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 entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the Directors' statement in relation to going concern required under the Listing Rules is materially inconsistent with our knowledge obtained in the audit; or
- the Directors' explanation set out on page 25 in the annual report as to how they have assessed the prospects of the entity, 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 entity 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AXIOM EUROPEAN FINANCIAL DEBT FUND LIMITED *(continued)*

Overview of our audit approach

Key audit matters

- Valuation of derivative financial instruments (other than Level 1)
- Revenue recognition, in particular, bond and credit default swap (CDS) income
- Valuation of investments that are valued by reference to broker quotes
- Calculation of the performance fee

Materiality

- Overall materiality of £608,000 which represents 1% of the Company's net asset value ("NAV") as at 31/08/2017

Key audit matters

Key audit matters are those matters that, in our professional judgment, 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 our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Valuation of derivative financial instruments (other than Level 1) (asset £2.0m; liability £7.8m; 2016 – asset £207,000; liability £2.6m) The fair value of the Company's investments in derivative financial instruments that are classified as other than Level 1 in the fair value hierarchy (for example, credit default swaps, foreign currency forwards, bond futures and sale and repurchase agreements) are not observable and are therefore based on similar instruments and inputs that are observable in active markets. Such valuation can require significant judgement and estimation as explained in note 2 to the financial statements. The fair value of the above derivatives may be misstated due to application of inappropriate methodologies or inputs to the valuations and/or inappropriate judgmental factors or management override.	We confirmed our understanding of the processes, policies and methodologies used to value the Company's derivatives (other than Level 1) held by the Company, and the processes used by the Board to review these valuations. We assessed whether such valuations had been done in accordance with IFRS and the Company's accounting policies. We engaged our own internal valuation specialists to independently value every derivative using third party tools and market data from third party sources as further explained below. For foreign exchange forward contracts our specialists used the observable intra-day high and low foreign exchange rates at the valuation date to calculate tolerance intervals and discount factors and forward rates for the relevant currency obtained from Bloomberg. For credit default swaps our specialists used the standard ISDA Model and CDS index curves obtained from Bloomberg. For repurchase agreements our specialists valued the positions using a standard deterministic discounted cash flow model with market data obtained from Thomson Reuters. For short bond positions our specialists used market prices for the equivalent bond obtained from Bloomberg.	We confirmed that there were no material instances of use of inappropriate policies or methodologies and that the valuation of the underlying investments was not materially misstated. We also confirmed that there were no material matters arising from our audit work on the valuation of derivative financial instruments (other than Level 1) that we wanted to bring to the attention of the Audit Committee.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AXIOM EUROPEAN FINANCIAL DEBT FUND LIMITED *(continued)*

Key audit matters *(continued)*

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Revenue recognition, bond and credit default swap (CDS) income (£3.3m; 2016 – £3.7m) The Company derives material revenue streams from its investments in bonds and CDS instruments and these are based on interest rates inherent within the instruments. The measurement of bond and CDS interest income may be materially misstated if the bond or CDS interest income is not determined in accordance with the interest rate inherent in the instrument and pro-rated based on the length of time the instrument is held by the Company.	We confirmed our understanding of the process for calculating and recognising bond and CDS income. We selected a sample of investments which had generated income in excess of our reporting threshold of £30,400. This sample represented 64% by value of bond interest income and 81% by value of CDS income. We agreed interest rates to independent pricing sources and we recalculated the interest income earned for these instruments for the period they were held by the Company.	We confirmed that the bond and CDS interest income recognised in the financial statements was not materially misstated. We also confirmed that there were no material matters arising from our audit work on the measurement and recognition of the Company's revenue that we wanted to bring to the attention of the Audit Committee.
Valuation of investments in capital instruments that are valued by broker quotes (£2.5m – 2016 £11.2m) Certain investments in capital instruments are valued by broker quotes. Such valuations may be based on a price which is not a market price and such prices may not be realisable in an open market. Broker quoted prices may be determined based on non-market data and may be subject to misstatement or management bias.	We confirmed our understanding of the investment valuation process and how the Company sources prices from third party brokers. For each investment valued by broker quote we agreed the price per unit to the broker quote. We assessed whether the trading history and market activity supported the price provided by the broker. We assessed whether the broker was a suitable valuation source and we checked that there was no evidence of management bias in the selection of brokers or prices.	We confirmed that there was no use of inappropriate pricing sources for the bonds and that the valuation of investments in capital instruments that are valued by broker quotes was not materially misstated. We also confirmed that there were no material matters arising from our audit work on investments in capital instruments that are valued by broker quotes that we wanted to bring to the attention of the Audit Committee.
Calculation of the performance fee (£0.47m; 2016 – nil) The Investment Manager is entitled to receive a performance fee subject to certain performance benchmarks. The fee is payable as a share of the Total Shareholder Return. The performance fee may be materially misstated if the performance fee calculation is not determined in accordance with the terms of the relevant agreement and, in particular, the agreed performance benchmarks.	We checked that the performance fee calculation had been done in accordance with the terms of the relevant agreements. We checked that the inputs into the performance fee calculation had been correctly extracted from relevant sources and we independently re-performed the calculation.	We confirmed that the performance fee was not materially misstated. We also confirmed that there were no material matters arising from our audit work on the measurement and recognition of the performance fee that we wanted to bring to the attention of the Audit Committee.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AXIOM EUROPEAN FINANCIAL DEBT FUND LIMITED *(continued)*

Key audit matters *(continued)*
In the current year, calculation of the performance fee has been added to key audit matters because the amount of the fee exceeds our Performance Materiality for the first time.

An overview of the scope of our audit
Tailoring the scope
Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the Company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the Company and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed. Audit work was performed by the audit team and internal valuation experts.

Our application of materiality
We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality
Materiality is the magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Company to be £608,000 (2016: £503,000), which is 1% of the Company's NAV as at 31/08/2017 (2016: 1% of NAV). We believe this provided a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures. We used net asset value as a basis for determining planning materiality because the Company's primary performance measures for internal and external reporting are based on net asset value.

During the course of our audit, we reassessed initial materiality and, although the Company's net asset value increase to £79.4m at 31/12/2017 we determined that no change in final materiality from the original assessment at planning should be made.

Performance materiality
Performance materiality is the application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Company's overall control environment, our judgement was that performance materiality was 50% (2016: 50%) of our planning materiality, namely £304,000 (2016: £252,000). This percentage is unchanged from the previous year.

Reporting threshold
Reporting threshold is an amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £30,400 (2016: £25,200), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AXIOM EUROPEAN FINANCIAL DEBT FUND LIMITED *(continued)*

Other information
The other information comprises the information included in the annual report set out on pages 1 to 44, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, 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 the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context. We also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- 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 Company's 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 is materially inconsistent with our knowledge obtained in the audit; or
- Directors' statement of compliance with the UK Corporate Governance Code – the parts of the Directors' statement 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.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the Companies (Guernsey) Law, 2008 requires us to report to you if, in our opinion:

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

Responsibilities of Directors
As explained more fully in the Statement of Directors' Responsibilities set out on page 29, 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 Company'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 Company or to cease operations, or have no realistic alternative but to do so.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AXIOM EUROPEAN FINANCIAL DEBT FUND LIMITED *(continued)*

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 Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Michael Bane
For and on behalf of Ernst & Young LLP
Guernsey
10 April 2018

Notes:

1. The maintenance and integrity of the Axiom European Financial Debt Fund Limited website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
2. Legislation in Guernsey governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2017

	Note	Year ended 31 December 2017 £'000	Period from 7 October 2015 to 31 December 2016 £'000
Income			
Capital instrument income		2,618	3,549
Credit default swap income		672	148
Bank interest receivable		–	2
Total income		**3,290**	**3,699**
Investment gains and losses on investments held at fair value through profit or loss			
Realised gains on disposal of capital instruments	*14*	3,851	2,998
Movement in unrealised gains on capital instruments	*14*	250	2,197
Movement in unrealised gains on other investments		198	–
Realised gains/(losses) on derivative financial instruments	*17*	2,135	(5,987)
Movement in unrealised gains on derivative financial instruments	*17*	1,955	114
Total investment gains and losses		**8,389**	**(678)**
Expenses			
Performance fee	*8a*	(469)	–
Investment management fee	*8a*	(394)	(345)
Administration fee	*8b*	(122)	(140)
Directors' fees	*8f*	(95)	(110)
Other expenses	*11*	(322)	(355)
Total expenses		**(1,402)**	**(950)**
Profit from operating activities before gains and losses on foreign currency transactions		**10,277**	**2,071**
Loss on foreign currency		(501)	(670)
Profit from operating activities after gains and losses on foreign currency transactions and before taxation		**9,776**	**1,401**
Taxation	*12*	(33)	(62)
Profit for the year/period attributable to the Owners of the Company		**9,743**	**1,339**
Earnings per Ordinary Share – *basic and diluted*	*13*	**15.88p**	**2.44p**

