

VPC Specialty Lending Investments PLC

ANNUAL REPORT AND AUDITED FINANCIAL STATEMENTS

For the year ended 31 December 2021



VPC SPECIALTY LENDING

INVESTMENTS PLC

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INTRODUCTION

FINANCIAL HIGHLIGHTS

RETURN SUMMARY AS AT 31 DECEMBER 2021

**Net Asset Value per
Ordinary Share**

114.14p

(2020: 95.72p)

**NAV (Cum Income)
Return**

+27.60%

(2020: +11.12%)

**Total Shareholder Return
at 31 December 2021**
(based on share price)

+27.32%

(2020: +10.87%)

**Dividends per
Ordinary Share**

8.00p

(2020: 8.00p)

Revenue Return
£21.12 million

(2020: £23.90 million)

Total Net Return
£73.21 million

(2020: £22.95 million)

**Ordinary Share Price
at 31 December 2021**

92.20p

(2020: 78.70p)

**Discount to NAV
at 31 December 2021**

19.22%

(2020: 17.77%)

All the terms and alternative performance measures above are defined on page 137.

INTRODUCTION continued

PERFORMANCE

The table below illustrates the Company's NAV return and dividend per share from 1 January 2019 to 31 December 2021.

ORDINARY SHARE PERFORMANCE

The table below illustrates the Company's Ordinary Share performance over the past three years. The Company's discount to its Ordinary Share NAV remained relatively consistent when comparing the end of 2021 and 2020 with the discount increasing slightly to 19.22% from 17.77%. The largest discount during the year was 26.09% while the smallest discount was 9.53%. The graph below illustrates the movement between the trading price of the Ordinary Shares and the announced NAV adjusted for dividends declared. Further information on the share price discount management policy can be found on page 21.

TOP TEN POSITIONS

The table below provides a summary of the top ten positions of the Group, net of gearing, as at 31 December 2021. The summary includes a look-through of the Group's investments in VPC Synthesis, L.P. and VPC Offshore Unleveraged Private Debt Fund Feeder, L.P. to illustrate the exposure to underlying Portfolio Companies as it is a requirement of the investment policy (set out on pages 134 and 135) to consider the application of the restrictions in this policy on a look-through basis.

INVESTMENT	COUNTRY	INVESTMENT TYPE	PERCENTAGE OF NAV
Applied Data Finance, LLC	United States	Asset Backed Lending	12.14%
Applied Data Finance, LLC provides credit to non-prime and near-prime consumers in select states across the U.S. The company is headquartered in San Diego, with offices in New York, in addition to an IT and call center support in Chennai, India. Financings are in the form of instalment loans and range up to \$10,000.			
Caribbean Financial Group Holdings, L.P.	Latin America	Asset Backed Lending	10.74%
Caribbean Financial Group Holdings, L.P. is the largest non-bank provider of unsecured consumer instalment loans to the Caribbean market, operating primarily in the western and southern Caribbean. CFG was founded in 1979, operates over 70 store branches across seven Caribbean countries and has its largest operations in Panama and Trinidad & Tobago. CFG's product offering includes loan sizes ranging from \$200 to \$10,000, loan terms up to 79 months with no prepayment penalties and fully amortising simple interest loans with equal monthly payments and rates based on underwriting customers' ability to pay.			
Perch HQ, LLC	United States	Asset Backed Lending	9.84%
PerchHQ, LLC is a technology-enabled platform that seeks to acquire and operate a diverse portfolio of e-commerce assets on retail marketplaces. Perch primarily targets Amazon third-party sellers ("TPS") and e-commerce brands with: (i) leading market positions in respective product categories; (ii) a defensible "moat" from customer reviews and search engine optimisation; and (iii) \$1-15M in sales and \$200K-5M in contribution margin (or "Asset-Level EBITDA") (on average, ~\$2M of Asset-Level EBITDA at ~25% operating margins). The company aims to acquire underlying brands at 2-5x Asset Level EBITDA, and drive value through post-acquisition brand initiatives including pricing strategy, advertising strategy, cost savings, supply chain efficiencies, and general Amazon account management optimisation.			
Elevate Credit, Inc.	United States	Asset Backed Lending	7.36%
Elevate Credit, Inc. ("Elevate") is a lender of unsecured short-term cash advances and instalment loans to individuals primarily through the internet. The company provides consumers with access to responsible and transparent credit options within the non-prime lending industry. Elevate currently offers and/or supports the following products: U.S. instalment loans (Rise), lines of credit (Elastic) and credit card (Today Card).			
Deinde Group, LLC	United States	Asset Backed Lending	4.86%
Deinde Group, LLC ("Integra") is an early stage, online provider of unsecured consumer loans to borrowers. Integra was founded in March 2014 by Arthur Tretyak (CEO) and is led by a team of seasoned consumer finance and risk analytics executives, with prior experience including TitleMax, a \$400.0 million nonprime consumer lender, and Enova, a \$800.0 million nonprime consumer lender).			

INTRODUCTION continued

INVESTMENT	COUNTRY	INVESTMENT TYPE	PERCENTAGE OF NAV
Heyday Technologies, Inc.	United States	Asset Backed Lending	4.40%
Heyday Technologies, Inc. ("Heyday") is a tech enabled platform that seeks to acquire and aggregate a diverse portfolio of retail assets which are sold primarily via e-commerce marketplaces. Heyday primarily targets Amazon Marketplace third-party sellers ("TPS"). The company aims to acquire underlying brands/seller at 2-5x earnings, and drive value through post-acquisition brand management initiatives and underlying multiple expansion. Heyday aims to differentiate itself from other TPS aggregators in the novel ecosystem by investing heavily and early in its technology and analytics capabilities thereby allowing the company to easily identify and optimise operating improvements within its portfolio at scale.			
VPC Impact Acquisition Holdings Sponsor, LLC	United States	Equity Investment	4.01%
Bakkt Holdings, LLC, the digital asset marketplace founded in 2018, completed a business combination with VPC Impact Acquisition Holdings, a special purpose acquisition company sponsored by VPC Impact Acquisition Holdings Sponsor, LLC ("VPC Sponsor"), an affiliate of Victory Park Capital ("VPC"). The combined company operates as Bakkt Holdings, Inc. ("Bakkt"), and Bakkt's shares of Class A common stock trade on the New York Stock Exchange under the ticker symbol "BKKT". Bakkt is a trusted digital asset marketplace that enables consumers to buy, sell, store and spend digital assets. Bakkt's retail platform, now available through the recently-released Bakkt App and to partners through the Bakkt platform, amplifies consumer spending and bolsters loyalty programmes, adding value for all key stakeholders within the Bakkt payments and digital assets ecosystem.			
Razor Group GMBH	Germany	Asset Backed Lending	3.59%
Razor Group GmbH ("Razor") is a technology driven consumer goods platform that acquires and operates a diverse portfolio of branded Amazon third-party seller ("TPS") assets primarily in Europe. Razor targets brands with €100K – €3.5 million of seller's discretionary earnings ("Asset-Level EBITDA") to be acquired at purchase multiples of 1.5x – 5.0x TTM Asset-Level EBITDA.			
West Creek Financial, Inc.	United States	Asset Backed Lending	2.56%
West Creek Financial, Inc. ("West Creek") provides a point-of-sale, lease-to-own solution for underserved customers enabling purchases of durable goods such as furniture, mattresses, appliances and tires. West Creek's proprietary underwriting model verifies FICO scores, a measure of consumer credit risk, and collects additional data from third-party providers such as Clarity, DataXRisk, and FactorTrust to analyse numerous variables to evaluate and approve users.			
Dave, Inc.	United States	Asset Backed Lending	2.31%
Dave, Inc. ("Dave") is an emerging Neobank and mobile app-based service that links to consumers' external bank accounts, monitors spending behaviour, provides budgeting tools and issues warnings about upcoming bills that might push users towards an overdraft. Dave has over 5.0 million bank connected customers on its platform and recently launched "Dave Banking", its own branded, zero fee checking account (1 million+ accounts). On top of its banking services, Dave's core product allows users to budget for upcoming expenses before their next paycheck and offers interest-free advances of up to \$200.			

INTRODUCTION TO THE COMPANY AND THE GROUP

VPC Specialty Lending Investments PLC (the “Company” or “VSL”) provides asset-backed lending solutions to emerging and established businesses (“Portfolio Companies”) with the goal of building long-term, sustainable income generation. VSL focuses on providing capital to vital segments of the economy, which for regulatory and structural reasons are underserved by the traditional banking industry. Among others, these segments include small business lending, working capital products, consumer finance and real estate. VSL offers shareholders access to a diversified portfolio of opportunistic credit investments originated by non-bank lenders with a focus on the rapidly developing technology-enabled lending sector.

The Company’s investing activities are undertaken by Victory Park Capital Advisors, LLC (the “Investment Manager” or “VPC”). VPC is an established private capital manager headquartered in the United States with a global presence. VPC identifies and finances emerging and established businesses globally and seeks to provide the Company with attractive yields on its portfolio of credit investments. VPC offers a differentiated private lending approach by financing Portfolio Companies through asset-backed delayed draw term loans, which is referred to as “Asset Backed Lending,” designed to limit downside risk while providing shareholders with strong income returns. Through rigorous due diligence and credit monitoring by the Investment Manager, the Company generates stable income with significant downside protection.

A summary of the principal terms of the Investment Manager’s appointment and a statement relating to their continuing appointment can be found on page 122. The investment policy can be found beginning on page 134 of this Annual Report. Founded in 2007 and headquartered in Chicago, VPC is an SEC-registered investment adviser that has been actively involved in the financial services marketplace since 2010.

This annual report for the year to 31 December 2021 (the “Annual Report”) includes the results of the Company (also referred to as the “Parent Company”) and its consolidated subsidiaries (together the “Group”). The Company (No. 9385218) was admitted to the premium listing segment of the Official List of the Financial Conduct Authority (“FCA”) (the “Official List”) and to trading on the London Stock Exchange’s main market for listed securities (the “Main Market”) on 17 March 2015, raising £200 million by completing a placing and offer for subscription (the “Issue”). The Company raised a further £183 million via a C Share issue on 2 October 2015. The C Shares were converted into Ordinary Shares and were admitted to the Official List and to trading on the Main Market on 4 March 2016.

INVESTMENT OBJECTIVES

The Company’s investment objectives are to:

- ❖ generate an attractive total return for shareholders of consistent distributable income and capital growth through asset-backed lending;
- ❖ achieve portfolio diversification to emerging and established businesses across different industries and geographies with the goal of building long-term, sustainable value; and
- ❖ enable shareholders to benefit from equity upside through equity-linked securities issued in conjunction with asset-backed lending.

STRATEGIC REPORT

The Strategic Report comprises a review of the Company's performance for the year ended 31 December 2021, the Chairman's Statement, and Strategy and Business Model, including principal and emerging risks and disclosures on environmental matters, human rights, employee, social and community issues.

The aim of the Strategic Report is to provide shareholders with the ability to assess how the Directors have performed in their duty to promote the success of the Company in accordance with section 172 of the Companies Act 2006 (the "Act") by:

- ❖ analysing development and performance using appropriate Key Performance Indicators ("KPIs");
- ❖ providing a fair and balanced review of the Company and Group's business;
- ❖ outlining the principal risks and uncertainties affecting the Company and the Group;
- ❖ describing how the Company manages these risks;
- ❖ setting out the Company's environmental, social and ethical policy;
- ❖ outlining the main trends and factors likely to affect the future development, performance and position of the Company's business; and
- ❖ setting out the direction in which the Company and the Group is heading.

STRATEGIC REPORT

FOR THE YEAR ENDED 31 DECEMBER 2021

CHAIRMAN'S STATEMENT

In my first Chairman's Statement, I am pleased to report on a year in which the Company made excellent progress and delivered strong returns to shareholders. This against a backdrop which continues to this day of turbulent economic and geopolitical events. Throughout, our Investment Manager has remained focused on the successful management of risk, supporting Portfolio Companies and discovering new investment opportunities.

Whilst elements of our returns in the financial year may be particular to 2021, we believe that the investment case for the Company remains robust, not only due to the resilient nature of its asset backed investments, but also through its advantageous market positioning in the fintech universe.

HIGHLIGHTS IN 2021

- ❖ Total NAV return of 27.60% for the year, the Company's best ever, surpassing the 2019 and 2020 total NAV returns of 11.34% and 11.12%, respectively;
- ❖ Total shareholder return of 27.32% for the year;
- ❖ The Company paid its 16th consecutive quarterly dividend of 2.00p per share for the three-month period to December 2021;
- ❖ Resilient performance of the asset backed loan investments with the Company receiving all interest payments on time during the year; and
- ❖ The Company was named "Investment Company of the Year" (Debt Category) at Investment Week's annual investment awards in November 2021.

THE COMPANY'S BUSINESS

For the 12 months to the end of December 2021, the NAV per share of the Company increased by 27.60% (26.42p) on a total return basis, comprising a NAV per share increase from 95.72p to 114.14p, plus the 8.00p of dividends paid in 2021. During the year, the share price increased from 78.70p to 92.20p. The dividends paid are in line with the target dividend of 8.00p per year set out in the IPO Prospectus, were fully covered by the total returns during the year and continue to be the long-term dividend target of the Company.

The Company generated returns from three key sources: the core lending business, equity interests arising from the core lending business, and special purpose acquisition company ("SPAC") investments.

The core lending business, which represents 67% of the total portfolio at year-end, has over recent years benefitted from a secure lending position, ensuring minimal capital losses and a high level of income generation that supports the annual dividend payment of 8.00p per share. Most of the Company's asset backed investments are delayed draw, floating rate senior secured loans that have equity subordination. The asset backed investments are also backed by underlying collateral consisting of consumer loans, small business loans and other types of collateral.

The equity interests arising from the core lending business allow us to benefit from an element of equity participation without having to contribute equity risk capital. This has proven to be an extremely valuable aspect of the Company performance in 2021. Over the year to 31 December 2021, this has contributed 11.59p per share to overall returns.

Finally, VPC's strength in the market has allowed us to participate in the opportunities presented by SPAC sponsorship. VPC has successfully developed an extensive deal sourcing network in the fintech universe through its existing lending business, and throughout 2021 SPAC deals have provided a way to capitalise on this network for the benefit of our shareholders. The SPAC deals that VPC participates in are generally with counterparties it is already familiar with through its lending relationships, ensuring a greater element of confidence in the SPAC process. That said, the SPAC market as a whole has been particularly volatile of late, and our holdings have been no exception, with valuations of the Company's SPAC holdings over the year ranging from 27.95p to 4.82p per share. The value of the Company's SPAC holdings have contributed 10.64p per share to overall returns and had a total value of 12.43p per share at 31 December 2021.

As at 31 December 2021, the Group was fully invested in a diversified portfolio of asset backed and equity investments that continue to deliver strong risk-adjusted returns. While the macroeconomic backdrop for non-traditional credit has remained somewhat volatile, VPC's risk mitigation measures, the resilience of the portfolio and its performance have been encouraging.

STRATEGIC REPORT continued

THE COMPANY'S SHARES

The Board takes the view that the typical discount to NAV at which our Company's shares trade is too high and this has obvious disadvantages to the Company. Shareholders are unable to fully realise the underlying value of their holdings, while the Company is unable to raise additional equity capital to take advantage of attractive lending opportunities in the market.

As noted in last year's Annual Report, in 2020 as part of the Continuation vote, the Company will offer an exit opportunity where the Company will buy back up to 25% of the shares in the Company should they trade at an average discount greater than 5% over the first quarter of 2023. As things currently stand, that exit opportunity is likely to be offered and all shareholders will be notified in due course should this continue to be the case. In the meantime, taking action to reduce the discount to NAV is a priority for the Company, and various steps are being taken towards achieving that goal. In the meantime, the discount ought to be helped by our strong and consistent investment performance, backed by active risk management, by our ability to demonstrate that to existing and potential shareholders, and to market the shares actively.

INVESTMENT OPPORTUNITIES

As the Investment Manager details in their report, they are seeing a healthy supply of opportunities in the market. VPC's long-standing reputation and relationships with Portfolio Company management teams, industry professionals and experts have helped to create a differentiated deal pipeline.

Overall, we are very pleased with the Company's performance, which demonstrates the merit of VPC's approach to structured credit lending to technology-enabled businesses combined with a strong culture of risk management. It also demonstrates the value of acquiring equity stakes that benefit from the continued growth of the Portfolio Companies.

THE COMPANY'S IMPACT

As an investment trust, the Company does not itself have employees, property, factories, and the like, so our ability to positively impact what we do flows to the greatest extent from our Investment Manager and the opportunities we are invested in. The Investment Manager aims to operate and invest responsibly, ethically, and fairly and we continue to review our environmental, social and governance ("ESG") stance. Decisions taken are made with due consideration to long-term sustainability and impact on stakeholders. For example, the Directors and Investment Manager are mindful of their carbon footprints if they are required to travel on Company business.

In addition, the Board and the Investment Manager is committed to ensuring the Company's culture is in line with its stated purpose, values, and strategy. The Company has several policies and procedures in place to assist with maintaining a culture of good governance, including those relating to diversity. All aspects of diversity, including gender diversity, are acknowledged, and we believe the Company's activities benefit from a wide range of skills, knowledge, experience, backgrounds, and perspectives.

Through our lending to and investing in innovative and often technology-based businesses, we are able to have a particularly positive impact on the wider world in which we operate. For example, our lending has helped Sunbit, Inc. to grow its business helping people with everyday needs like car repairs and opticians. Our investment in Dave, Inc. supports the company's cash advance product which helps consumers avoid bank fees with little or no cost to the consumer. These are examples of the Investment Manager's commitment to leading by example, taking a progressive approach to responsible investment and playing its part in building a more sustainable financial system.

OPERATIONAL RESILIENCE

As the world entered its second full year of the COVID-19 pandemic, its effects continue to impact global health, economies, and social behaviour. Our Investment Manager's senior leadership has continued to follow guidance from the U.S. Centers for Disease Control and Prevention ("CDC"). VPC employees have more recently been able to make a successful return to working in the office, following the procedures outlined in VPC's Pandemic Response Plan. At the same time, VPC's technology and resources ensured that their employees could also work from home where necessary, without any operational disruption, as they largely did through 2021. As a result, the work of the Company has not been negatively impacted by those factors. The Investment Manager continues to monitor the latest health developments to determine the most appropriate working policies for employees. For example, the Pandemic Response Plan continues to be updated on a regular basis by a dedicated internal team who use government and CDC guidance to define safety policies and procedures, and whilst we hope that this year's Annual General Meeting will be able to be held in person, our ability to do so will depend on current conditions.

In terms of portfolio management, the Investment Manager continues to promote a culture of proactive risk management and controls across the portfolio. Most of the underlying investment exposure is to the U.S. consumer. As such, the impact on the US economy from the COVID-19 pandemic continues to present additional potential credit risk. The investment teams are in contact with the Portfolio Companies to ensure they are taking prudent steps to mitigate transmission risk. The Investment Manager monitors the cash balances of the Company daily and as of the writing of this report, the Company has received all contractual interest payments and will continue to monitor cash flow closely during the COVID-19 pandemic.

OUTLOOK

Finally, the Board hopes that you, your family, friends and colleagues are and remain healthy. At the time of writing this outlook, and as 2022 unfolds, there is much to feel apprehensive about. The COVID-19 pandemic is still with us, delaying hopes of a return to normality. Interest rates are rising sharply as governments withdraw pandemic support programmes and as central banks battle spiralling inflation. Of even greater concern, the ongoing conflict between Russia and Ukraine is an historic geopolitical event and a humanitarian tragedy that threatens to have long-term implications for the global economy. More details on the outlook of the Company can be found on pages 17 and 18 of the Investment Manager's Report.

At uncertain times like these, it is understandable to consider only the negatives. But there is also room for some optimism. As of the date of this report, the prospects for the Company remain attractive. Our Investment Manager has shown it can carry on its normal business and continue to deliver risk-adjusted returns through the pandemic to date. It has also demonstrated the level of its commitment to invest responsibly, both within the Company and as an exemplar to Portfolio Companies. That is something that the Board and all shareholders can feel justifiably positive about whilst the Investment Manager continues to work to generate returns on our behalf.



Graeme Proudfoot
Chair
27 April 2022

STRATEGIC REPORT continued

INVESTMENT MANAGER'S REPORT

ABOUT VPC

The Company's investment manager is Victory Park Capital Advisors, LLC ("VPC" or the "Investment Manager"), an established private capital manager headquartered in the United States with a global presence. VPC identifies and finances emerging and established businesses globally and seeks to provide the Company with attractive yields on its portfolio of credit investments. VPC offers a differentiated private lending approach by financing Portfolio Companies through asset-backed delayed draw term loans, which is referred to as "Asset Backed Lending". This is designed to limit downside risk while providing shareholders with strong income returns.

VPC's senior secured credit strategy provides opportunistic financing across select investment verticals. Target investments are typically shorter in duration and aim to offer higher yields and greater structural protections than traditional lenders, with an emphasis on capital preservation and income generation across market cycles. VPC generates value through its core competency as a credit investor with direct origination and primarily acts as a sole lender. VPC believes its dedicated, seasoned and experienced investment team provides an advantage in sourcing, deal structuring and risk management. Together, this allows VPC to provide reliable capital solutions throughout the ecosystem. VPC offers an institutional-calibre partnership with a hands-on approach. As a result, companies and global partners continue to seek out VPC as a leading capital provider.

VPC believes it is uniquely positioned to unlock potential value given its background investing across multiple, complex and non-traditional assets as a financial services investor, together with its special situations and event-driven investing expertise.

Established Credit Manager

- ❖ Founded prior to the global financial crisis in 2007 by Richard Levy and Brendan Carroll
- ❖ VPC has long-standing experience investing opportunistically amidst volatility and market complexities
- ❖ Headquartered in Chicago with resources in New York, Los Angeles, Austin, and Miami
- ❖ Investment Manager of the Company since its IPO in 2015
- ❖ Company named "Best Performing Debt Fund" in Citywire's Fourth Annual Investment Trust Awards

Private Credit Solutions

- ❖ Private credit specialist with a focus on capital preservation across multiple market environments
- ❖ Lender to both established and emerging businesses across various industries in the U.S. and abroad
- ❖ Extensive experience lending to companies across the credit spectrum

Developed Risk Management Culture & Process

- ❖ Deeply embedded risk culture permeates VPC
- ❖ VPC leverages proprietary risk tools and analytics to drive underwriting and portfolio management decisions
- ❖ Customised monitoring and reporting process allows for granular analysis across multiple dimensions

Seasoned Investment Team

- ❖ Senior investment team averages over 20 years of relevant experience
- ❖ Since inception, VPC has invested approximately USD\$9.0 billion across 144+ investments
- ❖ History of generating strong returns throughout various market cycles
- ❖ Differentiated restructuring expertise complements strong risk management

STRATEGY AND BUSINESS MODEL

Structuring Approach

The Company provides a floating rate Credit Facility with an interest rate floor to the Portfolio Company via a Special-Purpose Vehicle ("SPV"), which retains assets that are originated by the Portfolio Company. The financing is typically arranged in the form of a senior secured facility and the Portfolio Company injects junior capital into the SPV, along with the excess spread from the underlying assets providing significant first-loss protection to the Company. The Company's investments are typically structured with significant overcollateralisation and credit enhancement to minimise any loss given default in a scenario where the Company must foreclose on collateral to repay its investment. The overcollateralisation is sized to withstand significant stress to liquidation values without impacting the Company's investment outcome. As the Investment Manager of the Company, VPC targets collateral assets with stable and predictable liquidation value and a clear path to exit in the event of a default. Investments are secured via liens and equity pledges on the corporate entity or collateral which provide multiple avenues of structural protection.

One of the pioneers of financial services lending, VPC has structuring expertise and relationships, enabling it to secure preferential capacity to lock up attractive, long-term economics through structured facility upsizes and rights of first refusal. The hunt for yield is extremely competitive in a low interest rate environment. This means VPC competes with some of the largest and most recognised firms in the world when sourcing new investments. However, VPC believes it has created a sustainable competitive advantage in its investment strategy. VPC's investment approach has consistently paid off, evident through the success in backing earlier-stage companies with excellent management and marquee venture capital backing, allowing for locked-up terms that would otherwise be difficult to negotiate at a later stage. Not only does this provide better economics, but VPC can also structure its investments more conservatively than in a more competitive process. VPC benefits from working with companies as they scale under a conservative structure. As investments approach maturity several years later, VPC has an informed opinion to approach an extension and/or upsize negotiations.

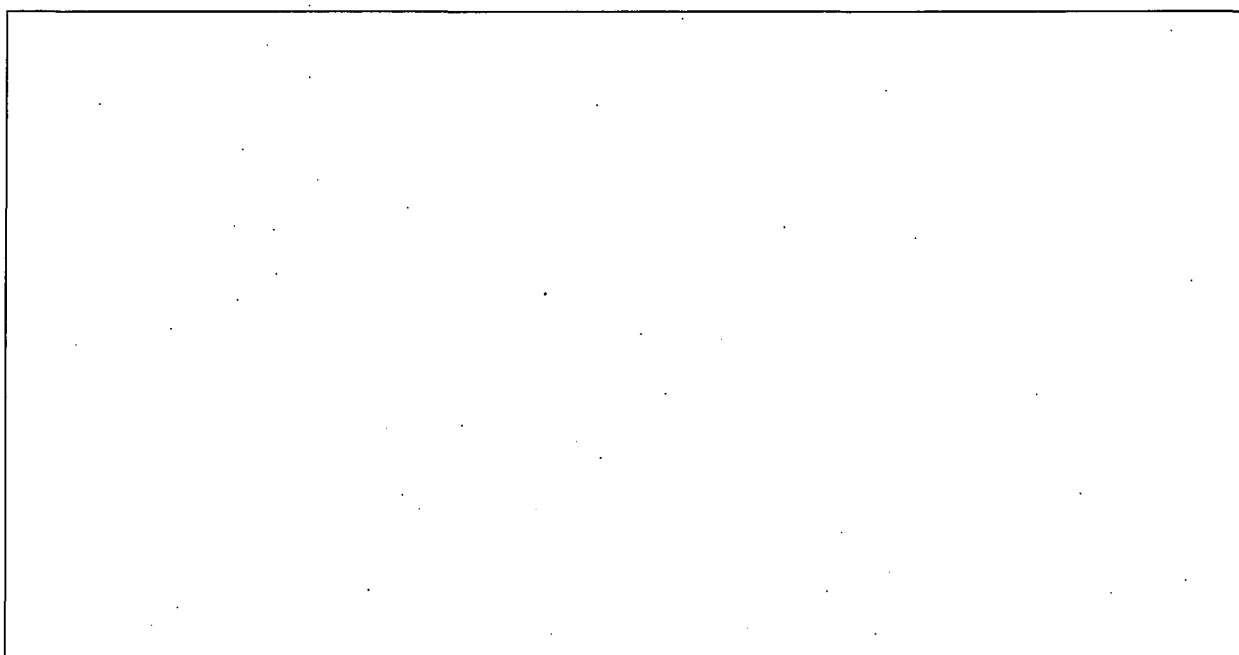
The Company, alongside VPC's private funds, also receives the benefit of scale from the arrangement. VPC is in a position to negotiate better terms and grow with the Portfolio Companies, ultimately resulting in the ability to provide larger facilities. All investors benefit, as the Company continues to have significant undrawn investment opportunities from longstanding investments, some of which were initiated a decade ago. The scale of the relationships also serves to minimise the cash drag within the Company. Investments are funded based on draw requests received on a weekly basis. As the Company receives a repayment on an investment, capital can be redeployed quickly, and in some cases even the same day.

STRATEGIC REPORT continued

Proprietary Sourcing Advantage

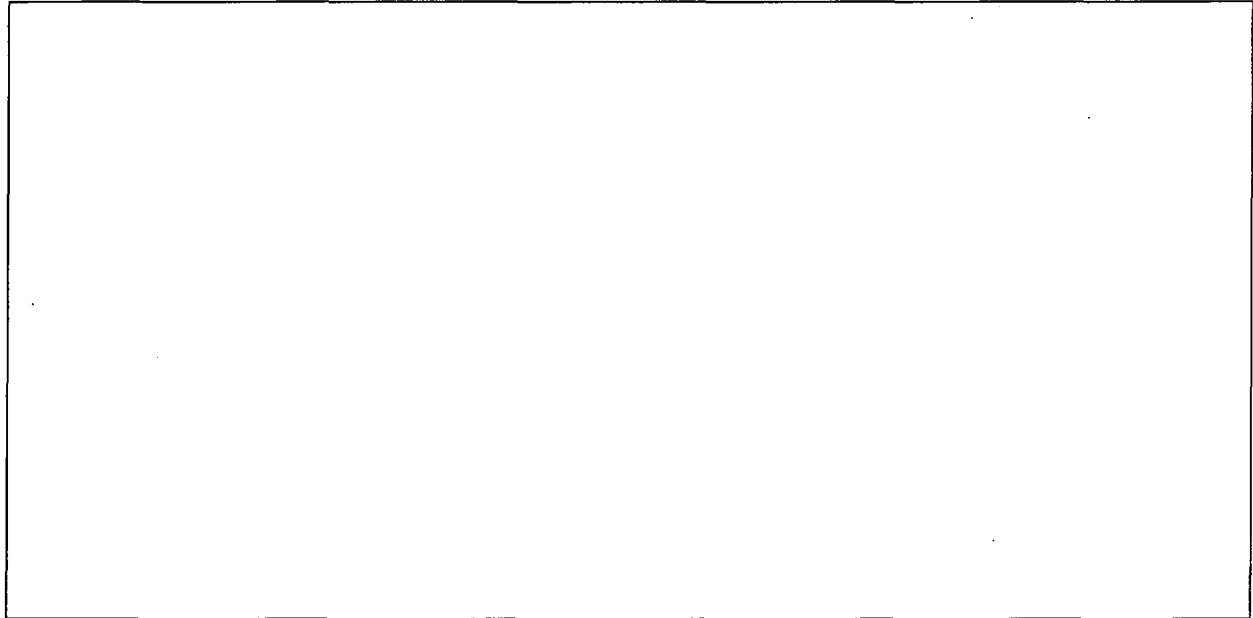
The Company has exposure to several proprietary investments in Portfolio Companies with attractive risk/reward characteristics that other investors in the sector are typically unable to access. This is due to VPC's long experience and reliable reputation in the sector as an early participant with an extensive sourcing network, having executed transactions partnering with several leading financial and venture capital sponsors in the financial services sector.

VPC also leverages its relationships with Portfolio Companies and financial sponsors to secure significant lending capacity, and is able to negotiate attractive equity kickers as well as mitigate prepayment and interest rate risks. The rapid growth of capital deployed in this sector since 2010 has also generated positive network effects and helps ensure that the Investment Manager has a first look at opportunities developing in the sector.



Risk Management

With a strong focus on capital preservation, VPC structures its investments to minimise risk for the Company and augments this with a comprehensive risk management framework. This involves a rigorous, hands-on approach to post-investment monitoring of portfolio risk and performance. Assessing the balance of expected returns with inherent risks is an integral part of the Investment Manager's investment strategy and drives all aspects of portfolio construction. This risk management approach and focus are key to meeting the Company's investment objectives, particularly in a potentially more challenging future credit environment.



Stress Scenario Performance and Wind-down Analysis

The Company's Risk Management team performs regular analysis to stress test each Portfolio Company's lending performance to determine a portfolio level downside scenario. The largest risk mitigant in the downside scenarios is the first-loss protections that are structured into the Company's asset backed investments. This ensures that the Portfolio Companies and their equity investors' capital would have to be fully impaired before an asset backed facility loses any interest income or principal invested. In the Company's recourse investments, this means the Portfolio Companies would also lose the cash and other assets that are outside of the borrowing base to cover the first-loss protections. VPC prides itself on its structural protections, risk management and portfolio monitoring, as this is an important area of focus that is constantly evaluated.

Even as the risks brought about by the COVID-19 pandemic begin to recede, risk management, risk controls, and liquidity management remain key concerns. VPC's dedicated Risk Management team is committed to working collaboratively with investment teams to closely monitor the Company's investment portfolio. Teams have also continued to work proactively with the Portfolio Companies to ensure they are taking prudent steps to mitigate risk throughout the pandemic.

REVIEW OF 2021 PERFORMANCE

The Company completed the year with a total NAV return of 27.60% and a gross revenue return of 13.03%. This was the Company's best year since inception in performance terms, and caps four years of very strong returns. Investors continue to benefit from the "best of both worlds", with consistent distributable income achieved through asset-backed lending, combined with the positive performance of the Company's equity investments.

Credit investments are structured with first-loss protection as Portfolio Companies generally contribute the equity tranche, which aligns incentives with equity investors. Equity investments are made up of common stock, preferred stock, warrants and convertible debt, many of which were acquired in conjunction with making the Company's asset backed loan investments. While the world has not yet returned to "normal", the existing asset backed loan portfolio has continued to perform as expected, and collateral across asset classes has remained healthy and stable. The post-COVID investments made in 2021 offer attractive risk-adjusted returns and will continue to provide growth opportunities over the coming years.