All of the items in the above statement are derived from continuing operations.
The accompanying notes on pages 49 to 74 form an integral part of these financial statements

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2017

	Note	Distributable reserves and total £'000
Opening balance at 7 October 2015		–
Profit for the period from incorporation to 31 December 2016		1,339
Contributions by and distributions to Owners		
Ordinary Shares issued	*20*	60,318
Share issue costs		(1,188)
Dividends paid	*6*	(2,459)
At 31 December 2016		**58,010**
Profit for the year ended 31 December 2017		9,743
Contributions by and distributions to Owners		
Ordinary Shares issued	*20*	15,989
Share issue costs		(631)
Dividends paid	*6*	(3,747)
At 31 December 2017		**79,364**

There were no other comprehensive income items in the year/period.
The accompanying notes on pages 49 to 74 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

as at 31 December 2017

	Note	As at 31 December 2017 £'000	As at 31 December 2016 £'000
Assets			
Investments in capital instruments at fair value through profit or loss	*14, 18*	72,113	49,145
Other investment at fair value through profit or loss	*14, 18*	2,345	–
Collateral accounts for derivative financial instruments at fair value through profit or loss	*15, 17*	3,143	4,548
Derivative financial assets at fair value through profit or loss	*17*	2,046	207
Other receivables and prepayments	*16*	672	825
Cash and cash equivalents		16,808	6,152
Total assets		**97,127**	**60,877**
Current liabilities			
Bank overdrafts		(9,249)	–
Derivative financial liabilities at fair value through profit or loss	*17*	(6,958)	(2,626)
Short position covered by sale and repurchase agreements	*14*	(838)	–
Other payables and accruals	*19*	(718)	(241)
Total liabilities		**(17,763)**	**(2,867)**
Net assets		**79,364**	**58,010**
Share capital and reserves			
Share capital	*19*	–	–
Distributable reserves		79,364	58,010
Total equity holders' funds		**79,364**	**58,010**
Net asset value per Ordinary Share: *basic and diluted*	*21*	**104.43p**	**95.21p**

These financial statements were approved by the Board of Directors on 10 April 2018 and were signed on its behalf by:

William Scott
Chairman
10 April 2018

John Renouf
Director
10 April 2018

The accompanying notes on pages 49 to 74 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS

for the year ended 31 December 2017

	Note	Year ended 31 December 2017 £'000	Period from 7 October 2015 to 31 December 2016 £'000
Cash flows from operating activities			
Net profit before taxation		9,776	1,401
Adjustments for:			
Foreign exchange movements		501	670
Total investment (gains)/losses at fair value through profit or loss		(8,389)	678
Cash flows relating to financial instruments:			
Payment from/(to) collateral accounts for derivative financial instruments	15	1,408	(4,548)
Purchase of investments at fair value through profit or loss	14	(129,089)	(124,470)
Sale of investments at fair value through profit or loss	14	108,075	80,520
Premiums received from selling credit default swap agreements	17	1,877	3,675
Premiums paid on buying credit default swap agreements	17	(1,838)	(1,035)
Purchase of foreign currency derivatives	17	(189,706)	(159,249)
Close-out of foreign currency derivatives	17	190,792	153,270
Purchase of bond futures	17	(1,906)	(2,552)
Sale of bond futures	17	1,954	2,596
Proceeds from sale and repurchase agreements	17	38,670	5,918
Payments to open reverse sale and repurchase agreements	17	(893)	–
Payments to close out sale and repurchase agreements	17	(32,367)	(6,077)
Opening of short positions	14	835	–
Net cash outflow from operating activities before working capital changes		(10,300)	(49,203)
Decrease/(increase) in other receivables and prepayments		153	(825)
Increase in other payables and accruals		470	241
Taxation paid	12	(33)	(62)
Net cash outflow from operating activities		**(9,710)**	**(49,849)**
Cash flows from financing activities			
Proceeds from issue of Ordinary Shares		15,989	60,318
Share issue costs paid	22	(624)	(1,188)
Dividends paid	6	(3,747)	(2,459)
Net cash inflow from financing activities		**11,618**	**56,671**
Increase in cash and cash equivalents		**1,908**	**6,822**
Cash and cash equivalents brought forward		6,152	–
Effect of foreign exchange on cash and cash equivalents		(501)	670
Cash and cash equivalents carried forward*		**7,559**	**6,152**
Supplemental disclosure of cash flow information			
Interest purchased during the year/period		1,214	2,086
Interest sold during the year/period		4,705	4,876

*Cash and cash equivalents at the year end includes bank overdrafts of £9,249,000 that are repayable on demand and form an integral part of the Company's cash management.

The accompanying notes on pages 49 to 74 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2017

1. General information

The Company was incorporated as an authorised closed-ended investment Company, under the Companies (Guernsey) Law, 2008 on 7 October 2015 with registered number 61003. Its Ordinary Shares were admitted to trading on the Specialist Fund Segment of the London Stock Exchange on 5 November 2015.

Investment objective

The investment objective of the Company is to provide Shareholders with an attractive return, while limiting downside risk, through investment in the following financial institution investment instruments:

- Regulatory Capital Instruments, being financial instruments issued by a European financial institution which constitute regulatory capital for the purposes of Basel I, Basel II or Basel III or Solvency I or Solvency II;
- Other financial institution investment instruments, being financial instruments issued by a European financial institution, including without limitation senior debt, which do not constitute Regulatory Capital Instruments; and
- Derivative Instruments, being CDOs, securitisations or derivatives, whether funded or unfunded, linked or referenced to Regulatory Capital Instruments or Other financial institution investment instruments.

Investment policy

The Company will seek to invest in a diversified portfolio of financial institution investment instruments. The Company will focus primarily on investing in the secondary market although instruments may also be subscribed in the primary market where the Investment Manager, Axiom, identifies attractive opportunities.

The Company will invest its assets with the aim of spreading investment risk.

2. Statement of compliance

a) Basis of preparation

These financial statements present the results of the Company for the year ended 31 December 2017. The comparative figures stated were for the period from 7 October 2015 (date of incorporation) to 31 December 2016. These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as adopted by the European Union.

b) Going concern

After making reasonable enquiries, and assessing all data relating to the Company's liquidity, including its significant cash resources, income stream and Level 1 investments, the Directors have a reasonable expectation that the Company 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 Company. Therefore, the financial statements have been prepared on a going concern basis.

c) Basis of measurement

The financial statements have been prepared on a historical cost basis, except for financial instruments (including derivative financial instruments), which are measured at fair value through profit or loss.

d) Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2017 *(continued)*

3. Significant accounting policies

a) Income and expenses

Bank interest, bond income and credit default swap income is recognised on a time-proportionate basis.

Dividend income is recognised when the right to receive payment is established. Capital instrument income comprises bond interest and dividend income.

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

b) Transaction costs

Transaction costs incurred on the acquisition or disposal of a financial investment designated at fair value through profit or loss are charged through the Statement of Comprehensive Income in the period in which they are incurred.

c) Foreign currency

Foreign currency transactions are translated into Sterling using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income.

The exchange rates used by the Company as at 31 December 2017 were £1/€1.1260, £1/US$1.3513, £1/DKK8.3828 and £1/CA$1.6985 (2016: £1/€1.1731, £1/US$1.2340, £1/DKK8.7202, £1/CA$1.6574 and £1/SEK11.2754).

d) Taxation

The Directors intend to conduct the Company's affairs such that the Company continues to qualify for exemption from Guernsey taxation.

Investment income is recorded gross of applicable taxes and any tax expenses are recognised through the Statement of Comprehensive Income as incurred.

The Company holds investments in several European countries. In some jurisdictions, investment income and capital gains are subject to withholding tax deducted at the source of the income. The Company presents the withholding tax separately from the gross investment income in the Statement of Comprehensive Income. For the purpose of the Statement of Cash Flows, cash inflows from investments are presented net of withholding taxes when applicable.

e) Financial assets and liabilities

The financial assets and liabilities of the Company are investments at fair value through profit or loss, collateral accounts for derivative financial instruments, cash and cash equivalents, other receivables, derivative financial instruments and other payables. These financial instruments are designated at fair value through profit or loss upon initial recognition on the basis that they are part of a group of financial assets which are managed and have their performance evaluated on a fair value basis, in accordance with investment strategies and risk management of the Company.

Recognition

The Company recognises a financial asset or a financial liability when, and only when, it becomes a party to the contractual provisions of the instrument. Purchases and sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace are recognised on the trade date, i.e. the date that the Company commits to purchase or sell the asset.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2017 *(continued)*

3. Significant accounting policies *(continued)*

e) Financial assets and liabilities *(continued)*

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar assets) is derecognised where:

- The rights to receive cash flows from the asset have expired; or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and
- Either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset (or has entered into a pass-through arrangement) and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset.

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

Initial measurement

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

Subsequent measurement

After initial measurement, the Company measures financial assets which are classified at fair value through profit or loss, at fair value. Subsequent changes in the fair value of those financial instruments are recorded in net gain or loss on financial assets and liabilities at fair value through profit or loss. Interest and dividend earned or paid on these instruments are recorded separately in interest income or expense and dividend income or expense.

Net gain or loss on financial assets and financial liabilities at fair value through profit or loss

The Company records its transactions in investments and the related revenue and expenses on a trade date basis. Unrealised gains and losses comprise changes in the fair value of financial instruments at the period end. These gains and losses represent the difference between an instrument's initial carrying amount and disposal amount, or cash payment on, or receipts from derivative contracts.

Offsetting of financial instruments

Financial assets and financial liabilities are reported net by counterparty in the Statement of Financial Position, provided that a legal right of offset exists, and is not offset by collateral pledged to or received from counterparties.

f) Derivative financial instruments

Derivative financial instruments, including credit default swap agreements, foreign currency forward contracts, bond future contracts and sale and repurchase agreements are recognised initially, and are subsequently measured at, fair value. Derivative financial instruments are classified as assets when their fair value is positive or as liabilities when their fair value is negative. Derivative assets and liabilities arising from different transactions are offset only if the transactions are with the same counterparty, a legal right of offset exists, and the parties intend to settle the cash flows on a net basis.

Fair value movements on derivative financial instruments are recognised in the Statement of Comprehensive Income in the period in which they arise.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2017 *(continued)*

3. Significant accounting policies *(continued)*

g) Offsetting of derivative assets and liabilities

IFRS 7, *Financial Instruments: Disclosures*, requires an entity to disclose information about offsetting rights and related arrangements. The disclosures in note 17 provide users with information to evaluate the effect of netting arrangements on the Company's financial position. The disclosures are required for all recognised financial instruments that could be offset in accordance with International Accounting Standard ("IAS") 32, *Financial Instruments Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting agreement or similar agreement, irrespective of whether these are offset in accordance with IAS 32.

h) Collateral accounts for derivative financial instruments at fair value through profit or loss

Collateral accounts for derivative financial instruments at fair value through profit or loss comprise cash balances held at the Company's depositary and the Company's clearing brokers and cash collateral pledged to counterparties related to derivative contracts. Cash that is related to securities sold, not yet purchased, is restricted until the securities are purchased. Financial instruments held within the margin account consist of cash received from brokers to collateralise the Company's derivative contracts and amounts transferred from the Company's bank account.

i) Receivables and prepayments

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

There are instruments in the portfolio that do not pay any distributions because the payment remains at the discretion of the issuer, or is under regulatory or state aid restrictions. These are not classified as "bad debts".

With respect to senior debt only:

- If bond interest has not been received within 30 calendar days of the expected pay date, unless there is good reason, 50% of the interest will be provided against; and
- If bond interest has not been received within 60 calendar days of the expected pay date, unless there is good reason, 100% of the interest will be provided against.

Bad debts will be considered on an investment by investment basis and no general provision will be made.

j) Cash and cash equivalents

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

k) Payables and accruals

Trade and other payables are carried at payment or settlement amounts. Where the time value of money is material, payables are carried at amortised cost. When payables are received in currencies other than the reporting currency, they are carried forward, translated at the rate prevailing at the year end date.

l) Share capital

Ordinary Shares are classified as equity. Incremental costs directly attributable to the issue of Ordinary Shares are recognised as a deduction from equity.

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, is recognised as a deduction from equity. Repurchased shares that are classified as Treasury Shares are presented as a deduction from equity. When Treasury Shares are sold or subsequently reissued, the amount received is recognised as an increase in equity and the resulting surplus or deficit is transferred to/from retained earnings.

Funds received from the issue of Ordinary Shares are allocated to share capital, to the extent that they relate to the nominal value of the Ordinary Shares, with any excess being allocated to distributable reserves.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2017 *(continued)*

3. Significant accounting policies *(continued)*

m) Distributable and non-distributable reserves

All income and expenses, foreign exchange gains and losses and realised investment gains and losses of the Company are allocated to the distributable reserve.

n) NAV per share and earnings per share

The NAV per share disclosed on the face of the Statement of Financial Position is calculated by dividing the net assets by the number of Ordinary Shares in issue at the year/period end.

Earnings per share is calculated by dividing the earnings for the year/period by the weighted average number of Ordinary Shares in issue during the year/period.

o) Changes in accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial period. The Company adopted the amendment to IAS 7, *Statement of Cash Flows* in the year. This did not have any effect on the Company's financial statements.

p) Accounting standards issued but not yet effective

The International Accounting Standards Board ("IASB") has issued/revised a number of relevant standards with an effective date after the date of these financial statements. Any standards that are not deemed relevant to the operations of the Company have been excluded. The Directors have chosen not to early adopt these standards and interpretations and they do not anticipate that they would have a material impact on the Company's financial statements in the period of initial application.

		Effective date
IFRS 2	Share-based payments	1 January 2018
IFRS 9	Financial Instruments	1 January 2018
IFRS 15	Revenue from Contracts with Customers	1 January 2018

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

The Company plans to adopt the new standard on the required effective date. During 2017, the Company performed a high-level impact assessment of all three aspects of IFRS 9. This assessment is based on currently available information and may be subject to changes arising from further detailed analyses or additional reasonable and supportable information being made available to the Company in the future. Overall, the Company expects no impact on its Statement of Financial Position or equity in 2018.

i. Classification and measurement

The Company does not expect a significant impact on its Statement of Financial Position or equity on applying the classification and measurement requirements of IFRS 9. It expects to continue measuring at fair value all financial assets and liabilities currently held at fair value.

ii. Impairment

IFRS 9 requires the Company to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Company will apply the simplified approach and record lifetime expected losses on all other receivables. Given that other receivables have not been impaired to date, the Company does not expect there to be a significant impact on its equity from reviewing the expected credit losses on other receivables over their lifetimes.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2017 *(continued)*

3. Significant accounting policies *(continued)*

p) Accounting standards issued but not yet effective *(continued)*

iii. Hedge accounting

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

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

4. Use of judgements and estimates

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

Judgements

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

i) Determination of functional currency

The performance of the Company is measured and reported to investors in Sterling. Although the majority of the Company's underlying assets are held in currencies other than Sterling, because the Company's capital is raised in Sterling, expenses are paid in Sterling and the Company hedges substantially all of its foreign currency risk back to Sterling, the Directors consider Sterling to be the Company's functional currency.

The Directors do not consider there to be any other judgements which have had a significant impact on the financial statements.

Estimates and assumptions

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

i) Valuation of financial assets and liabilities

The Company uses the expertise of the Investment Manager to assess the prices of investments at the valuation date. The majority of the prices can be independently verified with reference to external data sources, however a minority of investments cannot be verified by reference to an external source and the Investment Manager secures an independent valuation with reference to the latest prices traded within the market place. These independent valuations take the form of quotes from brokers.

For further information on the assumptions and inputs used to fair value the financial instruments, please see note 18.

5. Segmental reporting

In accordance with IFRS 8, *Operating Segments*, it is mandatory for the Company to present and disclose segmental information based on the internal reports that are regularly reviewed by the Board in order to assess each segment's performance.

Management information for the Company as a whole is provided internally for decision making purposes. The Company does compartmentalise different investments in order to monitor compliance with investment restrictions, however the performance of these allocations does not drive the investment decision process. The Directors' decisions are based on a single integrated investment strategy and the Company's performance is evaluated on an overall basis. Therefore, the Directors are of the opinion that the Company is engaged in a single economic segment of business for all decision making purposes. The financial results of this segment are equivalent to the results of the Company as a whole.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2017 *(continued)*

6. Dividends

As set out in the Prospectus, the Company intends to distribute all of its income from investments, net of expenses, by way of dividends on a quarterly basis. The Company may retain income for distribution in a subsequent quarter to that which it arises in order to smooth dividend amounts or for the purposes of efficient cash management.