VPC's long-standing reputation and relationships with Portfolio Company management teams, industry professionals and experts has facilitated a differentiated deal pipeline. Over the course of 2021, the Company had the opportunity to expand its exposure in special purpose acquisition companies ("SPACs"). SPACs have proven to be an extremely effective way for private companies to tap into public equity markets, and SPAC sponsors typically receive 20% of the common equity in the SPAC for an investment of approximately 3% to 4% of the IPO proceeds. VPC's expertise as an investment manager, and relationships in the financial technology sector, gave it the opportunity to supplement its core business model by identifying SPAC opportunities within the sector. As at 31 December 2021, VPC had sponsored attractive deals for four SPACs. The Company has invested 1.43p per share in SPACs, and as at 31 December 2021 the SPACs represented approximately 12.43p per share, of which 11.00p per share of the total was unrealised gain.

STRATEGIC REPORT continued

As the world entered its second full year of the COVID-19 pandemic, the VPC Senior Leadership team continued to follow the updates and guidance from the U.S. Centers for Disease Control and Prevention ("CDC"). VPC employees were able to continue to work in the office, utilise resources and meet with visitors at their comfort level, provided they followed the procedures outlined in the corporate Pandemic Response Plan. At the same time, VPC's robust technology systems and resources enabled VPC employees to continue to work remotely where necessary, without any operational disruption. In terms of portfolio management, VPC maintained a culture of proactive risk management and controls across the portfolio. The investment teams were in constant contact with the Portfolio Companies to proactively ensure prudent steps were being taken to mitigate transmission risk on a real-time basis.

Overall, VPC is very pleased with the Company's performance, which demonstrates the merit of VPC's approach to structured credit lending to technology-enabled businesses and strong culture of risk management. It also demonstrates the value of acquiring equity stakes that benefit from the continued growth of the Portfolio Companies, and the strong pipeline of investment opportunities that result from these relationships, which gives VPC a critical advantage in sourcing deals and securing preferential capacity in the development of Portfolio Companies. This approach has now attracted a significant following among retail investors and led to increased industry recognition, including receiving Investment Week's Annual Investment Company of the Year (Debt Category) Award in November 2021.

In February 2022, the Company declared its sixteenth consecutive quarterly dividend payment of 2.00p per share for the three-month period to 31 December 2021. In an era where high levels of income are increasingly hard to maintain, VPC is proud of the Company's proven track record of earning consistently high returns for investors, while protecting downside risk via credit enhancement and deep structuring expertise.

COMPANY PERFORMANCE

Below is a breakout of the Company's returns, both as a percentage of NAV and pence per share on the weighted average shares outstanding in 2021.

1 January 2021 to 31 December 2021 Total Return (% of NAV)

1 January 2021 to 31 December 2021 Total Return (pence per share)

INVESTMENTS

In order to meet the Company's investment objectives within the pre-defined portfolio limits, capital was allocated across several Portfolio Companies with a focus on portfolio level diversification. As at 31 December 2021, the Company's investments were diversified across 48 different Portfolio Companies across the U.S., UK, Europe, Australia, Asia and Latin America. As at 31 December 2021, the Company had exposure to 24 Portfolio Companies through asset backed loans and 34 Portfolio Companies through equity securities or convertible notes.

During the year, the Company's portfolio of asset backed investments continued to generate strong risk-adjusted returns. These investments benefit from first-loss protection and excess spread, which provides downside protection in the case of increased credit losses. The credit metrics on the portfolio's underlying loans continued to show strong performance with no signs of immediate macro weakness. Furthermore, the pipeline of available asset backed investment opportunities remained strong.

Portfolio Composition as at 31 December 2021

The Company continued to implement the strategy of deploying capital across a broad range of Portfolio Companies with diversity of geographies, borrower types and credit quality. Below are the breakouts of the Company's portfolio composition as at 31 December 2021:

Gross Asset Allocation ¹	Investment Exposure, by Sector ²	Investment Exposure by Geography ²
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GEARING AND CAPITAL MARKETS

The Company selectively employs gearing to enhance returns generated by the underlying credit assets. This is structured to limit the borrowings to individual SPVs that hold the assets, and to ensure the gearing providers have no recourse to the Company. As the financial services industry continues to grow and become more established, VPC has been approached by multiple large global banks to offer the Company attractive gearing facilities. Given the breadth of VPC's portfolio, the Company has a distinct competitive advantage in securing these gearing facilities at attractive rates. During the year, the Look-Through Gearing Ratio remained relatively consistent. Having started the year at 0.32x it ended the year at 0.34x, as VPC continued to take a conservative approach to liquidity and risk management with the gearing facilities through the COVID-19 pandemic.

ESG INVESTMENT CONSIDERATIONS

VPC has a long history of commitment to ESG considerations as part of its investment process and firm-wide operations; and has always aimed to invest in businesses that it can be proud to support. In 2018, VPC launched a partnership with the International Finance Corporation ("IFC"), the private sector arm of the World Bank, to provide credit to businesses in emerging markets. Since that initial policy in 2018, the policy and processes around how VPC integrates ESG into its investment strategies and firm operations have continued to expand in scope and sophistication.

Today, VPC's ESG policy is considered in the investment decisions made across its organisation. Part of the policy involves clearly defining what the Company will and will not invest in, as there are certain industries and business practices that are not supported. Another important piece of the ESG programme involves understanding the risks and potential risks related to ESG,

¹ Percentages calculated on a look-through basis to the Company's investee entities and SPVs.

² Calculations using gross asset exposure and not reduced for gearing. Excludes cash.

STRATEGIC REPORT continued

and enacting processes to identify, mitigate and remediate any issues that do arise. Lastly, and perhaps most importantly, the ESG policy creates accountability throughout the organisation and across Portfolio Companies.

VPC approaches ESG from a holistic perspective to understand the full range of potential ESG risks for any given investment. For each investment underwritten, the applicable ESG factors are identified and mapped-out in conjunction with a due diligence plan to understand the relevant risks and mitigants related to those factors. With fintech investments, the Investment Manager focuses on the "Social" aspects of ESG, as those typically have the largest overall impact on the business. It looks to invest in fintech companies that are supporting financial inclusion and have a positive impact on customers and other stakeholders. That means having products that are transparent and structured in a way that is fair to customers and promotes financial health. It also means having proper controls and systems in place to safeguard against harmful tactics or business practices.

As VPC has expanded into new investment categories, this frequently means re-evaluating ESG factors and risks in those specific areas. The past 12 months saw tremendous growth in e-commerce-related businesses, and those investments face unique ESG questions around acceptable manufacturing practices and supply chains. It is VPC's responsibility to educate itself about the key issues relating to any potential investment, and it is important it sets appropriate standards in these areas and discusses those issues with all relevant partners.

As part of VPC's standard risk management process, it is very active in monitoring Portfolio Companies across all dimensions, including ESG. It has frequent touchpoints with Portfolio Companies and receives extensive reporting to identify any potential issues. It also holds weekly Investment Committee meetings to discuss any potential concerns and how to address or remediate them. Equally important, VPC regularly engages with Portfolio Companies to understand how they are thinking about ESG-related issues and to share best practices. Given VPC works with many early stage, high growth companies, it aims to act as a resource to Portfolio Companies as they grow and develop their ESG practices over time.

In August 2021, VPC announced it had become a signatory of the United Nations-supported Principles for Responsible Investment ("PRI"), further demonstrating its commitment to integrating ESG considerations into its investment decision making. PRI is the pre-eminent institution advocating for ESG issues to be at the forefront of investment decision making and VPC is proud to be a signatory. This demonstrates VPC takes its responsibility to drive positive impact, both within the financial services industry and in society, very seriously, and that it is committed to responsible investing for the long term.

SUMMARY AND HIGHLIGHTS FOR THE YEAR

The financial and business highlights for the year ended 31 December 2020 are as follows:

- ❖ **January 2021:** VPC Impact Acquisition Holdings (NASDAQ: "VIH") announced on 11 January 2021 that it had entered into a definitive agreement to combine with Bakkt Holdings, LLC.
- ❖ **February 2021:** The Company declared a dividend of 2.00 pence per share for the three-month period to 31 December 2020.
- ❖ **March 2021:** The Company fully exited its equity investment in Elevate Credit, Inc. (NYSE: ELVT) and the Company funded equity investments in VPC Impact Acquisition Holdings II (NASDAQ: VPCB) ("VPCB") and VPC Impact Acquisition Holdings III (NYSE: VPCC) ("VPCC") for USD\$1.3 million each. Additionally, the Company closed on a USD\$130 million gearing facility with Massachusetts Mutual Life Insurance Company, which was used to repay the Company's previous gearing facility with Pacific Western Bank and the first-out participation facility on Avant, held with Axos Bank.
- ❖ **April 2021:** The Company fully exited its asset backed investments in ATA KS Holdings, LLC and reinvested in three new asset backed and equity investments in Razor Group GmbH ("Razor"), Moonshot Holdings LLC ("Moonshot"), and CHEQ Limited CAN ("Beforepay").
- ❖ **May 2021:** The Company declared its 13th consecutive dividend of 2.00p per share for the three-month period to 31 March 2021.
- ❖ **May 2021:** The Company invested in three new asset backed investments in Pattern Brands, Inc ("Pattern"), Factory 14 S.a.r.l. ("Factory 14") and Holland Law Firm ("Holland").
- ❖ **June 2021:** VPCC entered into a definitive agreement to combine with Dave. The business combination, which remains subject to VPCC shareholder and customary regulatory approvals, is expected to close in the third or fourth quarter of 2021.
- ❖ **July 2021:** The Company invested in one new asset backed investment, TALA Mobile, S.A.P.I. DE C.V. ("Tala").
- ❖ **August 2021:** The Company declared its 14th consecutive dividend of 2.00p per share for the three-month period to 30 June 2021.
- ❖ **August 2021:** VPCB announced it had entered into a definitive agreement to combine with FinAccel Pte. Ltd.

- ❖ **August 2021:** VPC announced it had become a signatory of the United Nations-supported Principles for Responsible Investment ("PRI"), demonstrating its commitment to integrating ESG considerations into investment decision making.
- ❖ **October 2021:** Bakkt Holdings, LLC, announced it had completed the previously announced business combination with VCP Impact Acquisition Holdings, a special acquisition company sponsored by VPC Impact Acquisition Holders Sponsor, LLC (VPC Sponsor"), an affiliate of VPC. The combined company now operates as Bakkt Holdings, Inc. ("Bakkt") (NYSE: BKKT).
- ❖ **November 2021:** The Company declared its 15th consecutive of 2.00p per share for the three-month period to 30 September 2021.
- ❖ **November 2021:** The Company receives Investment Week's Annual Investment Company of the Year Award (Debt Category)
- ❖ **December 2021:** L&F Acquisition Corp (NYSE: LNGA) ("LNFA") a special purpose acquisition company sponsored by JAR Sponsor, LLC ("VPC Sponsor"), an affiliate of VPC, announced it had entered into a definitive agreement to combine with ZeroFox, an enterprise software-as-a-service leader in external cybersecurity.

SUBSEQUENT EVENTS

Since the year ended 31 December 2021:

- ❖ **January 2022:** VPCC and Dave, Inc. announced that the business combination closed following approval by the VPCC stockholders.
- ❖ **February 2022:** The Company declared its 16th consecutive dividend of 2.00p per share for the three-month period to 31 December 2021.
- ❖ **March 2022:** The Company noted that on 14 March 2022, VPC Impact Acquisition Holdings II (NASDAQ: VPCB) ("VPCB"), a special purpose acquisition company sponsored by VPC Impact Acquisition Holdings Sponsor II, LLC ("VPC Sponsor"), an affiliate of Victory Park Capital ("VPC"), and FinAccel, the parent company of Kredivo, the leading AI-enabled digital consumer credit platform in Southeast Asia, announced the mutual termination of their previously announced business combination agreement. VPCB was to consider future options, including seeking an alternative business combination. The parties agreed that, in the event that VPCB was liquidated, Kredivo would issue a warrant with a nominal exercise price to VPCB, providing VPCB with the ability to acquire a stake equal to 3.5% of the fully diluted equity securities of Kredivo.

OUTLOOK

In 2021, the Company completed its best-ever year in performance terms, and investors benefited from a fully-covered annual dividend of 8.00p per share and double-digit total NAV returns. VPC found significant opportunity to earn attractive risk-adjusted returns through its extensive sourcing relationships around the globe, largely focusing on emerging sectors of the digital economy, where pricing margins were not yet compressed but risk could be properly underwritten. The Company will continue to cautiously deploy capital and, at this point, the portfolio is well-positioned to withstand future challenges. In addition, the Investment Manager remains optimistic about future capital gains through the Company's equity portfolio, strong pipeline of potential new investments, and through SPAC sponsorship.

At the time of writing, the global economic outlook remains uncertain. The COVID-19 pandemic continues to present significant risks, and as government support and monetary stimulus begins to taper off, a period of extended volatility seems likely. High inflation and persistent supply shortages are also having a negative impact. In addition, the invasion of Ukraine by Russia has led to increased market volatility and widespread sanctions on Russian assets and individuals, contributing to a spiking oil price and concern over long-term energy valuations. In its role as Investment Manager, VPC continues to monitor all risks very closely, to ensure the portfolio can perform regardless of the economic environment, by offering capital protection and income generation throughout various market cycles.

As these uncertainties are navigated, the Investment Manager will continue to exercise caution. It structures and underwrites investments with a focus on downside protection, in addition to stress-testing collateral across various scenarios. For example, while the Company's investment portfolio primarily consists of floating-rate credit facilities with interest rate floors, a rising interest rate environment has the potential to affect the investments, the profitability of the Portfolio Companies (and that of underlying borrowers), potentially leading to lower returns or changes in repayments or default rates of the underlying borrowers.

From a purely macroeconomic standpoint, the Investment Manager believes the main advantages of the current portfolio includes the floating rate, shorter duration and fully amortised underlying collateral. Specifically, the weighted average duration of the Company's underlying collateral as at 31 December 2021 was less than one year. VPC believes duration is a misunderstood risk that could present significant challenges during a rising interest rate environment, particularly for those investors currently locked into long-duration fixed-rate credit.

STRATEGIC REPORT continued

While VPC often discusses the underlying credit performance of the Company's asset backed investments, it is also important to emphasise the additional layers of protection beyond direct asset security. Due to the structured nature of the Company's asset backed investments, including (in most cases) corporate guarantees and significant first-loss protection, the investments are generally not affected by changes in credit performance until a platform defaults and all corporate resources (separate from the borrowing base of loan collateral) are exhausted. In addition to monitoring the credit performance, VPC monitors the overall corporate performance of Portfolio Companies, including attending board meetings as an observer and having weekly update calls with Portfolio Company management.

VPC remains focused on providing capital to vital segments of the economy that are underserved by the traditional banking industry, including small businesses, working capital products, consumer finance and real estate, among others. It believes in the long-term value of providing capital to these sectors, and will continue to look for and identify other trends that can create opportunities for additional investments in the future.

Victory Park Capital Advisors, LLC

Investment Manager

27 April 2022

BUSINESS MODEL

COMPANY STATUS

The Company is registered as a public limited company under the Companies Act 2006 and is an investment company under Section 833 of the Companies Act 2006. It is a member of the Association of Investment Companies ("AIC").

The Company was incorporated on 12 January 2015 and commenced its operations on 17 March 2015.

The Company has been approved as an investment trust under Sections 1158/1159 of the Corporation Tax Act 2010. The Directors are of the opinion, under advice, that the Company continues to conduct its affairs as an Approved Investment Trust under the Investment Trust (Approved Company) (Tax) Regulations 2011.

Under the Investment Management Agreement ("IMA") dated 26 February 2015 between the Company and the Investment Manager, the Investment Manager is appointed to act as investment manager and Alternative Investment Fund Manager ("AIFM") of the Company with responsibility for portfolio management and risk management of the Company's investments.

PURPOSE

The Company's defined purpose is to deliver our Investment Objective. Board culture promotes strong governance and long-term investment, mindful of the interests of all stakeholders. The Board believes that, as an investment company with no employees, this is best achieved by working in partnership with our appointed Investment Manager.

INVESTMENT OBJECTIVE

The Company provides asset backed lending solutions to emerging and established businesses with the goal of building long-term, sustainable income generation. The Company focuses on providing capital to vital segments of the economy, which for regulatory and structural reasons are underserved by the traditional banking industry. Among others, these segments include small business lending, working capital products, consumer finance and real estate. The Company offers shareholders access to a diversified portfolio of opportunistic credit investments originated by non-bank lenders with a focus on the rapidly developing technology-enabled lending sector. Through rigorous diligence and credit monitoring, the Company generates stable income with significant downside protection.

INVESTMENT POLICY

The Company seeks to achieve its investment objectives by investing in opportunities in the financial services market through portfolio companies and other lending related opportunities.

The Company invests directly or indirectly into available opportunities, including by making investments in, or acquiring interests held by, third-party funds (including those managed by the Investment Manager or its affiliates).

Direct investments include consumer loans, SME loans, advances against corporate trade receivables and/or purchases of corporate trade receivables originated by portfolio companies ("Debt Instruments"). Such Debt Instruments may be subordinated in nature, or may be second lien, mezzanine or unsecured loans.