The Company has declared the following dividends during the year ended 31 December 2017:

Announcement date	Pay date	Total dividend declared in respect of earnings £'000	Amount per Ordinary Share
18 January 2017	24 February 2017	1,005	1.65p
11 April 2017	12 May 2017	914	1.50p
19 July 2017	25 August 2017	914	1.50p
18 October 2017	24 November 2017	914	1.50p
Dividends declared and paid in the year		3,747	6.15p
Less, dividend declared in respect of the prior period that was paid in 2017		(1,005)	(1.65)p
Add, dividend declared out of the profits of the year but paid after the year end:			
17 January 2018	23 February 2018	1,140	1.50p
Dividends declared in respect of the year		3,882	6.00p

The Company declared the following dividends during the period from incorporation to 31 December 2016:

Announcement date	Pay date	Total dividend declared in respect of earnings £'000	Amount per Ordinary Share
26 January 2016	26 February 2016	178	0.35p
22 April 2016	27 May 2016	547	1.00p
19 July 2016	26 August 2016	820	1.50p
13 October 2016	25 November 2016	914	1.50p
Dividends declared and paid in the period		2,459	4.35p
Add, dividend declared out of the profits of the period but paid after the period end:			
18 January 2017	24 February 2017	1,005	1.65p
Dividends declared in respect of the period		3,464	6.00p

In accordance with IFRS, dividends are only provided for when they become a contractual liability of the Company. Therefore, during the year a total of £3,747,000 (2016: £2,459,000) was incurred in respect of dividends, none of which was outstanding at the reporting date. The fourth dividend of £1,140,000 had not been provided for at 31 December 2017 as, in accordance with IFRS, it was not deemed to be a liability of the Company at that date.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2017 *(continued)*

7. Related parties

Details of the relationships between the Company and its related parties, being the Investment Manager and the Directors, are disclosed in notes 8a and 8f.

Details of the relationships between the Company and its other advisors and service providers (the Administrator, the Broker, the Registrar and the Depositary) are also disclosed in note 8.

As at 31 December 2017, the Company had holdings in the following investments which were managed by the Investment Manager:

	31 December 2017			31 December 2016		
	Holding	Cost £'000	Value £'000	Holding	Cost £'000	Value £'000
Axiom Premium Multi Strategies	1,739	2,146	2,345	–	–	–
Axiom Contingent Capital	–	–	–	2,000	1,459	1,831
Axiom Equity C FCP	–	–	–	740	420	556

During the year, the Company sold 2,000 units in Axiom Contingent Capital for £1,985,000, realising a gain of £526,000 (2016: sold 910 units realising a gain of £9,000).

During the year, the Company sold 740 units in Axiom Equity C FCP for £545,000, generating a realised gain of £125,000.

The Directors are not aware of any ultimate controlling party.

8. Key contracts

a) Investment Manager

The Company has entered into an Investment Management Agreement with Axiom under which the Company receives investment advice and management services.

Management fee

Under the terms of the Investment Management Agreement, a management fee is paid to the Investment Manager quarterly in arrears. The quarterly fee is calculated by reference to the following sliding scale:

i. where NAV is less than or equal to £250 million, 1% per annum of NAV;

ii. where NAV is greater than £250 million but less than or equal to £500 million, 1% per annum of NAV on the first £250 million and 0.8% per annum of NAV on the balance; and

iii. where NAV is greater than £500 million, 0.8% per annum of NAV, in each case, plus applicable VAT.

If in any quarter (other than the final quarter) of any accounting period the aggregate expenses of the Company (excluding management fees, performance fees, interest charged on sale and repurchase agreements, bank charges and withholding tax) during such quarter exceed an amount equal to one-quarter of 1.5% of the average NAV of the Company during such quarter (such amount being a "Quarterly Expenses Excess"), then the management fee payable in respect of that quarter shall be reduced by the amount of the Quarterly Expenses Excess, provided that the management fee shall not be reduced to an amount that is less than zero and no sum will be payable by the Investment Manager to the Company in respect of the Quarterly Expenses Excess.

If in the final quarter of any accounting period the aggregate expenses of the Company during such accounting period exceed an amount equal to 1.5% of the average NAV of the Company during such accounting period (such amount being an "Annual Expenses Excess"), then the management fee payable in respect of that quarter shall be reduced by the amount of the Annual Expenses Excess. If such reduction would not fully eliminate the Annual Expenses Excess (the amount of any such shortfall being a "Management Fee Deduction Shortfall"), the Investment Manager shall pay to the Company an amount equal to the Management Fee Deduction Shortfall (a "Management Fee Deduction Shortfall Payment") as soon as is reasonably practicable.

During the year, a total of £394,000 (2016: £345,000) was incurred in respect of Investment Management fees, of which £83,000 was payable at the reporting date (2016: £72,000).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2017 *(continued)*

8. Key contracts *(continued)*

a) Investment Manager *(continued)*

In addition, the Investment Manager was paid £183,000 for its work on the initial placing. The £183,000 is included in share issue costs in the Statement of Changes in Equity for the period ended 31 December 2016.

Under the terms of the Investment Management Agreement, if at any time there has been any deduction from the management fee as a result of the Quarterly Expenses Excess or Annual Expenses Excess (a "Management Fee Deduction"), and during any subsequent quarter:

i. all or part of the Management Fee Deduction can be paid; and/or

ii. all or part of the Management Fee Deduction Shortfall payment can be repaid,

by the Company to the Investment Manager without:

iii. in any quarter (other than the final quarter) of any accounting period the aggregate expenses of the Company during such quarter exceeding an amount equal to one-quarter of 1.5% of the average NAV of the Company during such quarter; or

iv. in the final quarter of any accounting period the aggregate expenses of the Company during such accounting period exceeding an amount equal to 1.5% of the average NAV of the Company during such accounting period,

then such payment and/or repayment shall be made by the Company to the Investment Manager as soon as is reasonably practicable.

The Quarterly Expenses Excess and Annual Expenses Excess for the year was £233,000 (2016: £231,000), and at 31 December 2017 the Quarterly Expenses Excess and Annual Expenses Excess which could be payable to the Investment Manager in future periods was £464,000 (2016: £231,000) (see note 26).

Performance fee

The Investment Manager is entitled to receive from the Company a performance fee subject to certain performance benchmarks.

The fee is payable as a share of the Total Shareholder Return ("TSR") where TSR for this purpose is defined as:

i. the NAV (on a per share basis) at the end of the relevant accounting period; plus

ii. the total of all dividends and other distributions made to Shareholders since 5 November 2015 (being the date of the Company's original admission to the SFS) divided by the number of shares in issue during the period from 5 November 2015 to the end of the relevant accounting period.

The performance fee, if any, is equal to 15% of the TSR in excess of a weighted average hurdle equal to a 7% per annum return. The performance fee is subject to a high water mark. The fee, if any, is payable annually and calculated on the basis of audited accounts of the Company.

On 24 November 2017, a deed of amendment was entered into between the Company and the Investment Manager to amend certain terms of the Investment Management Agreement, in order to address certain matters that were identified by the Company and the Investment Manager in relation to the effect of the performance fee calculation provisions in certain circumstances. The amendments are disclosed in detail in the Supplementary Prospectus, which was published on 27 November 2017.

50% of the performance fee will be settled in cash. The balance will be satisfied in shares, subject to certain exceptions where settlement in shares would be prohibited by law or would result in the Investment Manager or any person acting in concert with it incurring an obligation to make an offer under Rule 9 of the City Code, in which case the balance will be settled in cash.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2017 *(continued)*

8. Key contracts *(continued)*

a) Investment Manager *(continued)*

Assuming no such requirement, the balance of the performance fee will be settled either by the allotment to the Investment Manager of such number of new shares credited as fully paid as is equal to 50% of the performance fee (net of VAT) divided by the most recent practicable NAV per share (rounded down to the nearest whole share) or by the acquisition of shares in the market, as required under the terms of the Investment Management Agreement. All shares allotted to (or acquired for) the Investment Manager in part satisfaction of the performance fee will be subject to a lock-up until the date that is 12 months from the end of the accounting period to which the award of such shares related.

At the year end a performance fee of £469,000 (2016: £nil) was payable by the Company of which £235,000 will be paid in cash.

b) Administrator and Company Secretary

Elysium Fund Management Limited has been appointed by the Company to provide day to day administration services to the Company, to calculate the NAV per share as at the end of each calendar month and to provide company secretarial functions required under the Law.

Under the terms of the Administration Agreement, the Administrator is entitled to receive a fee of £112,000 per annum, which is subject to an annual adjustment upwards to reflect any percentage change in the retail prices index over the preceding year. In addition, the Company pays the Administrator a fee for work undertaken in connection with the daily NAV, subject to a maximum aggregate amount of £10,000 per annum. The Administrator was also paid additional fees in respect of the work undertaken on the new Prospectus and Supplementary Prospectus of £66,000 (2016: one-off establishment fee of £25,000 on Admission). These fees are included in share issue costs in the Statement of Changes in Equity.

During the year, a total of £122,000 (2016: £140,000) was incurred in respect of Administration fees of which £31,000 (2016: £30,000) was payable at the reporting date.

c) Broker

Winterflood Securities Limited ("Winterflood") was appointed to act as Corporate Broker ("Broker") for the Company with effect from 31 October 2017. In consideration of Winterflood agreeing to act as Broker, the Company pays Winterflood an annual retainer fee of £35,000 per annum.

Prior to Winterflood's appointment, Liberum Capital Limited ("Liberum") had been appointed to act as Broker for the Company. In consideration of Liberum agreeing to act as Broker the Company paid Liberum an annual retainer fee of £75,000 per annum.