Indirect investments include investments in portfolio companies (or in structures set up by portfolio companies) through the provision of senior secured floating rate credit facilities ("Credit Facilities"), equity or other instruments. Additionally, the Company's investments in Debt Instruments and Credit Facilities are made through subsidiaries of the Company or through partnerships in order to achieve bankruptcy remoteness from the platform itself, providing an extra layer of credit protection.

The Company may also invest in other financial services related opportunities through a combination of debt facilities, equity or other instruments.

The Company may also invest (in aggregate) up to 10% of its Gross Assets (at the time of investment) in listed or unlisted securities (including equity and convertible securities or any warrants) issued by one or more of its portfolio companies or financial services entities.

The Company invests across several portfolio companies, asset classes, geographies (primarily US, UK, Europe, Australia, Asia and Latin America) and credit bands in order to create a diversified portfolio and thereby mitigates concentration risks.

STRATEGIC REPORT continued

Borrowing policy

Borrowings may be employed at the level of the Company and at the level of any investee entity (including any other investment fund in which the Company invests or any special purpose vehicle ("SPV") that may be established by the Company in connection with obtaining gearing against any of its assets).

The Company may, in connection with seeking such gearing or securitising its loans, seek to assign existing assets to one or more SPVs and/or seek to acquire loans using an SPV.

The Company may establish SPVs in connection with obtaining gearing against any of its assets or in connection with the securitisation of its loans (as set out further below). It intends to use SPVs for these purposes to seek to protect the geared portfolio from group level bankruptcy or financing risks.

The aggregate gearing of the Company and any investee entity (on a look-through basis, including borrowing through securitisation using SPVs) shall not exceed 1.5 times its NAV (1.5x).

As is customary in financing transactions of this nature, the particular SPV will be the borrower and the Company may from time to time be required to guarantee or indemnify a third-party lender for losses incurred as a result of certain "bad boy" acts of the SPV or the Company, typically including fraud or wilful misrepresentation or causing the SPV voluntarily to file for bankruptcy protection. Any such arrangement will be treated as 'non-recourse' with respect to the Company provided that any such obligation of the Company shall not extend to guaranteeing or indemnifying ordinary portfolio losses or the value of the collateral provided by the SPV.

Management Arrangements

The Company has an independent Board of Directors which has appointed Victory Park Capital Advisors, LLC ("VPC"), the Company's Investment Manager, as Alternative Investment Fund Manager ("AIFM") under the terms of an Investment Management Agreement ("IMA") dated 26 February 2015. The IMA is reviewed annually by Board and may be terminated by six-months' notice from either party subject to the provisions for earlier termination as stipulated therein.

The Company's investing activities have been delegated by the Directors to VPC. VPC has significant expertise in the sector and enables the Company to identify unique investment opportunities to add to the Portfolio. It has made investments and commitments across several financial services Portfolio Companies, spanning multiple geographies, products and structures, and is continuing to deploy capital into existing and new Portfolio Companies.

Details of the Investment Management fee and performance fees payable to VPC during the period are set out in Note 10 on pages 90 and 91.

PERFORMANCE MANAGEMENT

The Board uses the following KPIs to help assess progress against the Company's objectives. Further comments on these KPIs are contained in the Chairman's Statement and Investment Manager's Report sections, respectively.

NAV AND TOTAL RETURN

The Directors regard the Company's NAV return as a key component to delivering value to shareholders over the long term. Furthermore, the Board believes that in accordance with the Company's objective, total return (which includes dividends) is the best measure for long term shareholder value.

At each meeting, the Board receives reports detailing the Company's NAV and total return performance, portfolio composition and related analyses. A full description of performance and the investments is contained in the Investment Manager's Report, commencing on page 10.

DIVIDEND YIELD

The Company intends to distribute at least 85% of its distributable income earned in each financial year by way of dividends. Including the distribution made in March 2022, which related to the three-month period ended 31 December 2021, the Company has distributed 100% (2020: 97%) of its distributable income earned during the year ended 31 December 2021.

GEARING RATIO

As at 31 December 2021, the look-through gearing ratio was 0.34x (2020: 0.32x) for the Company. As disclosed in the investment policy, the aggregate gearing of the Company and any investee entity (on a look-through basis, including borrowing through securitisation using SPVs) shall not exceed 1.5 times its NAV (2020: 1.5x). The Board and Investment Manager monitor the look-through gearing ratio to ensure it is in line with the investment policy.

SHARE PRICE PREMIUM/DISCOUNT

As a closed-ended listed investment trust, the Company's share price can and does deviate from its NAV. This results in either a premium or a discount to NAV. This is another component of the long-term shareholder return. The Board continually monitors the Company's premium or discount to NAV and has the ability to issue or buy back shares to limit the volatility of the share price discount or premium. For more information on the Company's authorities in relation to its share capital, see page 106.

During the trading period, the Ordinary Shares moved in a discount range of 9.53% to 26.09%. The Company closed the year at a discount of 19.22% (2020: 17.77%) to NAV. During the year, the Company repurchased a total of 4,370,972 shares at an average price of 85.61 pence per share.

EXPENSES

The Board is conscious of the impact of expenses on returns and seeks to minimise expenses while ensuring that the Company receives good service from its suppliers. The industry-wide measure for investment trusts is the ongoing charges ratio. This seeks to quantify the on-going costs of running the Company. The ongoing charges ratio for 2021 was 1.79%, compared to 1.86% for 2020. This measures the annual normal on-going costs of an investment trust, excluding performance fees, one-off expenses and dealing costs, as a percentage of the average shareholders' funds.

STRATEGIC REPORT continued

PRINCIPAL RISKS

The Company is exposed to risks that are monitored and actively managed to meet its investment objectives. These include market risks related to interest rates, currencies and general availability of financing as well as credit and liquidity risks given the nature of the instruments in which the Company invests. In addition, the underlying Portfolio Companies are exposed to operational and regulatory risks as this part of the financial services sector remains relatively nascent.

The Directors are ultimately responsible for identifying and controlling risks. Day-to-day management of the risks arising from the financial instruments held by the Group has been delegated to the Investment Manager of the Company.

The Investment Manager regularly reviews the investment portfolio and industry developments to make sure that any events impacting the Group are identified and considered. This also ensures that any risks affecting the investment portfolio are identified and mitigated to the fullest extent possible.

The Board is responsible for the Company's system of risk management and internal control and for reviewing its effectiveness. The Board has adopted a detailed matrix of principal risks affecting the Company's business as an investment trust and has established associated policies and processes designed to manage and, where possible, mitigate those risks. The matrix is monitored by the Audit and Valuation Committee quarterly.

This system assists the Board in determining the nature and extent of the risks it is willing to take in achieving its strategic objectives. Both the principal and emerging risks and the monitoring system are subject to a robust assessment at least annually. The last review by the Board took place in February 2022.

Although the Board believes that it has a robust framework of internal controls in place, it can provide only reasonable, and not absolute, assurance against material financial misstatement or loss and is designed to manage, not eliminate, risk.

Below is a summary of the principal and emerging risks and uncertainties faced by the Company and the Group, which have remained unchanged throughout the year, and actions taken by the Board and, where appropriate, its Committees, to manage and mitigate these risks and uncertainties. Principal risks include liquidity risk, credit risk, financing risk, portfolio company risk, regulatory risk and market risk. Business continuity risk, climate risk, and geopolitical risk are all considered to be emerging risks. The non-financial risks comprise of regulatory risk, business continuity risk and geopolitical risk and the financial risks comprise of liquidity risk, credit risk, financing risk, market risk and portfolio company risk. These are set out below:

RISK	MITIGATION
LIQUIDITY RISK	
Liquidity risk is defined as the risk that the Group may not be able to settle or meet its obligations on time or at a reasonable price.	The Investment Manager manages the Group's liquidity risk by investing primarily in a diverse portfolio of assets. As at 31 December 2021, 10% of the loans had a stated maturity date of less than a year.
The Group may invest in the listed or unlisted equity of any Portfolio Company. Investments in unlisted equity, by their nature, involve a higher degree of valuation and performance uncertainties and liquidity risks than investments in listed securities and therefore may be more difficult to realise.	In general, the weighted average maturity profile of the Group's assets was lower than or equal to the term of the Group's corresponding debt facilities which thereby reduced liquidity risk. Refer to Note 6 of the financial statements for the maturity profile of the Group's assets and liabilities.
In the event of adverse economic conditions in which it would be preferable for the Group to sell certain of its assets, the Group may not be able to sell a sufficient proportion of its portfolio as a result of liquidity constraints. In such circumstances, the overall returns to the Group from its investments may be adversely affected.	The Board and the Investment Manager review the investment portfolio to ensure it is in line with the investment policy, including restrictions, as outlined on pages 134 and 135. The Board reviews cash flow forecasts to ensure the group can meet its liabilities as they fall due.
The Group is also exposed to liquidity risk with respect to the requirement to pay margin cash to collateralise forward foreign exchange contracts used for currency hedging purposes.	The Group continuously monitors fluctuations in currency rates. The Group performs stress tests and liquidity projections to determine how much cash should be held back to meet potential future obligations to settle margin calls arising from foreign exchange hedging.
	The gearing facility has helped the Group reduce cash drag associated with the currency hedging portfolio, while also allowing the Group to meet its liabilities as they fall due.

RISK**MITIGATION****LIQUIDITY RISK** *continued*

The Investment Manager monitors the cash balances of the Group daily to ensure that all ongoing expenses can be paid as they come due. During 2021, the Group has received all contractual interest payments and continues to monitor cash flow closely during the COVID-19 pandemic.

CREDIT RISK

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Group's credit risks arise principally through exposures to loans acquired by the Group, which are subject to risk of borrower default. The ability of the Group to earn revenue is completely dependent upon payments being made by the borrower.

There is inherent credit risk in the Group's investments in credit assets. However, this is typically mitigated by the significant first loss protection provided by the Portfolio Company under the Asset Backed Lending Model and the excess spread generated by the underlying assets.

The Investment Manager performs a robust analysis during the underwriting process for all new investments of the Group and monitors the eligibility of the collateral at least monthly of the current assets in the Group's portfolio. This process also includes due diligence performed by a third-party reviewer during the underwriting process and subsequent reviews at least once per year for the Group's Portfolio Companies.

The Group will invest across several Portfolio Companies, asset classes, geographies (primarily US, UK, Europe, Australia, Asia and Latin America) and credit bands to ensure diversification and to seek to mitigate concentration risks.

The Investment Manager did not see new payment defaults during the year and the Group has received all contractual payments through the date of this report.

The Board and the Investment Manager review the investment portfolio to ensure it is in line with the investment policy, including restrictions, as outlined on pages 134 and 135. The Investment Manager monitors performance and underwriting on an ongoing basis.

FINANCING RISK

Financing risk is the risk that, whilst the use of borrowings by the Group should enhance the net asset value of an investment when the value of an investment's underlying assets is rising, it will, however, have the opposite effect when the underlying asset value is falling. In addition, if an investment's income falls for whatever reason, the use of borrowings will increase the impact of such a fall on the net revenue of the Group's investment and accordingly will have an adverse effect on the ability of the investment to make distributions to the Group.

The Group uses gearing to enhance returns generated by the underlying credit assets and is exposed to the availability of financing at acceptable terms as well as interest rate expenses and other related costs.

This risk is mitigated by limiting borrowings to ring-fenced SPVs without recourse to the Group and employing gearing in a disciplined manner.

The Group has maintained a level of gearing throughout the year significantly below the limit stipulated in the Prospectus as the Group is primarily invested in the Asset Backed Lending Model.

During the year, the Group replaced the current gearing provider with a new provider. The current facility was negotiated at attractive terms including a three-year revolving period, an interest rate lower than that of the previous facility, and an option to upsize the facility from US\$130 million to US\$200 million and a six-year maturity.

The Board and the Investment Manager review the investment portfolio to ensure it is in line with the investment policy, including investment restrictions, as outlined on pages 134 and 135.

STRATEGIC REPORT continued

RISK

MITIGATION

MARKET RISK

Market risk is the risk of loss arising from movements in observable market variables such as foreign exchange rates, equity prices and interest rates. The Group is exposed to market risk primarily through its Financial Instruments.

The Group is exposed to price risk arising from the investments held by the Group for which prices in the future are uncertain. The investments in funds are exposed to market price risk. Refer to Note 3 in the Financial Statements for further details on the sensitivity of the Group's Level 3 investments to price 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.

Currency risk is the risk that the value of net assets will fluctuate due to changes in foreign exchange rates. Relevant risk variables are generally movements in the exchange rates of non-functional currencies in which the Group holds financial assets and liabilities.

The Group is exposed to risks related to the reference rate reform and replacement of benchmark interest rates such as GBP LIBOR and other interbank offered rates. There remains some uncertainty around the timing and precise nature of these changes.

The Group has a diversified investment portfolio which significantly reduces the exposure to individual asset price risk. Detailed portfolio valuations and exposure analysis are prepared monthly and form the basis for the on-going risk management and investment decisions. In addition, regular scenario analysis is undertaken to assess likely downside risks and sensitivity to broad market changes, as well as assessing the underlying correlations amongst the separate asset classes.

Exposure to interest rate risk is limited as the underlying credit assets are typically fully amortising with a maximum maturity of five years. Furthermore, generally the Group's Credit Facilities include a floating interest rate component to the Portfolio Companies to account for an increase in interest rate risk and they also have a set floor in the instance that interest rates were to drop.

The Group mitigates its exposure to currency risk by hedging exposure between Pound Sterling and any other currencies in which a significant portion of the Group's assets may be denominated.

The Board reviews the price, interest rate and currency risk with the Investment Manager to ensure that exposure to these risks are appropriately mitigated.

The Investment Manager continues to monitor the potential impact of a discontinuation of LIBOR rates on the Company's investments, based on the expectation that reference rates will be evaluated and replaced timely for investments with a variable rate component. Accordingly, it is difficult to predict the full impact of the transition until new reference rates and fallbacks are commercially accepted.

PORTFOLIO COMPANY RISK

The current market in which the Group participates is competitive and rapidly changing. There is a risk that the Group will not be able to deploy its capital, re-invest capital and interest of the proceeds of any future capital raisings, in a timely or efficient manner given the increased demand for suitable investments.

The Group may face increasing competition for access to investments as the alternative finance industry continues to evolve. The Group may face competition from other institutional lenders such as fund vehicles and commercial banks that are substantially larger and have considerably greater financial, technical and marketing resources than the Group. Other institutional sources of capital may enter the market in the UK, US and other geographies.

VPC has negotiated a significant number of proprietary capital deployment agreements with its existing asset backed lending partners each of which typically ensures the ability to deploy capital on attractive terms for several years.

In addition, VPC is one of the largest investors in the specialty lending sector and therefore enjoys timely information and good access to emerging Portfolio Company opportunities. VPC has a team of investment and operational professionals which ensures that deployment opportunities with new and existing Portfolio Companies can be executed rapidly while minimising operational risk.

VPC's pipeline of deployment opportunities remains strong with both existing and new asset backed lending Portfolio Companies.

RISK**MITIGATION****REGULATORY RISK**

As an investment trust, the Company's operations are subject to wide ranging regulations. The financial services sector continues to experience significant regulatory change at national and international levels. Failure to act in accordance with these regulations could cause fines, censure or other losses including taxation or reputational loss.

The Association of Investment Companies (AIC) is becoming increasingly focused on ensuring ESG measures are implemented within investment companies.

In order to continue to qualify as an investment trust, the Company must comply with the requirements of Section 1158 of the Corporation Tax Act 2010.

The Company provides debt capital to Portfolio Companies, which typically must comply with various state and national level regulations. This includes some operating under interim permission and some now regulated from the FCA in the UK as well as consumer lending and collections licenses in some US states. This risk is limited via detailed upfront due diligence of Portfolio Companies' regulatory environments performed by the Investment Manager on behalf of the Board. All decisions taken are made with due consideration to the long-term sustainability and impact on stakeholders.

The Company has procedures to monitor the status of its compliance with the relevant requirements to maintain its Investment Trust status, including receiving and reviewing information, and reporting from the Company Secretary and other service providers as appropriate.

BUSINESS CONTINUITY RISK

As a result of the COVID-19 pandemic, there has been increased focus from financial services regulators around the world on the contingency plans of regulated financial firms.

The Investment Manager reviews its business continuity plans and operational resilience strategies on an ongoing basis and will take all reasonable steps to continue meeting its regulatory obligations and to assess operational risks, the ability to continue operating and the steps it needs to take to serve and support its clients, including the Board.

The Investment Manager has not seen any disruptions to business during 2021 and into the beginning of 2022.

CLIMATE RISK

The world is facing unprecedented challenges in the face of climate change and growing inequality. The FSB Task Force on Climate-related Financial Disclosures (TCFD) has developed climate-related financial risk disclosures for companies to provide information to investors, lenders, insurers, and other stakeholders.