For the year to 31 December 2017, the Company incurred Broker fees of £80,000 (2016: £88,000) of which £6,000 was payable at the year end date (2016: £nil).

In addition, Winterflood was paid £97,000 for its work on the placing and Liberum was paid £34,000 for its work on the new Prospectus and placing. In the period ended 2016, Liberum was paid a total of £381,000 for its work on the three placings. These fees are included in share issue costs in the Statement of Changes in Equity.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2017 *(continued)*

8. Key contracts *(continued)*

d) Registrar

Link Market Services (Guernsey) Limited (previously Capita Registrars (Guernsey) Limited) has been appointed Registrar of the Company.

Under the terms of the Registrar Agreement, the Registrar is entitled to receive from the Company certain annual maintenance and activity fees, subject to a minimum fee of £5,500 per annum.

During the year, a total of £17,000 (2016: £20,000) was incurred in respect of Registrar fees, of which £3,000 was payable at 31 December 2017 (2016: £4,000).

e) Depositary

CACEIS Bank France has been appointed by the Company to provide depositary, settlement and other associated services to the Company.

Under the terms of the Depositary Agreement, the Depositary is entitled to receive from the Company:

i. an annual depositary fee of 0.03% of NAV, subject to a minimum annual fee of €25,000;

ii. a safekeeping fee calculated using a basis point fee charge based on the country of settlement and the value of the assets; and

iii. an administration fee on each transaction, together with various other payment/wire charges on outgoing payments.

During the year, a total of £41,000 (2016: £30,000) was incurred in respect of depositary fees, of which £6,000 was payable at the reporting date (2016: £11,000).

CACEIS Bank Luxembourg is entitled to receive a monthly fee from the Company in respect of the provision of certain accounting services which will, subject to a minimum monthly fee of €2,500, be calculated by reference to the following tiered sliding scale:

i. where NAV is less than or equal to €50 million, 0.05% per annum of NAV;

ii. where NAV is greater than €50 million but less than or equal to €100 million, 0.04% per annum of NAV; and

iii. where NAV is greater than €100 million, 0.03% per annum of NAV, in each case, plus applicable VAT.

During the year, a total of £28,000 (2016: £25,000) was incurred in respect of fees paid to CACEIS Bank Luxembourg, of which £6,000 was payable at 31 December 2017 (2016: £9,000).

f) Directors' remuneration

William Scott (Chairman) is paid £35,000 per annum, John Renouf (Chairman of the Audit Committee) is paid £32,500 per annum, and Max Hilton is paid £27,500 per annum.

The Directors are also entitled to reimbursement of all reasonable travelling and other expenses properly incurred in the performance of their duties.

During the year, a total of £95,000 (2016: £110,000) was incurred in respect of Directors' fees, none of which was payable at the reporting date (2016: £24,000). No bonus or pension contributions were paid or payable on behalf of the Directors.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2017 *(continued)*

9. Key management and employees

Other than the Non-Executive Directors, the Company has had no employees since its incorporation.

10. Auditor's remuneration

For the year ended 31 December 2017, fees charged by EY, together with amounts accrued at 31 December 2017, amounted to £139,000 (2016: £78,000), of which £61,000 (2016: £25,000) related to audit services and £78,000 (included in Share issue costs) related to reporting accountant and tax work on the renewal of the Prospectus (2016: £53,000 for reporting accountant and tax work on the IPO). As at 31 December 2017, £35,000 (2016: £25,000) was due to EY.

11. Other expenses

	Year ended 31 December 2017 £'000	**Period from 7 October 2015 to 31 December 2016 £'000**
Broker fees *(note 8c)*	80	88
Audit fees *(note 10)*	61	25
PR expenses	47	64
Depositary fees *(note 8e)*	41	30
Valuation agent fees	28	25
Other expenses	24	100
Legal fees	24	3
Registrar fees *(note 8d)*	17	20
	322	**355**

12. Taxation

The Company is exempt from taxation in Guernsey, and it is the intention to conduct the affairs of the Company to ensure that it continues to qualify for exempt company status for the purposes of Guernsey taxation. The Company pays a fixed fee of £1,200 per annum to maintain exempt company status.

The Company has a number of investments in bonds issued in Italy. Until 6 September 2016, as a Guernsey registered Company, any income received on Italian bonds suffered Italian withholding tax at 26%. In addition, Italian withholding tax was calculated, by the Depositary, and either charged or received on the purchase or sale of bond interest bought or sold with bonds at a rate of 26%. From 6 September 2016, foreign investors resident in Guernsey became entitled to benefit from exemption on interests on Italian Government and Corporate bonds and therefore no further Italian withholding tax has been payable.

13. Earnings per Ordinary Share

The earnings per Ordinary Share of 15.88p (2016: 2.44p) is based on a profit attributable to owners of the Company of £9,743,000 (2016: £1,339,000) and on a weighted average number of 61,343,602 (2016: 54,878,410) Ordinary Shares in issue since 1 January 2017. There is no difference between the basic and diluted earnings per share.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2017 *(continued)*

14. Investments at fair value through profit or loss

	Year ended 31 December 2017 £'000	Period from 7 October 2015 to 31 December 2016 £'000
Investments in capital instruments		
Opening balance	49,145	–
Additions in the year/period	126,942	124,470
Sales in the year/period	(108,075)	(80,520)
Movement in unrealised gains in the year/period	250	2,197
Realised gains in the year/period	3,851	2,998
Closing valuation	**72,113**	**49,145**
Other investments		
Opening balance	–	–
Additions in the year/period	2,147	–
Movement in unrealised gains in the year/period	198	–
Closing valuation	**2,345**	–
Short position covered by sale and repurchase agreement		
Opening balance	–	–
Sales in the year/period	(842)	–
Movement in unrealised gains in the year/period	4	–
Closing valuation	**(838)**	–

Investments in capital instruments at fair value through profit or loss comprise mainly of investments in bonds, and also preference shares, structured notes and other securities that have a similar income profile to that of bonds. The other investment at fair value through profit or loss consists of an investment in an open ended fund managed by the Investment Manager (see note 7) to obtain diversified exposure on bank equities.

As at 31 December 2017, the Company had four open sale and repurchase agreements, including one reverse sale and repurchase agreement (see note 17). The reverse sale and repurchase agreement is open ended and was used to cover the sale of a capital instrument (the short position noted above).

The fair value of the capital instruments subject to sale and repurchase agreements (excluding the short position) at 31 December 2017 was £7,234,000 (2016: £nil). The fair value net of the short position was £6,395,000 (2016: £nil).

15. Collateral accounts for derivative financial instruments at fair value through profit or loss

	31 December 2017 £'000	31 December 2016 £'000
JP Morgan	1,370	1,550
Goldman Sachs International	1,066	2,723
Credit Suisse	598	162
CACEIS Bank France	109	113
Total collateral held by brokers	**3,143**	**4,548**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2017 *(continued)*

15. Collateral accounts for derivative financial instruments at fair value through profit or loss *(continued)*

With respect to derivatives, the Company pledges to third parties cash and/or other liquid securities ("Collateral") as initial margin and as variation margin. Collateral may be transferred either to the third party or to an unaffiliated custodian for the benefit of the third party. In the case where Collateral is transferred to the third party, the third party pursuant to these derivatives arrangements will be permitted to use, reuse, lend, borrow, hypothecate or re-hypothecate such Collateral. The third parties will have no obligation to retain an equivalent amount of similar property in their possession and control, until such time as the Company's obligations to the third party are satisfied. The Company has no right to this Collateral but has the right to receive fungible, equivalent Collateral upon the Company's satisfaction of the Company's obligation under the derivatives.

16. Other receivables and prepayments

	31 December 2017 £'000	31 December 2016 £'000
Accrued capital instrument income receivable	634	794
Interest due on credit default swaps	22	18
Other receivables and prepayments	16	13
	672	**825**

17. Derivative financial instruments

Credit default swap agreements

A credit default swap agreement represents an agreement that one party, the protection buyer, pays a fixed fee, the premium, in return for a payment by the other party, the protection seller, contingent upon a specified credit event relating to an underlying reference asset. If a specified credit event occurs, there is an exchange of cash flows and/or securities designed so the net payment to the protection buyer reflects the loss incurred by holders of the referenced obligation in the event of its default. The International Swaps and Derivatives Association ("ISDA") establishes the nature of the credit event and such events include bankruptcy and failure to meet payment obligations when due.

	Year ended 31 December 2017 £'000	Period from 7 October 2015 to 31 December 2016 £'000
Opening balance	(2,238)	–
Premiums received from selling credit default swap agreements	(1,877)	(3,675)
Premiums paid on buying credit default swap agreements	1,838	1,035
Movement in unrealised gains in the year/period	2,100	304
Realised gains in the year/period	1,092	98
Outstanding asset/(liability) due on credit default swaps	**915**	**(2,238)**
Credit default swap assets at fair value through profit or loss	1,093	137
Credit default swap liabilities at fair value through profit or loss	(178)	(2,375)
Outstanding asset/(liability) due on credit default swaps	**915**	**(2,238)**

Interest paid or received on the credit default swap agreements has been accounted for in the Statement of Comprehensive Income as it has been incurred or received. At the year end, £22,000 (2016: £18,000) of interest on credit default swap agreements was due to the Company.

Collateral totalling £3,034,000 (2016: £4,435,000) was held in respect of the credit default swap agreements.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2017 *(continued)*

17. Derivative financial instruments *(continued)*

Foreign currency forwards

Foreign currency forward contracts are used for trading purposes and are used to hedge the Company's exposure to changes in foreign currency exchange rates on its foreign portfolio holdings. A foreign currency forward contract is a commitment to purchase or sell a foreign currency on a future date and at a negotiated forward exchange rate.

	Year ended 31 December 2017 £'000	Period from 7 October 2015 to 31 December 2016 £'000
Opening balance	(190)	–
Purchase of foreign currency derivatives	189,706	159,249
Closing-out of foreign currency derivatives	(190,792)	(153,270)
Movement in unrealised losses in the year/period	(200)	(190)
Realised gains/(losses) in the year/period	1,086	(5,979)
Net liabilities on foreign currency forwards	**(390)**	**(190)**
Foreign currency forward assets at fair value through profit or loss	54	60
Foreign currency forward liabilities at fair value through profit or loss	(444)	(250)
Net liabilities on foreign currency forwards	**(390)**	**(190)**

Bond futures

A bond future contract involves a commitment by the Company to purchase or sell bond futures for a predetermined price, with payment and delivery of the bond future at a predetermined future date.

	Year ended 31 December 2017 £'000	Period from 7 October 2015 to 31 December 2016 £'000
Opening balance	9	–
Purchase of bond futures	1,906	2,552
Sale of bond futures	(1,954)	(2,596)
Movement in unrealised gains in the year/period	50	–
Realised (losses)/gains in the year/period	(6)	53
Balance receivable on bond futures	**5**	**9**
Bond future assets at fair value through profit or loss	5	10
Bond future liabilities at fair value through profit or loss	–	(1)
Balance receivable on bond futures	**5**	**9**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2017 *(continued)*

17. Derivative financial instruments *(continued)*

Sale and repurchase agreements

Under the terms of a sale and repurchase agreement one party in the agreement acts as a borrower of cash, using a security held as collateral, and the other party in the agreement acts as a lender of cash. Almost any security may be employed in the sale and repurchase agreement. Interest is paid by the borrower for the benefit of having funds to use until a specified date on which the effective loan needs to be repaid.

	Year ended 31 December 2017 £'000	Period from 7 October 2015 to 31 December 2016 £'000
Opening balance	–	–
Opening of sale and repurchase agreements	(38,670)	(5,918)
Opening of reverse sale and repurchase agreements	893	–
Closing-out of sale and repurchase agreements	32,367	6,077
Movement in unrealised gains in the year/period	5	–
Realised losses in the year/period	(37)	(159)
Total liabilities on sale and repurchase agreements	**(5,442)**	**–**
Sale and repurchase assets at fair value through profit or loss	894	–
Sale and repurchase liabilities at fair value through profit or loss	(6,336)	–
Total liabilities on sale and repurchase agreements	**(5,442)**	**–**

Interest paid on sale and repurchase agreements has been accounted for in the Statement of Comprehensive Income as it has been incurred. At 31 December 2017 £5,000 (2016: £nil) interest on sale and repurchase agreements was payable by the Company.

The fair value of the capital instruments subject to sale and repurchase agreements (excluding the short position) at 31 December 2017 was £7,234,000 (2016: £nil), The fair value net of the short position was £6,395,000 (2016: £nil).

Offsetting of derivative financial instruments

The Company presents the fair value of its derivative assets and liabilities on a gross basis, no such assets or liabilities have been offset in the Statement of Financial Position. Certain derivative financial instruments are subject to enforceable master netting arrangements, such as ISDA master netting agreements, or similar agreements that cover similar financial instruments.

The similar agreements include derivative clearing agreements, global master repurchase agreements, global master securities lending agreements, and any related rights to financial collateral. The similar financial instruments and transactions include derivatives, sale and repurchase agreements, reverse sale and repurchase agreements, securities borrowing, and securities lending agreements.

The Company's agreements allow for offsetting following an event of default, but not in the ordinary course of business, and the Company does not intend to settle these transactions on a net basis or settle the assets and liabilities on a simultaneous basis.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2017 *(continued)*

17. Derivative financial instruments *(continued)*

The table below sets out the carrying amounts of recognised financial assets and liabilities that are subject to the above arrangements:

	Gross carrying amount before offsetting £'000	Amounts offset in accordance with offsetting criteria £'000	Net amount presented in Statement of Financial Position £'000	Effect of remaining rights of offset that do not meet the criteria for offsetting in the Statement of Financial Position – Cash held as collateral £'000	Net exposure £'000
31 December 2017					
Financial assets					
Derivatives	2,046	–	2,046	–	2,046
Collateral accounts for derivative financial instruments *(note 15)*	3,143	–	3,143	(287)	2,856
Total assets	**5,189**	**–**	**5,189**	**(287)**	**4,902**
Financial liabilities					
Derivatives	(6,958)	–	(6,958)	287	(6,671)
Total liabilities	**(6,958)**	**–**	**(6,958)**	**287**	**(6,671)**
31 December 2016					
Financial assets					
Derivatives	207	–	207	–	207
Collateral accounts for derivative financial instruments *(note 15)*	4,548	–	4,548	(2,559)	1,989
Total assets	**4,755**	**–**	**4,755**	**(2,559)**	**2,196**
Financial liabilities					
Derivatives	(2,626)	–	(2,626)	2,559	(67)
Total liabilities	**(2,626)**	**–**	**(2,626)**	**2,559**	**(67)**

Offsetting of derivative financial instruments (continued)

Of the £6,671,000 net derivative liabilities as at 31 December 2017:

- £336,000 was in respect of derivative positions held through CACEIS Bank France, for which the cash at bank and investments at fair value through profit or loss totalling £82,018,000 and derivative assets of £59,000 were used as collateral;
- £1,369,000 was in respect of derivative positions held through JP Morgan, for which derivative assets of £674,000 and capital instruments totalling £1,727,000 were used as collateral; and
- £4,966,000 was in respect of derivative positions held through BRED Banque Populaire, for which capital instruments totalling £5,507,000 were used as collateral.

As at 31 December 2016, the net derivative liabilities of £67,000 was in respect of derivative positions held through CACEIS Bank France, for which the cash at bank and capital instruments totalling £55,297,000 were used as collateral.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2017 *(continued)*

18. Fair value of financial instruments at fair value through profit or loss

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

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

At 31 December 2017, the financial assets and liabilities designated at fair value through profit or loss were as follows:

31 December 2017	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Listed capital instruments at fair value through profit or loss	69,620	2,493	–	72,113
Other investments at fair value through profit or loss (note 7)	2,345	–	–	2,345
Credit default swaps	–	915	–	915
Derivative financial instruments	5	(5,832)	–	(5,827)
Short position covered by sale and repurchase agreements	–	(838)	–	(838)
	71,970	**(3,262)**	**–**	**68,708**

31 December 2016				
Listed capital instruments at fair value through profit or loss	47,467	1,678	–	49,145
Credit default swaps	–	(2,238)	–	(2,238)
Derivative financial instruments	9	(190)	–	(181)
	47,476	**(750)**	**–**	**46,726**

Level 1 financial instruments include listed capital instruments at fair value through profit or loss, an unlisted open ended fund and bond future contracts, which have been valued at fair value by reference to quoted prices in active markets. No unobservable inputs were included in determining the fair value of these investments and, as such, alternative carrying values for ranges of unobservable inputs have not been provided.

Level 2 financial instruments include credit default swap agreements, foreign currency forward contracts and sale and repurchase agreements. Each of these financial investments are valued by the Investment Manager using market observable inputs. The fair value of these securities may be based on, but are not limited to, the following inputs: market price of the underlying securities; notional amount; expiration date; fixed and floating interest rates; payment schedules; and/or dividends declared.

The model used by the Company to fair value credit default swap agreements prices a credit default swap as a function of its schedule, deal spread, notional value, credit default swap curve and yield curve. The key assumptions employed in the model include: constant recovery as a fraction of par, piecewise constant risk neutral hazard rates and default events being statistically independent of changes in the default-free yield curve.

The fair values of the derivative financial instruments are based on the forward foreign exchange rate curve.