The Investment Manager has performed an initial high-level materiality assessment of climate risk across its investment portfolio and is developing a comprehensive action plan for both the Company and Group. No material impact on the financial statements has been identified from the risks arising from climate change through the work performed by the Investment Manager from this initial assessment.

The Investment Manager is reviewing the core disclosure elements of the TCFD reporting framework. As an investment trust, the Company is not required to provide information in compliance with TCFD.

GEOPOLITICAL RISK

The Group is subject to risks associated with unforeseen geopolitical events, including war, terrorist attacks, natural disasters, and ongoing pandemics, which could create economic, financial, and business disruptions.

The Investment Manager has a dedicated risk committee comprised of senior leadership and key principals. This committee works with each individual portfolio investment team to develop a coordinated risk response across the entire portfolio. The Investment Manager also increased the frequency of portfolio company data collection and reporting. Additional information on the Investment Manager's Pandemic Response plan can be found on pages 13 and 14.

Discussion on the Group's risk management and internal controls is on page 124.

STRATEGIC REPORT continued

As of the writing of this report, neither the Group nor Investment Manager have any direct exposure to Russia or Ukraine in the portfolio, and the Investment Manager has not seen any impact on the Group's collateral or investments. That being said, the Group and Investment Manager recognise that this conflict can lead to prolonged volatility in the global capital markets, other macro implications on the world economy, and heightened risks generally. The Investment Manager will continue to monitor all of our portfolio companies closely and consider these developments as we look to invest additional capital.

DIRECTORS' DUTIES

Overview

The Directors' overarching duty is to act in good faith and in a way that is most likely to promote the success of the Company as set out in Section 172 of the Companies Act 2006. The Company also considers the principles and guidance of the AIC and in doing so, directors take into consideration the interests of the various stakeholders of the Company. All decisions made by the Directors are taken with a long-term view and with the intention of minimising the potential harmful impact on communities and the environment. The Company seeks to maintain its reputation for high standards of business conduct and fair treatment between the members of the Company.

Fulfilling this duty naturally supports the Company in achieving its Investment Objective and helps to ensure that all decisions are made in a responsible and sustainable way. In accordance with the requirements of the Companies (Miscellaneous Reporting) Regulations 2018, the Company explains how the Directors have discharged their duty under Section 172 below.

To ensure that the Directors are aware of, and understand, their duties they are provided with the pertinent information when they first join the Board as well as receiving regular and ongoing updates and training on the relevant matters. They also have continued access to the advice and services of the Company Secretary, and when deemed necessary, the Directors can seek independent professional advice. The schedule of Matters Reserved for the Board, as well as the Terms of Reference of its Committees are reviewed on an annual basis and further describe Directors' responsibilities and obligations and include any statutory and regulatory duties. The Audit and Valuation Committee has responsibility for the ongoing review of the Company's risk management systems and internal controls and, to the extent that they are applicable, risks related to the matters set out in Section 172 are included in the Company's risk register and are subject to periodic and regular reviews and monitoring. All Terms of Reference are located on the Company website.

Decision-making

The importance of stakeholder considerations, particularly in the context of decision-making, is taken into account at every Board meeting. All discussions involve careful considerations of the longer-term consequences of any decisions and their implications for stakeholders.

Stakeholders

The Board seeks to understand the needs and priorities of the Company's stakeholders and these are taken into account during all its discussions and as part of its decision-making. During the period under review, the Board has continued to discuss and monitor which parties should be considered as stakeholders of the Company. Following thorough review, it was concluded that, as the Company is an externally managed investment company and does not have any employees or customers, its key stakeholders continue to comprise its Shareholders, Investment Manager, portfolio companies and service providers. The section below discusses why these stakeholders are considered of importance to the Company and the actions taken to ensure that their interests are taken into account.

IMPORTANCE

SHAREHOLDERS

Continued shareholder support and engagement are critical to the existence of the business and the delivery of the long-term strategy of the Company.

BOARD ENGAGEMENT

The Company has over 105 shareholders, including institutional investors. The Board is committed to maintaining open channels of communication and to engage with shareholders in a manner which they find most meaningful, in order to gain an understanding of the views of shareholders. These include:

- ❖ **Annual General Meeting** – The Company welcomes and encourages attendance and participation from shareholders at the AGM, either in person when able to or virtually. Shareholders have the opportunity to meet the Directors and Investment Manager and to address questions to them directly. Each year, the Investment Manager attends the AGM and provides a presentation on the Company's performance and the future outlook. The Company values any feedback and questions it may receive from shareholders ahead of and during the AGM, and will take action or make changes as and when appropriate. Shareholders would be given the opportunity to have another continuation vote at the AGM in 2023 if the NAV return is less than 24% for the three-year period to 31 March 2023 and an exit opportunity for up to 25% of the shares in issue immediately following the Company's AGM in 2023 if the discount to NAV at which the shares trade over the 3-month period ending on 31 March 2023 is greater than 5%;
- ❖ **Publications** – The Annual Report and Half-Year results are made available on the Company's website and the Annual Report is circulated to shareholders. These reports provide shareholders with a clear understanding of the Company's portfolio and financial position. This information is supplemented by a monthly factsheet and quarterly reports which are available on the website and the publication of which is announced via the stock exchange. Feedback and/or questions the Company receives from the shareholders help the Company evolve its reporting, aiming to render the reports and updates transparent and understandable;

STRATEGIC REPORT continued

IMPORTANCE

BOARD ENGAGEMENT

SHAREHOLDERS *continued*

- ❖ **Shareholder meetings** – Unlike trading companies, shareholder meetings often take the form of meeting with the Investment Manager rather than members of the Board. Shareholders are able to meet with the Investment Manager throughout the year and the Investment Manager provides information on the Company. Feedback from all meetings between the Investment Manager and shareholders is shared with the Board. The Chair, the Chair of the Audit and Valuation Committee and other members of the Board are available to meet with shareholders to understand their views on governance and the Company's performance where they wish to do so. With assistance from the Investment Manager, the Chair seeks meetings with shareholders who might wish to meet with him;
- ❖ **Shareholder concerns** – In the event shareholders wish to raise issues or concerns with the Directors, they are welcome to do so at any time by writing to the Chair at the registered office. Other members of the Board are also available to shareholders if they have concerns that have not been addressed through the normal channels; and
- ❖ **Investor Relations updates** – At every Board meeting, the Directors receive updates from the Company's brokers on the share trading activity, share price performance and any shareholders' feedback, as well as an update from the Investment Manager on any publications. To gain a deeper understanding of the views of its shareholders and potential investors, the Investment Manager also meets regularly with shareholders. Any pertinent feedback is taken into account when Directors discuss the share capital, any possible fundraisings or the dividend policy and actioned as and when appropriate. The willingness of the shareholders, including the partners and staff of the Investment Manager, to maintain their holdings over the long-term period is another way for the Board to gauge how the Company is meeting its objectives and suggests a presence of a healthy corporate culture.

IMPORTANCE**BOARD ENGAGEMENT****OTHER STAKEHOLDERS*****The Investment Manager***

Holding the Company's shares offers investors a liquid investment vehicle through which they can obtain exposure to VPC's diversified portfolio of investment opportunities in the specialty lending market. The Investment Manager's performance is critical for the Company to successfully deliver its investment strategy and meet its objective to provide shareholders with consistent long-term returns.

Maintaining a close and constructive working relationship with the Investment Manager is crucial as the Board and the Investment Manager both aim to continue to achieve consistent, long-term returns in line with its investment objective. Important components in the collaboration with the Investment Manager, representative of the Company's culture are:

- ❖ Encouraging open discussion with the Investment Manager, to ensure continuous feedback and innovative thinking;
- ❖ Recognising that the interests of shareholders and the Investment Manager are for the most part well aligned, adopting a tone of constructive challenge, balanced with robust negotiation of the Investment Manager's terms of engagement if those interests should not be fully united;
- ❖ Encouraging the Investment Manager to meet with stakeholders to ensure that salient matters are thoroughly discussed and, overall, ensure adequate communication channels; and
- ❖ Willingness to make the Board Members' experience available to support the Investment Manager in the sound long-term development of its business and resources, recognising that the long-term health of the Investment Manager is in the interests of shareholders in the Company.

Portfolio Companies

The Company invests directly and/or indirectly into available opportunities, including investments in funds managed by the Investment Manager. Capital is allocated across different Portfolio Companies to meet the Company's investment objectives within the pre-defined portfolio limits and with a focus on portfolio level diversification.

The relationship with our Investment Manager is fundamental to ensuring the Company meets its purpose. Day to day engagement with Portfolio Companies is undertaken by the Investment Manager. Details of how the Investment Manager carries out portfolio management, as well as information of the differentiated investment proposition and the proprietary sourcing and structuring of investments can be found in the Strategic Report on pages 11 and 12. The Board receives updates at each scheduled Board meeting from the Investment Manager on specific investments including regular valuation reports and detailed portfolio and returns analyses. The Investment Manager's engagement with Portfolio Companies incorporates recurring due diligence reviews and on-site visits to supplement regular reporting and management discussion cycles.

STRATEGIC REPORT continued

IMPORTANCE

The Administrator, the Company Secretary, the Registrar, the Custodians and the Brokers

In order to function as an investment trust with a premium listing on the London Stock Exchange, the Company relies on a diverse range of reputable advisors for support in meeting all relevant obligations.

Institutional investors and proxy advisors

The evolving practice and support (or lack thereof) of proxy adviser agencies are important to the Directors, as the Company aims to build a good reputation and maintain high standards of corporate governance, which contribute to the long-term sustainable success of the Company.

Regulators

The Company can only operate with the approval of its regulators who have a legitimate interest in how the Company operates in the market and treats its shareholders.

BOARD ENGAGEMENT

The Board maintains regular contact with its key external providers and receives regular reporting from them, both through the Board and Committee meetings, as well as outside of the regular meeting cycle. Their advice, as well as their needs and views are routinely taken into account. The Board, through the Management Engagement Committee, formally assesses their performance, fees and continuing appointment annually to ensure that the key service providers continue to function at an acceptable level and are appropriately remunerated to deliver the expected level of service. The Audit and Valuation Committee reviews and evaluates the financial reporting control environments in place for each service provider.

The Board recognises that the views, questions from, and recommendations of many proxy adviser agencies provide a valuable feedback mechanism and play a part in highlighting evolving shareholders' expectations and concerns. When deemed relevant, the Company will engage with proxy advisers regarding resolutions that will be proposed to the Company's shareholders at AGMs and, based on feedback received, incorporate appropriate changes to future Annual Reports and Financial Statements to enhance disclosures.

The Company regularly considers how it meets various regulatory and statutory obligations and follows voluntary and best-practice guidance, and how any governance decisions it makes can have an impact on its stakeholders, both in the shorter and in the longer-term.

The above mechanisms for engaging with stakeholders are kept under review by the Directors and are discussed on a regular basis at Board meetings to ensure that they remain effective.

CULTURE

The Directors agree that establishing and maintaining a healthy corporate culture among the Board and in its interaction with the Investment Manager, shareholders and other stakeholders will support the delivery on its purpose, values, and strategy. The Board is encouraged to lead by example and exemplify the Company's culture of openness, debate and integrity through ongoing dialogue and engagement with its service providers, principally the Investment Manager.

The Board strives to ensure that its culture is in line with the Company's purpose, values, and strategy. The Company has several policies and procedures in place to assist with maintaining a culture of good governance, including those relating to diversity, Directors' conflicts of interest and Directors' dealings in the Company's shares. The Board assesses and monitors compliance with these policies as well as the general culture of the Board through Board meetings and during the annual evaluation process which is undertaken by each Director (for more information see the performance evaluation section on page 116).

The Board seeks to appoint the best possible service providers and evaluates their remit, performance, and cost effectiveness on a regular basis as described on page 115. The Board considers the culture of the Investment Manager and other service providers, including their policies, practices, and behaviour, through regular reporting from these stakeholders and during the annual review of the performance and continuing appointment of all service providers to ensure there is an alignment in the long-term objectives. The Investment Manager and other service providers appointment are reviewed annually to ensure these objectives are met.

EMPLOYEES, HUMAN RIGHTS, SOCIAL AND COMMUNITY ISSUES

The Board recognises the requirement under the Companies Act 2006 to detail information about human rights, employees, and community issues, including information about any policies it has in relation to these matters and the effectiveness of these policies. These requirements do not apply to the Company as it has no employees, all the Directors are non-executive, and it has outsourced all its functions to third party service providers. The Company has therefore not reported further in respect of these provisions but does expect its service providers and portfolio companies to respect these requirements.

BOARD DIVERSITY

As at 31 December 2021, following the retirement of Kevin Ingram, the Board of Directors of the Company comprised of four male Directors and one female Director. As at the date of this report the Board composition remains unchanged. The Board acknowledges the benefits of diversity, including gender diversity, and remains committed to ensuring that the Company's Directors bring a wide range of skills, knowledge, experience, backgrounds and perspectives. Further details of the Company's diversity policy are set out on page 119.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) ISSUES

The Company has no employees, property or activities other than investments, so its direct environmental impact is minimal. In carrying out its activities, and in its relationships, the Company aims to conduct itself responsibly, ethically and fairly. Directors are mindful of their own carbon footprints if they are required to travel on Company business.

The Board is comprised entirely of non-executive Directors and the day-to-day management of the Company's business is delegated to the Investment Manager. The Investment Manager aims to be a responsible investor and believes it is important to invest in companies that act responsibly in respect of environmental, ethical and social issues.

The Company has no internal operations and therefore no greenhouse gas emissions to report, nor does it have responsibility for any other emissions producing sources under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013, including those within its underlying investment portfolio. However, the AIC is encouraging all member companies to demonstrate how they are factoring ESG issues into their business practices. The company continues to monitor the guidance published by the AIC and works towards the drafting of its ESG policy. The business remains conscious of its business decisions and the Board, supported by its service providers and Investment Manager consider the long-term impact of all decisions and challenge appropriately.

STREAMLINED ENERGY AND CARBON REPORTING (SECR)

The Company has no employees or property, and it does not combust any fuel or operate any facility thus is taking the exemption. It does not, therefore, have any greenhouse gas emissions to report from its operations, nor does it have responsibility for any other emissions producing sources under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013, including those within its underlying investment portfolio. Additionally, there are no annual emissions from the purchase of electricity, heat, steam or cooling by the Company for its own use.

APPROVAL

This Strategic Report has been approved by the Board of Directors and signed on its behalf by:



Graeme Proudfoot
Chair
27 April 2022

INDEPENDENT AUDITORS' REPORT

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF VPC SPECIALTY LENDING INVESTMENTS PLC

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

In our opinion, VPC Specialty Lending Investments PLC's group financial statements and company financial statements (the "financial statements"):

- ❖ give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2021 and of the group's profit and the group's and company's cash flows for the year then ended;
- ❖ have been properly prepared in accordance with UK-adopted international accounting standards; and
- ❖ have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the Consolidated and Parent Company Statements of Financial Position as at 31 December 2021; the Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company Statements of Cash Flows, and the Consolidated and Parent Company Statements of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit and Valuation Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

We have provided no non-audit services to the company or its controlled undertakings in the period under audit.

Our audit approach

Overview

Audit scope

- ❖ The scope of our audit and the nature, timing and extent of audit procedures performed were determined based on our risk assessment, taking into account changes from the prior year, the financial significance of subsidiaries and other qualitative factors. We executed the planned approach and concluded based on the results of our testing, ensuring that sufficient audit evidence had been obtained to support our opinion.

Key audit matters

- ❖ Valuation of investment assets designated as held at fair value through profit or loss (group and company).
- ❖ Valuation of loans at amortised cost less expected credit losses (group).

Materiality

- ❖ Overall group materiality: £3,100,000 (2020: £2,705,000) based on 1% of Net Asset Value.
- ❖ Overall company materiality: £3,100,000 (2020: £2,656,000) based on 1% of Net Asset Value.
- ❖ Performance materiality: £2,300,000 (2020: £2,028,750) (group) and £2,300,000 (2020: £1,992,000) (company).

INDEPENDENT AUDITORS' REPORT

continued

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the 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) identified by the auditors, including 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, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

Consideration of the impact of COVID-19 (group and parent), which was a key audit matter last year, is no longer included because of the overall risk and uncertainty around COVID-19 has reduced as the potential impacts have become better understood. Our consideration of the impact of Covid-19 is adequately captured by our other key audit matters. Otherwise, the key audit matters below are consistent with last year.