Transfers between levels

Transfers between levels during the year are determined and deemed to have occurred at each financial reporting date. There were no investments classified as Level 3 during the year, and no transfers between levels in the year/period. See notes 14, 15 and 17 for movements in instruments held at fair value through profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2017 *(continued)*

19. Other payables and accruals

	31 December 2017 £'000	31 December 2016 £'000
Performance fee *(note 8a)*	469	–
Investment management fee *(note 8a)*	83	72
Other accruals	72	75
Audit fees *(note 10)*	35	25
Administration fee *(note 8b)*	31	30
Accrued interest payable on capital instrument short position	8	–
Depositary fees *(note 8e)*	6	11
Broker fee (*note 8c*)	6	–
Interest payable on sale and repurchase agreements *(note 17)*	5	–
Registrar fees *(note 8d)*	3	4
Directors' fees *(note 8f)*	–	24
	718	**241**

20. Share capital

	31 December 2017		31 December 2016	
	Number	£'000	Number	£'000
Authorised:				
Ordinary shares of no par value	Unlimited	–	Unlimited	–
Allotted, called up and fully paid:				
Ordinary Shares of no par value	75,999,351	–	60,930,764	–

At the initial placing, on 3 November 2015 the Company issued 50,737,667 Ordinary Shares of no par value for £1.00 each, raising proceeds of £50,738,000.

On 4 March 2016 the Company raised £3,551,000 through the placing of 3,945,555 new Ordinary Shares of no par value. The Ordinary Shares were issued at a price of 90.00p per share.

On 4 October 2016 the Company raised a further £6,029,000 through the placing of 6,247,542 new Ordinary Shares of no par value. The Ordinary Shares were issued at a price of 96.50p per share.

On 21 December 2017 the Company raised a further £15,989,000 through the placing of 15,068,587 new Ordinary Shares of no par value. The Ordinary Shares were issued at a price of 106.11p per share.

At 31 December 2017, the total number of Ordinary Shares in issue was 75,999,351 (2016: 60,930,764).

On 13 February 2018 the Company completed a further placing of 8,229,174 new Ordinary Shares of no par value at 107.50p per share, raising £8,846,000. Following the issue of these shares the total number of shares in issue was 84,228,525.

The Ordinary Shares carry the right to receive all dividends declared by the Company. Shareholders are entitled to all dividends paid by the Company and, on a winding up, provided the Company has satisfied all of its liabilities, the Shareholders are entitled to all of the surplus assets of the Company. Shareholders will be entitled to attend and vote at all general meetings of the Company and, on a poll, will be entitled to one vote for each Ordinary Share held.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2017 *(continued)*

21. Net asset value per Ordinary Share

The net asset value per Ordinary Share is based on the net assets attributable to owners of the Company of £79,364,000 (2016: £58,010,000), and on 75,999,351 (2016: 60,930,764) Ordinary Shares in issue at the year/period end.

22. Changes in liabilities arising from financing activities

During the year the Company raised £15,989,000 (2016: £60,318,000) through the placing of 15,068,587 (2016: 60,930,794) new Ordinary Shares of no par value. Share issue costs of £631,000 (2016: £1,188,000) were incurred in relation to the placing, and at the year end £56,000 (2016: £49,000) of the issue costs were outstanding, resulting in cash flows in relation to share issue costs in the year of £624,000 (2016: £1,139,000).

23. Financial instruments and risk management

The Investment Manager manages the Company's portfolio to provide Shareholders with attractive return, while limiting downside risk, through investment in the following financial institution investment instruments:

- Regulatory capital instruments, being financial instruments issued by a European financial institution which constitute regulatory capital for the purposes of Basel I, Basel II or Basel III or Solvency I or Solvency II;
- Other financial institution investment instruments, being financial instruments issued by a European financial institution, including without limitation senior debt, which do not constitute regulatory capital instruments; and
- Derivative instruments, being CDOs, securitisations or derivatives, whether funded or unfunded, linked or referenced to regulatory capital instruments or other financial institution investment instruments.

The Company invests its assets with the aim of spreading investment risk.

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

Risk management structure

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

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

The market in which the Company participates is competitive and rapidly changing.

Risk concentration

Concentration indicates the relative sensitivity of the Company's performance to developments affecting a particular industry or geographical location. Concentrations of risk arise when a number of financial instruments or contracts are entered into with the same counterparty, or where a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of liquidity risk may arise from the repayment terms of financial liabilities, sources of borrowing facilities or reliance on a particular market in which to realise liquid assets. Concentrations of foreign exchange risk may arise if the Company has a significant net open position in a single foreign currency, or aggregate net open position in several currencies that tend to move together.

Within the aim of maintaining a diversified investment portfolio, and thus mitigating concentration risks, the Company has established the following investment restriction in respect of the general deployment of assets:

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2017 *(continued)*

23. Financial instruments and risk management *(continued)*

Risk concentration (continued)

Concentration

No more than 15% of NAV, calculated at the time of investment, will be exposed to any one financial counterparty. This limit will increase to 20% where, in the Investment Manager's opinion (having informed the Board in writing of such increase) the relevant financial institution investment instrument is expected to amortise such that, within 12 months of the date of the investment, the expected exposure (net of any hedging costs and expenses) will be equal to or less than 15% of NAV, calculated at the time of the investment.

Market risk

i. Price risk

Price risk exposure arises from the uncertainty about future prices of financial instruments held. It represents the potential loss that the Company may suffer through holding positions in the face of price movements. The investments in capital instruments, an unlisted open ended fund, and bond futures at fair value through profit or loss (notes 14, 17 and 18) are exposed to price risk and it is not the intention to mitigate the price risk.

At 31 December 2017, if the valuation of these investments at fair value through profit or loss had moved by 5% with all other variables remaining constant, the change in net assets would amount to approximately +/- £3,681,000 (2016: +/- £2,458,000). The fair value of financial instruments exposed to price risk at 31 December 2017 was £73,625,000 (2016: £49,154,000).

ii. Foreign currency risk

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

In order to limit the exposure to foreign currency risk, the Company entered into hedging contracts during the year. At the year/period end, the Company held the following foreign currency forward contracts:

31 December 2017 **Maturity date**	**Amount** **to be sold**	**Amount** **to be purchased**
16 January 2018	€47,192,000	£41,546,000
16 January 2018	US$12,452,000	£9,292,000

31 December 2016 **Maturity date**	**Amount** **to be sold**	**Amount** **to be purchased**
8 March 2017	€34,000,000	£29,022,000
8 March 2017	US$13,400,000	£10,617,000
8 March 2017	DKK13,500,000	£1,548,000
8 March 2017	CA$1,110,000	£662,000
8 March 2017	US$7,500,000	€7,154,000

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2017 *(continued)*

23. Financial instruments and risk management *(continued)*

Market risk (continued)

ii. Foreign currency risk (continued)

At the year/period end a proportion of the net financial assets of the Company were denominated in currencies other than Sterling as follows:

31 December 2017	Investments at fair value through profit or loss £'000	Receivables £'000	Cash and cash equivalents £'000	Exposure £'000	Foreign currency forward contract £'000	Net exposure £'000
Euro	40,980	412	(4,125)	37,267	(41,990)	(4,723)
US Dollars	13,038	110	(5,123)	8,025	(9,238)	(1,213)
Danish Krone	–	–	417	417	–	417
Canadian Dollars	–	–	688	688	–	688
	54,018	522	(8,143)	46,397	(51,228)	(4,831)
31 December 2016						
Euro	20,651	495	2,613	23,759	(22,902)	857
US Dollars	15,318	137	92	15,547	(16,938)	(1,391)
Danish Krone	1,084	19	457	1,559	(1,548)	11
Canadian Dollars	646	10	39	695	(670)	25
	37,699	661	3,201	41,561	(42,058)	(497)

Other future foreign exchange hedging contracts may be employed, such as currency swap agreements, futures contracts and options. There can be no certainty as to the efficacy of any hedging transactions.

At 31 December 2017, if the exchange rates had strengthened/weakened by 5% against Sterling with all other variables remaining constant, net assets at 31 December 2017 would have decreased/increased by £242,000 (2016: £25,000).

iii. Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Company is exposed to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial instruments and cash flow. A large number of the capital instruments bear interest at a fixed rate, but capital instruments to the value of £43,298,000 (2016: £34,797,000), cash and cash equivalents, net of overdrafts, of £7,559,000 (2016: £6,152,000) and collateral account balances of £3,143,000 (2016: £nil) were the only interest bearing financial instruments subject to variable interest rates at 31 December 2017. Therefore, if interest rates had increased/decreased by 50 basis points, with all other variables remaining constant, the change in the value of interest cash flows of these assets in the year would have been +/-£286,000 (2016: +/-£214,000).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2017 *(continued)*

23. Financial instruments and risk management *(continued)*

Market risk (continued)

iii. Interest rate risk (continued)

31 December 2017	Fixed interest £'000	Variable interest £'000	Non-interest bearing £'000	Total £'000
Financial assets				
Investments at fair value through profit or loss	24,170	43,298	6,990	74,458
Cash and cash equivalents	–	16,808	–	16,808
Collateral accounts for derivative financial instruments at fair value through profit or loss	–	3,143	–	3,143
Derivative financial assets at fair value through profit or loss	1,987	–	59	2,046
Other receivables	–	–	650	650
Total financial assets	**26,157**	**63,249**	**7,699**	**97,105**
Financial liabilities				
Bank overdrafts	–	(9,249)	–	(9,249)
Derivative financial liabilities at fair value through profit or loss	(6,514)	–	(444)	(6,958)
Short positions covered by sale and repurchase agreements	–	–	(838)	(838)
Other payables and accruals	–	–	(713)	(713)
Total financial liabilities	**(6,514)**	**(9,249)**	**(1,995)**	**(17,758)**
Total interest sensitivity gap	**19,643**	**54,000**	**5,704**	**79,347**

31 December 2016	Fixed interest £'000	Variable interest £'000	Non-interest bearing £'000	Total £'000
Financial assets				
Investments at fair value through profit or loss	34,796	7,878	6,471	49,145
Cash and cash equivalents	–	6,152	–	6,152
Collateral accounts for derivative financial instruments at fair value through profit or loss	–	–	4,548	4,548
Other receivables	–	–	812	812
Total financial assets	**34,796**	**14,030**	**11,831**	**60,657**
Financial liabilities				
Derivative financial liabilities at fair value through profit or loss	(2,238)	–	(181)	(2,419)
Other payables and accruals	–	–	(241)	(241)
Total financial liabilities	**(2,238)**	**–**	**(422)**	**(2,660)**
Total interest sensitivity gap	**32,558**	**14,030**	**11,409**	**57,997**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2017 *(continued)*

23. Financial instruments and risk management *(continued)*

Market risk (continued)

iii. Interest rate risk (continued)

It is estimated that the fair value of the capital instruments at 31 December 2017 would increase/decrease by +/-£486,000 (0.65%) (2016: +/-£437,000 (0.89%)) if interest rates were to change by 50 basis points.

The Investment Manager manages the Company's exposure to interest rate risk, paying heed to prevailing interest rates and economic conditions, market expectations and its own views as to likely movements in interest rates.

Although it has not done so to date, the Company may implement hedging and derivative strategies designed to protect investment performance against material movements in interest rates. Such strategies may include (but are not limited to) interest rate swaps and will only be entered into when they are available in a timely manner and on terms acceptable to the Company. The Company may also bear risks that could otherwise be hedged where it is considered appropriate. There can be no certainty as to the efficacy of any hedging transactions.

Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company, resulting in a financial loss to the Company.

At 31 December 2017, credit risk arose principally from investment in capital instruments of £72,113,000 (2016: £49,145,000), cash and cash equivalents of £16,808,000 (2016: £6,152,000), balances held as collateral for derivative financial instruments at fair value through profit or loss of £3,143,000 (2016: £4,548,000) and investment in sale and repurchase asset of £894,000. The Company seeks to trade only with reputable counterparties that the Investment Manager believes to be creditworthy.

The Investment Manager manages the Company's credit risk by investing in a diverse portfolio of capital instruments, in line with the Prospectus. At 31 December 2017, the capital instrument rating profile of the portfolio was as follows:

	31 December 2017 Percentage	31 December 2016 Percentage
A	4.76	2.82
BBB	32.69	17.07
BB	36.74	54.11
B	13.53	14.10
CCC and below	4.77	6.49
No rating	7.51	5.40
	100.00	**100.00**

The cash pending investment may be held without limit with a financial institution with a credit rating of A-1 (Standard & Poor's) or P-1 (Moody's) to protect against counterparty failure.

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

Due to the Company's investment in credit default swap agreements the Company is exposed to additional credit risk as a result of possible counterparty failure. The Company has entered into ISDA contracts with Credit Suisse, JP Morgan and Goldman Sachs, rated A, A+ and A+ respectively. At 31 December 2017, the overall net exposure to these counterparties was 5.44% (2016: 3.79%) of NAV. The collateral held at each counterparty is disclosed in note 15.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2017 *(continued)*

23. Financial instruments and risk management *(continued)*

Liquidity risk

Liquidity risk is defined as the risk that the Company will encounter difficulties in realising assets or otherwise raising funds to meet financial commitments. The principal liquidity risk is contained in unmatched liabilities. The liquidity risk at 31 December 2017 was low since the ratio of cash and cash equivalents (net of overdrafts) to unmatched liabilities was 11:1 (2016: 26:1).

In addition, the Company diversifies the liquidity risk through investment in capital instruments with a variety of maturity dates, as follows:

	31 December 2017 Percentage	31 December 2016 Percentage
Less than 1 year	1.16	23.90
1 to 3 years	13.79	26.97
3 to 5 years	51.74	15.79
5 to 7 years	6.95	12.30
7 to 10 years	11.82	13.54
More than 10 years	14.54	7.50
	100.00	**100.00**

As at the year/period end, the Company's liabilities fell due as follows:

	31 December 2017 Percentage	31 December 2016 Percentage
1 to 3 months	86.72	17.14
3 to 6 months	–	–
6 to 12 months	–	–
1 to 3 years	–	6.06
3 to 5 years	13.28	76.80
	100.00	**100.00**

24. Capital management policy and procedures

The Company's capital management objectives are:

- to ensure that it will be able to meet its liabilities as they fall due; and
- to maximise its total return primarily through the capital appreciation of its investments.

Pursuant to the Company's Articles of Incorporation, the Company may borrow money in any manner. However, the Board has determined that the Company should borrow no more than 20% of direct investments.

The Company uses sale and repurchase agreements to increase the gearing of the Company. As at 31 December 2017 the Company had four open sale and repurchase agreements, one being a reverse sale and repurchase agreement, committing the Company to make a total repayment of £6,336,000 post the year end (2016: £nil). As a result of the reverse sale and repurchase agreement the Company was due to receive £894,000 after the year end.

The raising of capital through the ongoing placing programme forms part of the capital management policy. See note 20 for details of the Ordinary Shares issued since incorporation.

As disclosed in the Statement of Financial Position, at 31 December 2017, the total equity holders' funds were £79,364,000 (2016: £58,010,000).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2017 *(continued)*

25. Capital commitments

The Company holds a number of derivative financial instruments which, by their very nature, give rise to capital commitments post 31 December 2017. These are as follows:

- At 31 December 2017, the Company had sold 16 (2016: 17) credit default swap agreements for a total of £1,489,000 (2016: £2,541,000), each receiving quarterly interest. The exposure of the Company in relation to these agreements at the period end date was £1,489,000 (2016: £2,541,000). Collateral of £3,034,000 for these agreements was held at 31 December 2017 (2016: £4,435,000).
- At the year end the Company had committed to two (2016: five) foreign currency forward contracts dated 16 January 2018 to buy £50,838,000 (2016: £41,849,000 and €7,154,000 (£6,098,000)). At 31 December 2017, the Company could have affected the same trades and purchased £51,228,000 (2016: £42,059,000 and €7,131,000 (£6,079,000)), giving rise to a loss of £390,000 (2016: loss of £190,000).
- At 31 December 2017, the Company had taken a long position maturing on 29 March 2018, committing the Company to a purchase of a gilt future for £3,109,000 (2016: £3,088,000 maturing on 29 March 2017).
- At the year end, the Company held three open sale and repurchase agreements committing the Company to make a total repayment of £6,340,000 (2016: £nil) (this excludes the open reverse sale and repurchase agreement).

26. Contingent assets and contingent liabilities

In line with the terms of the Investment Management Agreement, as detailed in note 8a, should the Company's NAV reach a level at which the TER reduced to less than 1.5% of the average NAV in a future accounting period then the Quarterly Expenses Excess and Annual Expenses Excess totalling £464,000 at 31 December 2017 would become payable to the Investment Manager, to the extent that the total expenses including any repayment did not exceed 1.5% of the average NAV for that period.

For the £464,000 Expenses Excess to become payable, based on the 2017 expense level, the Company's NAV would need to increase by at least 34% from the 31 December 2017 NAV. The Directors consider that it is possible, but not probable, that this ratio will be achieved in the foreseeable future. Accordingly, the possible payment to the Investment Manager has been treated as a contingent liability in the financial statements.

There were no other contingent assets or contingent liabilities in existence at the year end.

27. Events after the financial reporting date

On 17 January 2018, the Company declared a dividend of 1.50p per Ordinary Share for the period from 1 October 2017 to 31 December 2017, which (in accordance with IFRS) was not provided for at 31 December 2017, out of the profits for the year ended 31 December 2017 (note 6). This dividend was paid on 23 February 2018.

On 13 February 2018, the Company raised £8.84 million through the placing of 8,229,174 new Ordinary Shares of no par value. The Ordinary Shares were issued at a price of 107.50p per share.

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William Scott *(non-executive Chairman)*
John Renouf *(non-executive Director)*
Max Hilton *(non-executive Director)*

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