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
Valuation of investment assets designated as held at fair value through profit or loss (group and company) Refer to the Audit and Valuation Committee Report 'Significant issues considered by the Audit and Valuation Committee'; Note 2 Significant Accounting Policies 'Financial assets and financial liabilities' and 'Critical accounting estimates - valuation of unquoted investments'; and Note 3 'Fair value measurement'. The investment assets held by the Group include equity positions that are traded on active markets with quoted prices of £12.0 million (company: nil), which are classified as level 1 per the IFRS 13 fair value hierarchy; investments in funds of £12.5 million (company £12.5 million) classified as level 3, and equity positions that require the use of inputs which are not readily observable in the market of £117.3 million (company: nil), classified as level 2 or level 3. Determining unobservable inputs in fair value measurement of unlisted equity investments involves judgement and is subject to a high degree of estimation uncertainty such that changes to estimates, assumptions and/or the judgements made can result, either on an individual investment or in aggregate, in a material change to the valuation.	We understood and evaluated the design of controls over estimating the fair value of unlisted equity investments. We understood and evaluated the valuation methodology applied, by reference to accounting standards and industry practice, and tested the techniques used to determine the fair value of equity investment assets designated as held at fair value through profit or loss. We performed substantive testing over the following, with the assistance of our valuation experts: ❖ On a sample basis, we corroborated the accuracy and reasonableness of inputs and assumptions used in valuations, including comparison to recent transaction prices, underlying investment company financial information and other market performance information. ❖ On a sample basis, we determined a reasonable range for individual assumptions to arrive at a range of acceptable valuations and we compared the group's valuations to our independently derived valuation range. We further considered whether the judgements made in selecting the significant assumptions would give rise to indicators of possible bias. We evaluated and tested the disclosures over equity investments made in the financial statements. We found that the fair value of investments designated as held at fair value through profit or loss were consistent with the group's accounting policies and supported by the audit evidence we obtained.

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER
Valuation of loans at amortised cost less expected credit losses (group) Refer to the Audit and Valuation Committee Report 'Significant issues considered by the Audit and Valuation Committee'; Note 2 Significant Accounting Policies 'Financial assets and financial liabilities' and 'Critical accounting estimates - measurement of the expected credit loss allowance'; and Note 9 'Impairment of financial assets at amortised cost'. Loans reported at amortised cost amounted to £279.3 million for the group as at 31 December 2021 (company: nil). The amount is net of the expected credit loss ("ECL") allowance of £12.5 million. The determination of ECL is subject to a high degree of estimation uncertainty such that changes to key inputs to the estimates made can result, either on an individual loan or in aggregate, in a material change to the valuation. In the context of the current economic outlook, considerable uncertainty remains around the measurement of ECL, including, the extent and pace of recovery from COVID-19. The significant inputs and assumptions that we focused on in our audit included those with greater levels of judgement and for which variations had the most significant impact on ECL. These were the following : ❖ The application of portfolio company cumulative loss rates to portfolio exposures; and ❖ The application of forward looking economic assumptions used in the models, including the Investment Managers' assumptions and judgements relating to a global downside scenario based on 2008 financial crisis data and the revenue and contribution margin growth rates applied to portfolio exposures.	We understood and evaluated the design of controls over the estimation of ECLs over loans at amortised cost. We understood and evaluated the ECL methodology applied, by reference to accounting standards and industry practice, and tested the techniques used in estimating the ECL. We performed substantive testing over the following, with the assistance of our credit specialists: ❖ We tested the compliance of the ECL methodologies applied by the group with the requirements of IFRS 9, taking into account our understanding of the portfolio. ❖ We assessed the appropriateness of the significant assumptions and methodologies used for models on a sample basis, including the selection of macroeconomic scenarios, probabilities assigned to the scenarios and the severity of the downside macroeconomic scenarios. Our analysis included assessing the 'breakeven' loss rates, the impact of a change in severity of the scenarios and the impact of applying alternative independent data and assumptions, where relevant. ❖ On a sample basis, we tested the appropriateness of cumulative loss rates relative to historical experience. ❖ On a sample basis, we tested the integrity of the data used in the models to supporting documentation and tested the accuracy of the ECL calculations applied in the models. ❖ We tested the appropriateness and application of qualitative and quantitative criteria used to assess significant increases in credit risk and staging of loans at amortised cost including consideration of the controls over portfolio company and loan covenant monitoring. We further considered whether the judgements made in selecting the significant assumptions would give rise to indicators of possible bias. We evaluated and tested the disclosures over loans at amortised cost less ECL made in the financial statements. We found that the calculations and assumptions used to estimate the ECL on loans at amortised cost were supported by the audit evidence we obtained.

INDEPENDENT AUDITORS' REPORT

continued

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the company, the accounting processes and controls, and the industry in which they operate.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. We performed a risk assessment, giving consideration to relevant external and internal factors, including COVID-19, climate change, economic risks and the group's strategy. We also considered our knowledge and experience obtained in the prior year audits. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. In establishing the overall approach to the audit, we scoped using the balances included in the financial statements consolidation pack. We determined the type of work that needed to be performed over the company and subsidiaries (the 'components') by us or auditors from PricewaterhouseCoopers LLP Chicago, USA ('PwC US') operating under our instruction. Our interactions with the PwC US auditors included regular communication throughout the audit, including the issuance of instructions, a review of working papers and formal clearance meetings.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

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

	Financial statements – group	Financial statements – company
Overall materiality	£3,100,000 (2020: £2,705,000).	£3,100,000 (2020: £2,656,000).
How we determined it	1% of Net Asset Value	1% of Net Asset Value
Rationale for benchmark applied	We have applied this benchmark, a generally accepted auditing practice for Investment Trust audits, in the absence of indicators that an alternative benchmark would be appropriate and because we believe this provides an appropriate basis for our audit.	We have applied this benchmark, a generally accepted auditing practice for Investment Trust audits, in the absence of indicators that an alternative benchmark would be appropriate and because we believe this provides an appropriate basis for our audit.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £2,900,000 and £3,100,000.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2020: 75%) of overall materiality, amounting to £2,300,000 (2020: £2,028,750) for the group financial statements and £2,300,000 (2020: £1,992,000) for the company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit and Valuation Committee that we would report to them misstatements identified during our audit above £155,000 (group audit) (2020: £135,250) and £155,000 (company audit) (2020: £132,800) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the group's and the company's ability to continue to adopt the going concern basis of accounting included:

- ❖ Performing a risk assessment to identify factors that could impact the going concern basis of accounting, including the impact of external factors including COVID-19 and climate change risks.

- ❖ Understanding and evaluating the group's financial forecasts and stress testing of those forecasts, including the severity of the stress scenarios that were used.
- ❖ Consideration of the Directors' resolution to 1) offer shareholders an exit opportunity for up to 100% of the Ordinary Shares in issue immediately following the Company's Annual General Meeting (AGM) in 2023 if the company's NAV (Cum Income) Return for the period from 1 April 2020 to 31 March 2023 is less than 24%; and 2) If the average discount to NAV at which the shares trade over the three-month period ending on 31 March 2023 is greater than 5%, the Board will offer shareholders an exit opportunity for up to 25% of the Ordinary Shares in issue immediately following the Company's AGM in 2023.
- ❖ Reading and evaluating the adequacy of the disclosures made in the financial statements in relation to going concern.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and the company's ability to continue as a going concern for a period of at least 12 months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the group's and the company's ability to continue as a going concern.

In relation to the directors' reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance 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 an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 December 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' Report.

Directors' Remuneration

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

INDEPENDENT AUDITORS' REPORT

continued

Corporate governance statement

The Listing Rules require us to review the directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the company's compliance with the provisions of the UK Corporate Governance Code specified for our review. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- ❖ The directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- ❖ The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- ❖ The directors' statement 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 group's and company's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements;
- ❖ The directors' explanation as to their assessment of the group's and company's prospects, the period this assessment covers and why the period is appropriate; and
- ❖ The directors' statement as to whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the directors' statement regarding the longer-term viability of the group was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the group and company and their environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- ❖ The directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the group's and company's position, performance, business model and strategy;
- ❖ The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- ❖ The section of the Annual Report describing the work of the Audit and Valuation Committee.

We have nothing to report in respect of our responsibility to report when the directors' statement relating to the company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified under the Listing Rules for review by the auditors.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

In preparing the financial statements, the directors are responsible for assessing the group's and 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 group or the company or to cease operations, or have no realistic alternative but to do so.

Auditors' 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 auditors' 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the group and industry, we identified the principal risks of non-compliance with laws and regulations related to UK Listing Rules and UK tax legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase income and bias in accounting estimates. Audit procedures performed by the engagement team included:

- ❖ Discussions with the Investment Manager and the Audit and Valuation Committee, including consideration of known or suspected instances of non-compliance with laws and regulation;
- ❖ Reviewing relevant meeting minutes including those of the Board and the Audit and Valuation Committee;
- ❖ Assessment of the Company's compliance with the requirements of Section 1158 of the Corporation Tax Act 2010;
- ❖ Challenging assumptions and judgements made by the Directors in their significant accounting estimates and judgements, in particular in relation to the valuation of investment assets designated as held at fair value through profit or loss and valuation of loans at amortised cost less expected credit losses; and
- ❖ Identifying and testing journal entries meeting specific fraud criteria, including those posted with certain descriptions or certain unusual amounts, posted to certain account combinations, backdated journals or posted by unexpected users.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

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

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

INDEPENDENT AUDITORS' REPORT

continued

OTHER REQUIRED REPORTING

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- ❖ we have not obtained all the information and explanations we require for our audit; or
- ❖ adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- ❖ certain disclosures of directors' remuneration specified by law are not made; or
- ❖ the company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit and Valuation Committee, we were appointed by the members on 24 July 2015 to audit the financial statements for the year ended 31 December 2015 and subsequent financial periods. The period of total uninterrupted engagement is seven years, covering the years ended 31 December 2015 to 31 December 2021.

OTHER MATTER

In due course, as required by the Financial Conduct Authority Disclosure Guidance and Transparency Rule 4.1.14R, these financial statements will form part of the ESEF-prepared annual financial report filed on the National Storage Mechanism of the Financial Conduct Authority in accordance with the ESEF Regulatory Technical Standard ('ESEF RTS'). This auditors' report provides no assurance over whether the annual financial report will be prepared using the single electronic format specified in the ESEF RTS.



Claire Sandford (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

27 April 2022

FINANCIAL STATEMENTS

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2021

	NOTES	31 DECEMBER 2021 £	31 DECEMBER 2020 £
Assets			
Cash and cash equivalents	7	6,300,572	6,416,028
Cash posted as collateral	7	4,133,588	1,140,000
Derivative financial assets	3,4	2,069,698	5,758,880
Interest receivable		4,708,481	3,613,047
Dividend and distribution receivable		3,996	3,812
Other assets and prepaid expenses		2,877,815	889,148
Loans at amortised cost	3,9	279,339,002	293,123,379
Investment assets designated as held at fair value through profit or loss	3	141,797,222	51,417,983
Total assets		441,230,374	362,362,277
Liabilities			
Management fee payable	10	155,399	92,241
Performance fee payable	10	12,913,280	4,040,085
Derivative financial liabilities	3,4	1,508,675	-
Deferred income		174,603	253,403
Other liabilities and accrued expenses		1,550,415	1,332,920
Notes payable	8	107,267,260	86,087,183
Total liabilities		123,569,632	91,805,832
Total assets less total liabilities		317,660,742	270,556,445

See Notes to the consolidated financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION**AS AT 31 DECEMBER 2021**

	NOTES	31 DECEMBER 2021 £	31 DECEMBER 2020 £
Capital and reserves			
Called-up share capital		20,300,000	20,300,000
Share premium account		161,040,000	161,040,000
Other distributable reserve	14	112,779,146	116,520,960
Capital reserve		1,667,026	(50,393,578)
Revenue reserve		20,615,367	21,847,960
Currency translation reserve		1,213,245	1,221,766
Total equity attributable to shareholders of the Parent Company		317,614,784	270,537,108
Non-controlling interests	18	45,958	19,337
Total equity		317,660,742	270,556,445
Net Asset Value per Ordinary Share	12	114.14p	95.72p

The financial statements on pages 42 to 49 were approved by the Board of Directors on 27 April 2022 and signed on its behalf by:



Graeme Proudfoot
Chair

27 April 2022

See Notes to the consolidated financial statements

FINANCIAL STATEMENTS continued

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2021

	NOTES	REVENUE £	CAPITAL £	TOTAL £
Revenue				
Net gain (loss) on investments	5	-	67,114,995	67,114,995
Foreign exchange gain (loss)		-	(2,049,374)	(2,049,374)
Interest income	5	33,158,150	-	33,158,150
Other income	5	4,419,620	-	4,419,620
Total return		37,577,770	65,065,621	102,643,391
Expenses				
Management fee	10	3,802,097	-	3,802,097
Performance fee	10	3,733,910	9,179,370	12,913,280
Credit impairment losses	9	-	3,636,142	3,636,142
Other expenses	10	3,212,166	159,909	3,372,075
Total operating expenses		10,748,173	12,975,421	23,723,594
Finance costs		5,706,429	-	5,706,429
Net return on ordinary activities before taxation		21,123,168	52,090,200	73,213,368
Taxation on ordinary activities	11	-	-	-
Net return on ordinary activities after taxation		21,123,168	52,090,200	73,213,368
Attributable to:				
Equity shareholders		21,123,168	52,060,604	73,183,772
Non-controlling interests	18	-	29,596	29,596
Return per Ordinary Share (basic and diluted)	13	7.55	18.62	26.17
Other comprehensive income				
Currency translation differences		-	(11,496)	(11,496)
Total comprehensive income		21,123,168	52,078,704	73,201,872
Attributable to:				
Equity shareholders		21,123,168	52,052,083	73,175,251
Non-controlling interests	18	-	26,621	26,621

The total column of this statement represents the Group's statement of comprehensive income, prepared in accordance with UK-adopted International Accounting Standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards. The supplementary revenue and capital columns are both prepared under guidance published by the Association of Investment Companies ("AIC"). All items in the above Statement derive from continuing operations. Amounts in Other comprehensive income may be reclassified to profit or loss in future periods.

See Notes to the consolidated financial statements

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2020

	NOTES	REVENUE £	CAPITAL £	TOTAL £
Revenue				
Net gain (loss) on investments	5	–	1,845,962	1,845,962
Foreign exchange gain (loss)		–	(2,970,304)	(2,970,304)
Interest income	5	35,454,974	524,984	35,979,958
Other income	5	5,799,767	–	5,799,767
Total return		41,254,741	(599,358)	40,655,383
Expenses				
Management fee	10	3,394,740	–	3,394,740
Performance fee	10	4,040,085	–	4,040,085
Credit impairment losses	9	–	112,550	112,550
Other expenses	10	2,313,540	232,265	2,545,805
Total operating expenses		9,748,365	344,815	10,093,180
Finance costs		7,607,524	–	7,607,524
Net return on ordinary activities before taxation		23,898,852	(944,173)	22,954,679
Taxation on ordinary activities	11	–	–	–
Net return on ordinary activities after taxation		23,898,852	(944,173)	22,954,679
Attributable to:				
Equity shareholders		23,898,852	(1,019,223)	22,879,629
Non-controlling interests	18	–	75,050	75,050
Return per Ordinary Share (basic and diluted)	13	8.08p	(0.34p)	7.74p
Other comprehensive income				
Currency translation differences		–	21,443	21,443
Total comprehensive income		23,898,852	(922,730)	22,976,122
Attributable to:				
Equity shareholders		23,898,852	(1,005,035)	22,893,817
Non-controlling interests	18	–	82,305	82,305

The total column of this statement represents the Group's statement of comprehensive income, prepared in accordance with UK-adopted International Accounting Standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards. The supplementary revenue and capital columns are both prepared under guidance published by the Association of Investment Companies ("AIC"). All items in the above Statement derive from continuing operations. Amounts in Other comprehensive income may be reclassified to profit or loss in future periods.

See Notes to the consolidated financial statements

FINANCIAL STATEMENTS continued

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2021

	CALLLED UP SHARE CAPITAL £	SHARE PREMIUM ACCOUNT £	OTHER DISTRIBUTABLE RESERVE £	CAPITAL RESERVE £	REVENUE RESERVE £	CURRENCY TRANSLATION RESERVE £	TOTAL SHARE- HOLDERS' EQUITY £	NON- CONTROLLING INTERESTS £	TOTAL EQUITY £
Opening balance at 1 January 2021	20,300,000	161,040,000	116,520,960	(50,393,578)	21,847,960	1,221,766	270,537,108	19,337	270,556,445
Amounts paid on buyback of Ordinary Shares	-	-	(3,741,814)	-	-	-	(3,741,814)	-	(3,741,814)
Contributions by non-controlling interests	-	-	-	-	-	-	-	-	-
Distributions to non-controlling interests	-	-	-	-	-	-	-	-	-
Return on ordinary activities after taxation	-	-	-	52,060,604	21,123,168	-	73,183,772	29,596	73,213,368
Dividends declared and paid	-	-	-	-	(22,355,761)	-	(22,355,761)	-	(22,355,761)
Other comprehensive income									
Currency translation differences	-	-	-	-	-	(8,521)	(8,521)	(2,975)	(11,496)
Closing balance at 31 December 2021	20,300,000	161,040,000	112,779,146	1,667,026	20,615,367	1,213,245	317,614,784	45,958	317,660,742

The supplementary revenue and capital columns are both prepared under guidance published by the Association of Investment Companies ("AIC").

See Notes to the consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2020

	CALLLED. UP SHARE CAPITAL £	SHARE PREMIUM ACCOUNT £	OTHER DISTRIBUTABLE RESERVE £	CAPITAL RESERVE £	REVENUE RESERVE £	CURRENCY TRANSLATION RESERVE £	TOTAL SHARE- HOLDERS' EQUITY £	NON- CONTROLLING INTERESTS £	TOTAL EQUITY £
Opening balance at 1 January 2020	20,300,000	161,040,000	136,682,176	(49,374,355)	21,623,852	1,207,578	291,479,251	60,940	291,540,191
Amounts paid on buyback of Ordinary Shares	-	-	(20,161,216)	-	-	-	(20,161,216)	-	(20,161,216)
Contributions by non-controlling interests	-	-	-	-	-	-	-	-	-
Distributions to non-controlling interests	-	-	-	-	-	-	-	(123,908)	(123,908)
Return on ordinary activities after taxation	-	-	-	(1,019,223)	23,898,852	-	22,879,629	75,050	22,954,679
Dividends declared and paid	-	-	-	-	(23,674,744)	-	(23,674,744)	-	(23,674,744)
Other comprehensive income									
Currency translation differences	-	-	-	-	-	14,188	14,188	7,255	21,443
Closing balance at 31 December 2020	20,300,000	161,040,000	116,520,960	(50,393,578)	21,847,960	1,221,766	270,537,108	19,337	270,556,445

The supplementary revenue and capital columns are both prepared under guidance published by the Association of Investment Companies ("AIC").

See Notes to the consolidated financial statements

FINANCIAL STATEMENTS continued

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2021

	NOTES	31 DECEMBER 2021 £	31 DECEMBER 2020 £
Cash flows from operating activities:			
Total comprehensive income		73,201,872	22,976,122
Adjustments for:			
– Interest income		(33,158,150)	(35,979,958)
– Dividend and distribution income	5	(4,419,620)	(5,799,767)
– Finance costs		5,706,429	7,607,524
– Exchange losses		2,049,374	2,970,304
Total		43,379,905	(8,225,775)
Gain on investment assets designated as held at fair value through profit or loss		(67,354,436)	(1,845,962)
(Gain) loss on derivative financial instruments		(6,131,547)	(1,402,050)
Decrease (increase) in other assets and prepaid expenses		(1,988,667)	5,009
Increase (decrease) in management fee payable		8,873,195	(51,174)
Increase (decrease) in performance fee payable		63,158	(3,370,529)
Decrease in deferred income		(78,800)	(236,919)
Increase (decrease) in accrued expenses and other liabilities		250,148	(458,591)
Interest received		32,062,716	37,597,261
Purchase of loans		(129,180,445)	(105,292,885)
Redemption or sale of loans		145,742,133	160,405,704
Impairment of loans		3,636,142	112,550
Net cash (outflow) inflow from operating activities		29,273,502	77,236,639
Cash flows from investing activities:			
Investment income received		4,419,436	5,815,327
Purchase of investment assets designated as held at fair value through profit or loss		(51,430,977)	(16,671,467)
Sale of investment assets designated as held at fair value through profit or loss		30,929,189	8,538,783
(Decrease) increase of cash posted as collateral		(2,993,588)	(160,000)
Net cash inflow (outflow) from investing activities		(19,075,940)	(2,477,357)

See Notes to the consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS **FOR THE YEAR ENDED 31 DECEMBER 2021**

	NOTES	31 DECEMBER 2021 £	31 DECEMBER 2020 £
Cash flows from financing activities:			
Dividends distributed		(22,355,761)	(23,674,744)
Treasury shares repurchased		(3,741,814)	(20,213,722)
Distributions to non-controlling interests		–	(123,908)
(Decrease) increase in note payable		21,180,077	(23,502,528)
Finance costs paid		(5,739,082)	(7,165,276)
Net cash outflow from financing activities		(10,656,580)	(74,680,178)
Net change in cash and cash equivalents		(459,018)	79,104
Exchange gains on cash and cash equivalents		343,562	205,802
Cash and cash equivalents at the beginning of the period		6,416,028	6,131,122
Cash and cash equivalents at the end of the period	7	6,300,572	6,416,028

See Notes to the consolidated financial statements

FINANCIAL STATEMENTS continued

PARENT COMPANY STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2021

	NOTES	31 DECEMBER 2021 £	RESTATED 31 DECEMBER 2020 £
Assets			
Cash and cash equivalents	7	4,301,574	4,738,217
Cash posted as collateral	7	4,133,588	1,140,000
Derivative financial assets	3,4	2,069,698	5,758,880
Interest receivable		4,298,886	3,173,686
Other current assets and prepaid expenses		2,881,811	889,148
Investments in subsidiaries	17	303,174,979	257,491,532
Investment assets designated as held at fair value through profit or loss	3	12,531,090	2,522,366
Total assets		333,391,626	275,713,829
Liabilities			
Management fee payable	10	155,399	92,241
Performance fee payable	10	12,913,280	4,040,085
Derivative financial liabilities	3,4	1,508,675	-
Deferred income		174,603	253,403
Other liabilities and accrued expenses		1,024,885	790,992
Total liabilities		15,776,842	5,176,721
Total assets less total liabilities		317,614,784	270,537,108
Equity attributable to Shareholders of the Company			
Called-up share capital	14	20,300,000	20,300,000
Share premium account	14	161,040,000	161,040,000
Other distributable reserve	14	112,779,146	116,520,960
Capital reserve		2,880,271	(49,171,812)
Revenue reserve		20,615,367	21,847,960
Total equity		317,614,784	270,537,108
Net return on ordinary activities after taxation		73,175,251	22,893,817

The financial statements on pages 50 to 53 were approved by the Board of Directors on 27 April 2022 and signed on its behalf by:



Graeme Proudfoot
Chair

27 April 2022

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2021

	CALLED-UP SHARE CAPITAL £	SHARE PREMIUM ACCOUNT £	OTHER DISTRIBUTABLE RESERVE £	CAPITAL RESERVE £	REVENUE RESERVE £	TOTAL £
Opening balance at 1 January 2021	20,300,000	161,040,000	116,520,960	(49,171,812)	21,847,960	270,537,108
Amounts paid on repurchase of Ordinary Shares	-	-	(3,741,814)	-	-	(3,741,814)
Return on ordinary activities after taxation	-	-	-	52,052,083	21,123,168	73,175,251
Dividends declared and paid	-	-	-	-	(22,355,761)	(22,355,761)
Closing balance at 31 December 2021	20,300,000	161,040,000	112,779,146	2,880,271	20,615,367	317,614,784

See Notes to the consolidated financial statements

FINANCIAL STATEMENTS continued

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2020 RESTATED

	CALLLED-UP SHARE CAPITAL £	SHARE PREMIUM ACCOUNT £	OTHER DISTRIBUTABLE RESERVE £	CAPITAL RESERVE £	REVENUE RESERVE £	TOTAL £
Opening balance at 1 January 2020	20,300,000	161,040,000	136,682,176	(48,166,777)	21,623,852	291,479,251
Amounts paid on repurchase of Ordinary Shares	-	-	(20,161,216)	-	-	(20,161,216)
Return on ordinary activities after taxation	-	-	-	(1,005,035)	23,898,852	22,893,817
Dividends declared and paid	-	-	-	-	(23,674,744)	(23,674,744)
Closing balance at 31 December 2020	20,300,000	161,040,000	116,520,960	(49,171,812)	21,847,960	270,537,108

See Notes to the consolidated financial statements

PARENT COMPANY STATEMENT OF CASH FLOWS **FOR THE YEAR ENDED 31 DECEMBER 2021**

	NOTES	31 DECEMBER 2021 £	RESTATED 31 DECEMBER 2020 £
Cash flows from operating activities:			
Net return on ordinary activities after taxation		73,175,251	22,893,817
Adjustments for:			
- Interest income		(31,871,341)	(35,842,688)
- Exchange (gains) losses		2,049,374	(315,612)
Total		43,353,284	(13,264,483)
Unrealised loss on investment assets designated as held at fair value through profit or loss		(7,141,907)	563,327
Unrealised (gain) loss on investments in subsidiaries		(52,213,993)	1,018,002
(Gain) loss on derivative financial instruments		(6,131,547)	(1,773,515)
Increase in other assets and prepaid expenses		(1,992,663)	(221,594)
Decrease in management fee payable		63,158	(51,174)
(Decrease) increase in performance fee payable		8,873,195	(3,370,529)
Decrease in deferred income		(78,800)	(236,919)
Increase in accrued expenses and other liabilities		233,894	172,389
Net cash outflow from operating activities		(15,035,379)	(17,164,496)
Cash flows from investing activities:			
Interest received		30,746,141	37,332,932
Purchase of investment assets designated as held at fair value through profit or loss		(19,086,855)	-
Sale of investment assets designated as held at fair value through profit or loss		16,220,038	1,376,253
Purchase of investments in subsidiaries		(29,910,829)	(80,568,889)
Sales of investment in subsidiaries		45,377,842	103,634,391
Cash posted as collateral		(2,993,588)	(160,000)
Net cash inflow from investing activities		40,352,749	61,614,687
Cash flows from financing activities			
Treasury Shares repurchased		(3,741,814)	(20,213,722)
Dividends paid		(22,355,761)	(23,674,744)
Net cash outflow from financing activities		(26,097,575)	(43,888,466)
Net change in cash and cash equivalents		(780,205)	561,725
Exchange gains on cash and cash equivalents		343,562	205,802
Cash and cash equivalents as the beginning of the period		4,738,217	3,970,690
Cash and cash equivalents at the end of the period	7	4,301,574	4,738,217

See Notes to the consolidated financial statements

FINANCIAL STATEMENTS continued

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

1. GENERAL INFORMATION

VPC Specialty Lending Investments PLC (the "Parent Company") with its subsidiaries (together "the Group") is focused on asset-backed lending to emerging and established businesses with the goal of building long-term, sustainable income generation. The Group focuses on providing capital to vital segments of the economy that are underserved by the traditional banking industry, including small businesses, working capital products, consumer finance and real estate, among others. The Group executes this strategy by identifying investment opportunities across various industries and geographies to offer shareholders access to a diversified portfolio of opportunistic credit investments originated by non-bank lenders with a focus on the rapidly developing technology-enabled lending sector. The Parent Company, which is limited by shares, was incorporated and domiciled in England and Wales on 12 January 2015 with registered number 9385218. The Parent Company commenced its operations on 17 March 2015 and intends to carry on business as an investment trust within the meaning of Chapter 4 of Part 4 of the Corporation Tax Act 2010.

The Group's investment manager is Victory Park Capital Advisors, LLC (the "Investment Manager"), a US Securities and Exchange Commission registered investment adviser. The Investment Manager also acts as the Alternative Investment Fund Manager of the Group under the Alternative Investment Fund Managers Directive ("AIFMD"). The Parent Company is defined as an Alternative Investment Fund and is subject to the relevant articles of the AIFMD.

The Group will invest directly or indirectly into available opportunities, including by making investments in, or acquiring interests held by, third party funds (including those managed by the Investment Manager or its affiliates). Direct investments may include consumer loans, SME loans, advances against corporate trade receivables and/or purchases of corporate trade receivables ("Debt Instruments") originated by platforms which engage with and directly lend to borrowers ("Portfolio Companies"). Such Debt Instruments may be subordinated in nature, or may be second lien, mezzanine or unsecured loans. Indirect investments may include investments in Portfolio Companies (or in structures set up by Portfolio Companies) through the provision of credit facilities ("Credit Facilities"), equity or other instruments. Additionally, the Group's investments in Debt Instruments and Credit Facilities may be made through subsidiaries of the Parent Company or through partnerships or other structures. The Group may also invest in other specialty lending related opportunities through any combination of debt facilities, equity or other instruments.

As at 31 December 2021, the Parent Company had equity in the form of 382,615,665 Ordinary Shares, 278,276,392 Ordinary Shares in issue and 104,339,273 Ordinary Shares in Treasury (31 December 2020: 382,615,665 Ordinary Shares, 282,647,364 Ordinary Shares in issue and 99,968,301 Ordinary Shares in Treasury). The Ordinary Shares are listed on the premium segment of the Official List of the UK Listing Authority and trade on the London Stock Exchange's main market for listed securities.

During the year, Citco Fund Administration (Cayman Islands) Limited (the "Administrator") was appointed as the administrator of the Group, replacing Northern Trust Hedge Fund Services LLC. The Administrator is responsible for the Group's general administrative functions, such as the calculation and publication of the Net Asset Value ("NAV") and maintenance of the Group's accounting records.

For any terms not herein defined, refer to Part X of the IPO Prospectus. The Parent Company's IPO Prospectus dated 26 February 2015 is available on the Parent Company's website, www.vpcspecialtylending.com.

2. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies followed by the Group are set out below and have been applied consistently in both the current and prior year:

Basis of preparation

The consolidated financial statements present the financial performance of the Group and Company for the year ended 31 December 2021. The consolidated financial statements are prepared in accordance with UK-adopted International Accounting Standards and with the requirements of the Companies Act 2006 as applicable to companies under those standards. They comprise standards and interpretations approved by the International Accounting Standards Board ("IASB") and International Financial Reporting Committee, including interpretations issued by the IFRS Interpretations Committee and interpretations issued by the International Accounting Standard Committee ("IASC") that remain in effect. The financial statements have been prepared on a going concern basis and under the historical cost convention modified by the revaluation to a fair value basis for certain financial instruments as specified in the accounting policies below.

The Directors have reviewed the financial projections of the Group and Company from the date of this report, which shows that the Group and Company will be able to generate sufficient cash flows in order to meet its liabilities as they fall due. In assessing the Group's and Company's ability to continue as a going concern, the Directors have considered the Company's investment objective, risk management policies, capital management, the nature of its portfolio and expenditure projections.

Additionally, the Directors have considered the risks arising of reduced asset values and economic disruption caused by the COVID-19 pandemic. The Investment Manager has also performed a range of stress tests and demonstrated to the Directors that even in an adverse scenario of depressed markets that the Group could still generate sufficient funds to meet its liabilities over the next 12 months. The Directors believe that the Group has adequate resources, an appropriate financial structure and suitable management arrangements in place to continue in operational existence for the foreseeable future being a period of at least 12 months from the date of this report.

Based on their assessment and considerations above, the Directors have concluded that the financial statements of the Group and Company should continue to be prepared on a going concern basis and the financial statements have been prepared accordingly.

Where presentational guidance set out in the Statement of Recommended Practice ("SORP") for investment trusts issued by the Association of Investment Companies ("AIC") in November 2014 and updated in October 2019 with consequential amendments is consistent with the requirements of IFRS, the Directors have sought to prepare the consolidated financial statements on a basis compliant with the recommendations of the SORP.

The Parent Company and Group's presentational currency is Pound Sterling (£). Pound Sterling is also the functional currency because it is the currency of the Parent Company's share capital and the currency which is most relevant to the majority of the Parent Company's shareholders. The Group enters into forward currency Pound Sterling hedges where operating activity is transacted in a currency other than the functional currency.

Change in accounting policy with retrospective application

All accounting policies are consistent with prior year with the exception of a voluntary change in accounting policy with respect to investments in subsidiaries. Refer to Investment in subsidiaries section below for further information.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Parent Company and its subsidiaries. Control is achieved where the Parent Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. The Parent Company controls an entity when the Parent Company is exposed to, or has rights to, variable returns from its investment and has the ability to affect those returns through its power over the entity. All intra-group transactions, balances, income and expenses are eliminated on consolidation. The accounting policies of the subsidiaries have been applied on a consistent basis to ensure consistency with the policies adopted by the Parent Company. The period ends for the subsidiaries are consistent with the Parent Company.

Subsidiaries of the Parent Company, where applicable, have been consolidated on a line-by-line basis as the Parent Company does not meet the definition of an investment entity under IFRS 10 because it does not measure and evaluate the performance of all its investments on the fair value basis of accounting.

Investments in subsidiaries

During the year, the Parent Company voluntarily changed its accounting policy for valuing its investments in subsidiaries. In previous years, the Parent Company's investments in its subsidiaries were measured at cost less impairment and costs of investments in currencies other than Pound Sterling were historically translated to at the rate of exchange ruling on the date the investment was made. This previously caused a difference in the total net asset value shown on the Parent Company Statement of Financial Position as compared to the Group.

With the change in accounting policy, the Parent Company's investments in its subsidiaries are now measured at fair value which is determined with reference to the underlying NAV of the subsidiary. The NAV of the subsidiaries are used as a best estimate of fair value through profit or loss. The NAV is the value of all the assets of the subsidiary less its liabilities to creditors (including provisions for such liabilities) determined in accordance with applicable accounting standards, which represents fair value based on the Company's assessment.

The Investment Manager believes that the implemented change in accounting will provide the Shareholders of the Company with the best indication of value of the Parent Company and will align the accounting policies of the Parent Company reporting to be more in line with the accounting policies of the Group.

Below is the impact of this change in accounting policy on the Parent Company Statement of Financial Position:

FINANCIAL ASSETS	HISTORICAL COST	FAIR MARKET VALUE	CHANGE
	31 DECEMBER 2020	31 DECEMBER 2020	
Investments in subsidiaries	250,042,768	257,491,532	7,448,764

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

Below is the impact of this change in accounting policy on the Parent Company Statement of Changes in Equity:

	HISTORICAL COST 2020 £	FAIR MARKET VALUE 2020 £	CHANGE £
Total equity at 1 January 2020	280,744,571	291,479,251	10,734,680
Return on ordinary activities after taxation	26,179,731	22,893,817	-3,285,914
Total equity at 31 December 2020	263,088,342	270,537,108	7,448,766

The impact of this change in the accounting policy on the Parent Company Statement of Cash flows is the decrease of the net return on ordinary activities after taxation noted above and an increase to the unrealised appreciation on investments in subsidiaries.

Below is the impact of this change in accounting policy on the Parent Company's basic earnings per share:

	2020 HISTORICAL COST £	2020 FAIR MARKET VALUE £
Profit for the year	26,179,731	22,893,817
Average number of Ordinary Shares in issue during the year	295,430,078	295,430,078
Earnings per Share (basic and diluted)	8.86p	7.75p

Presentation of Consolidated Statement of Comprehensive Income

In order to better reflect the activities of an investment trust company and in accordance with the guidance set out by the AIC, supplementary information which analyses the Consolidated Statement of Comprehensive Income between items of revenue and capital nature has been presented alongside the Consolidated Statement of Comprehensive Income.

The Directors have taken advantage of the exemption under Section 408 of the Companies Act 2006 and accordingly have not presented a separate Parent Company statement of comprehensive income. The net return on ordinary activities after taxation of the Parent Company was £73,175,251 (31 December 2020: £22,893,817).

Income

For financial instruments measured at amortised cost, the effective interest rate method is used to measure the carrying value of a financial asset or liability and to allocate associated interest income or expense in the revenue account over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments or receipts over the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability.

In calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider expected credit losses. The calculation includes all fees received and paid, costs borne that are an integral part of the effective interest rate and all other premiums or discounts above or below market rates.

Dividend income from investments is taken to the revenue account on an ex-dividend basis. Bank interest and other income receivable is accounted for on an effective interest basis. Dividend income from investments is reflected in Other income on the Statement of Comprehensive Income. Further disclosure can be found in Note 5.

Distributions from investments in funds are accounted for on an accrual basis as of the date the Group is entitled to the distribution. The income is treated as revenue return provided that the underlying assets of the investments comprise solely income generating loans, or investments in lending platforms which themselves generate net interest income. Distributions from investments in funds is reflected in Other income on the Statement of Comprehensive Income. Further disclosure can be found in Note 5.

Interest income from Investment assets designated as held at fair value through profit or loss are reflected in Other income on the Statement of Comprehensive Income. Further disclosure can be found in Note 5.

In the instance where the retained earnings of the Parent Company's investment in a subsidiary are negative, all income from that investment is allocated to the capital reserve for both the Group and the Parent Company.

Finance costs

Finance costs are recognised using the effective interest rate method. The Group currently charges all finance costs to either revenue or capital based on retained earnings of the investment that generates the fees from the perspective of the Parent Company.

Expenses

Expenses not directly attributable to generating a financial instrument are recognised as services are received, or on the performance of a significant act which means the Group has become contractually obligated to settle those amounts.

The Group currently charges all expenses, including investment management fees and performance fees, to either revenue or capital based on the retained earnings of the investment that generates the fees from the perspective of the Parent Company.

At 31 December 2021, no management fees (31 December 2020: £nil) have been charged to the capital return of the Group or the Parent Company. At 31 December 2021, performance fees of £9,179,370 (31 December 2020: £nil) have been charged to the capital return of the Group and Parent Company relating to the net return on ordinary activities after taxation allocated to the capital return. Refer to Note 10 for further details of the management and performance fees.

All expenses are accounted for on an accruals basis.

Dividends payable to Shareholders

Dividends payable to Shareholders are recognised in the Consolidated Statement of Changes in Equity when they are paid or have been approved by Shareholders in the case of a final dividend and become a liability to the Parent Company.

Taxation

The tax currently payable is based on the taxable profit for the year. Taxable profit differs from net profit as reported in the Consolidated Statement of Comprehensive Income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the Consolidated Statement of Financial Position date.

In line with the recommendations of SORP for investment trusts issued by the AIC, the allocation method used to calculate tax relief on expenses presented against capital returns in the supplementary information in the Consolidated Statement of Comprehensive Income is the "marginal basis".

Under this basis, if taxable income is capable of being offset entirely by expenses presented in the revenue return column of the Consolidated Statement of Comprehensive Income, then no tax relief is transferred to the capital return column.

Investment trusts which have approval as such under section 1158 of the Corporation Tax Act 2010 are not liable for taxation on capital gains.

Financial assets and financial liabilities

The Group classifies its financial assets and financial liabilities in one of the following categories below. The classification depends on the purpose for which the financial assets and liabilities were acquired. The classification of financial assets and liabilities are determined at initial recognition.

IFRS 9 contains a classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. IFRS 9 contains a principal-based approach and applies one classification approach for all types of financial assets. For Debt Instruments, two criteria are used to determine how financial assets should be classified and measured:

- ❖ The entity's business model (i.e., how an entity manages its financial assets in order to generate cash flows by collecting contractual cash flows, selling financial assets or both); and
- ❖ The contractual cash flow characteristics of the financial asset (i.e., whether the contractual cash flows are solely payments of principal and interest).

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at fair value through profit or loss ("FVTPL"):

- ❖ It is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- ❖ Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured as described further in this note.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

A financial asset is measured at fair value through other comprehensive income ("FVOCI") if it meets both of the following conditions and is not designated as at FVTPL:

- ❖ It is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- ❖ Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Movements in the carrying amount are taken through the Other Comprehensive Income ("OCI"), except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the investments amortised cost which is recognised in the Consolidated Statement of Comprehensive Income. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to the Consolidated Statement of Comprehensive Income and recognised in Income. Interest income from these financial assets is included in Income using the effective interest rate method ("ERIM").

Equity instruments are measured at FVTPL, unless they are not held for trading purposes, in which case an irrevocable election can be made on initial recognition to measure them at FVOCI with no subsequent reclassification to the Consolidated Statement of Comprehensive Income. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. Financial assets measured at FVTPL are recognised in the Consolidated Statement of Financial Position at their fair value. Fair value gains and losses, together with interest coupons and dividend income, are recognised in the Consolidated Statement of Comprehensive Income within net trading income in the period in which they occur. The fair values of assets and liabilities traded in active markets are based on current bid and offer prices respectively. If the market is not active, the Group establishes a fair value by using valuation techniques. In addition, on initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

There are no positions measured at FVOCI in the current or prior year.

Business model assessment

The Group will assess the objective of the business model in which a financial asset is held at a portfolio level in order to generate cash flows because this best reflects the way the business is managed, and information is provided to the Investment Manager. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these are applicable, then the financial assets are classified as part of the other business model and measured at FVTPL.

The information that will be considered by the Group in determining the business model includes:

- ❖ The stated policies and objectives for the portfolio and the operation of those policies in practice, including whether the strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of assets;
- ❖ Past experience on how the cash flows for these assets were collected;
- ❖ How the performance of the portfolio is evaluated and reported to the Investment Manager;
- ❖ The risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed; and
- ❖ The frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Investment Manager's stated objective for managing the financial assets is achieved and how cash flows are realised.

Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, "principal" is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a reasonable profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the contractual terms of the instrument will be considered to see if the contractual cash flows are consistent with a basic lending arrangement. In making the assessment, the following features will be considered:

- ❖ Contingent events that would change the amount and timing of cash flows;
- ❖ Prepayment and extension terms;
- ❖ Terms that limit the Company's claim to cash flows from specified assets, e.g., non-recourse asset arrangements; and
- ❖ Features that modify consideration for the time value of money, e.g., periodic reset of interest rates.

The Group reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification that has taken place forms the start of the first reporting period following the change. Such changes are expected to be very infrequent.

Expected credit loss allowance for financial assets measured at amortised cost

The Credit impairment losses in the Consolidated Statement of Comprehensive Income includes the change in expected credit losses which are recognised for loans and advances to customers, other financial assets held at amortised cost and certain loan commitments.

At initial recognition, allowance is made for expected credit losses resulting from default events that are possible within the next 12 months (12-month expected credit losses). In the event of a significant increase in credit risk, allowance (or provision) is made for expected credit losses resulting from all possible default events over the expected life of the financial instrument (lifetime expected credit losses). Financial assets where 12-month expected credit losses are recognised are considered to be Stage 1; financial assets which are considered to have experienced a significant increase in credit risk are in Stage 2; and financial assets which have defaulted or are otherwise considered to be credit impaired are allocated to Stage 3.

The measurement of expected credit losses will primarily be based on the product of the instrument's probability of default ("PD"), loss given default ("LGD"), and exposure at default ("EAD"), taking into account the value of any collateral held or other mitigants of loss and including the impact of discounting using the effective interest rate ("EIR").

- ❖ The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months ("12M PD"), or over the remaining lifetime ("Lifetime PD") of the obligation.
- ❖ EAD is based on the amounts the Group expects to be owed at the time of default, over the next 12 months ("12M EAD") or over the remaining lifetime ("Lifetime EAD"). For example, for a revolving commitment, the Group includes the current drawn balance plus any further amount that is expected to be drawn up to the current contractual limit by the time of default, should it occur.
- ❖ LGD represents the Group's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default. LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and Lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

The estimated credit loss ("ECL") is determined by projecting the PD, LGD, and EAD for each future month and for each individual exposure. Movements between Stage 1 and Stage 2 are based on whether an instrument's credit risk as at the reporting date has increased significantly relative to the date it was initially recognised. Where the credit risk subsequently improves such that it no longer represents a significant increase in credit risk since origination, the asset is transferred back to Stage 1.

General expectations with regards to expected losses on loans at a given level of delinquency are assessed based on an analysis of loan collateral and credit enhancement. Impairments are recognised once a loan is deemed to have a non-trivial likelihood of facing a material loss. The expected credit loss allowance reflects the increasing likelihood of loss as collateral and credit enhancement become diminished or impaired. As loans progress through the levels of delinquency, the Group applies a greater amount of expected credit loss allowance on the loan balance.

Unless identified at an earlier stage, the credit risk of financial assets is deemed to have increased significantly when more than 30 days past due. The Group does not rebut the presumption in IFRS 9 that all financial assets that are more than 30 days past due have experienced a significant increase in credit risk. The assessment as to when a financial asset has experienced a significant increase in the probability of default requires the application of management judgement.

In addition, the Group considers a financial instrument to have experienced a significant increase in credit risk when one of the following have occurred:

- ❖ Significant increase in credit spread;

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

- ❖ Significant adverse changes in business, financial and/or economic conditions in which the borrower operates;
- ❖ Actual or expected forbearance or restructuring;
- ❖ Actual or expected significant adverse change in operating results of the borrower;
- ❖ Significant change in collateral value which is expected to increase the risk of default; or
- ❖ Early signs of cashflow or liquidity problems.

Movements between Stage 2 and Stage 3 are based on whether financial assets are credit impaired as at the reporting date. Assets can move in both directions through the stages of the impairment model.

The criteria for determining whether credit risk has increased significantly will vary by portfolio and will include a backstop based on delinquency. IFRS 9 contains a rebuttable presumption that default occurs no later than when a payment is 90 days past due which the Group does not rebut. A loan is normally written off, either partially or in full, when there is no realistic prospect of recovery (as a result of the customer's insolvency, ceasing to trade or other reason) and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of impairment losses recorded. The Company assesses at each reporting date whether there is objective evidence that a loan or group of loans is impaired. In performing such analysis, the Company assesses the probability of default based on the level of collateral and credit enhancement and on the number of days past due, using recent historical rates of default on loan portfolios with credit risk characteristics similar to those of the Company or past history if sufficient data is available to demonstrate a reliable loss profile.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Under IFRS 9, when determining whether the credit risk (i.e. the risk of default) on a financial instrument has increased significantly since initial recognition, reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis based on historical experience, credit assessment and forward-looking information is used.

The measurement of expected credit losses for each stage and the assessment of significant increases in credit risk must consider information about past events and current conditions as well as reasonable and supportable forward-looking information, including a "base case" view of the future direction of relevant economic variables and a representative range of other possible forecasts scenarios. The process will involve developing two or more additional economic scenarios and considering the relative probabilities of each outcome. The base case will represent a most likely outcome and be aligned with information used for other purposes, such as strategic planning and budgeting. The number of scenarios used and their attributes are reassessed at each reporting date by investment. The scenario weightings are determined by a combination of statistical analysis and expert credit judgement, taking account of the range of possible outcomes each chosen scenario is representative of.

The estimation and application of forward-looking information requires significant judgement. PD, LGD and EAD inputs used to estimate Stage 1 and Stage 2 credit loss allowances, are modelled based on the macroeconomic variables (or changes in macroeconomic variables) that are most closely correlated with credit losses in the relevant portfolio. As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Group considers these forecasts to represent its best estimate of the possible outcomes and has analysed the non-linearities and asymmetries within the Group's different portfolios to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

Other forward-looking considerations not otherwise incorporated within the above scenarios, such as the impact of any regulatory, legislative or political changes, have also been considered, but are not deemed to have a material impact and therefore no adjustment has been made to the ECL for such factors. This is reviewed and monitored for appropriateness on a quarterly basis.

Collateral and other credit enhancements

The Group employs a range of policies to mitigate credit risk. The most common of these is accepting collateral for funds advanced. The Group has internal policies of the acceptability of specific classes of collateral or credit risk mitigation.

Modification of financial assets

The Group sometimes modifies the terms or loans provided to customers due to commercial renegotiations, or for distressed loans, with a view to maximising recovery.

Such restructuring activities include extended payment term arrangements, payment holidays and payment forgiveness. Restructuring policies and practice are based on indicators or criteria which, in the judgement of management, indicate that payment will most likely continue. These policies are kept under continuous review.

The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in derecognition of the original assets. The Group monitors the subsequent performance of modified assets. The Group may determine that the credit risk has significantly improved after restructuring, so that the assets are moved from Stage 3 or Stage 2.

Modification of terms is not an indicator of a change in risk.

Modification of loans

The Group sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Group assesses whether or not the new terms are substantially different to the original terms. The Group does this by considering, among others, the following factors:

- ❖ If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay;
- ❖ Whether any substantial new terms are introduced, such as a profit share/equity-based return that substantially affect the risk profile of the loan;
- ❖ Significant extension of the loan term when the borrower is not in financial difficulty;
- ❖ Significant change in the interest rate;
- ❖ Change in the currency the loan is denominated in; and
- ❖ Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Group derecognises the original financial asset and recognises a new asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining if a significant increase in credit risk has occurred. However, the Group also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amounts are also recognised in the Consolidated Statement of Comprehensive Income as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in the Consolidated Statement of Comprehensive Income. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

During the year, three investments were modified per the Group's policy (2020: two investment). The modification of the loans in both the current year and prior year did not result in any gains or losses recognised as a result of the modification of the loans as the carrying value of the loans was the same before and after the modification. The changes to the interest rates in the loans are reflected in the income earned by the Group.

Derecognition other than a modification

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Group transfers substantially all the risks and rewards of ownership, or (ii) the Group neither transfers nor retains substantially all the risks and rewards of ownership and the Group has not retained control.

The Group enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as 'pass through' transfers that result in derecognition if the Group:

- ❖ Has no obligation to make payments unless it collects equivalent amounts from the assets;

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- ❖ Is prohibited from selling or pledging the assets; and
- ❖ Has an obligation to remit any cash it collects from the assets without material delay.

Collateral furnished by the Group under standard repurchase agreements and securities lending and borrowing transactions are not derecognised because the Group retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met.

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

This category consists of forward foreign exchange contracts, common equity, preferred stock, warrants and investments in funds.

Assets and liabilities in this category are carried at fair value. The fair values of derivative instruments are estimated using discounted cash flow models using yield curves that are based on observable market data or are based on valuations obtained from counterparties.

Investments in funds are carried at fair value through profit or loss and designated as such at inception. This is valued for the units at the balance sheet date based on the NAV where it is assessed that NAV equates to fair value.

Common equity, preferred stock and warrants are valued using a variety of techniques. These techniques include market comparables, discounted cash flows, yield analysis, and transaction prices. Refer to Note 3.

Gains and losses arising from the changes in the fair values are recognised in the Consolidated Statement of Comprehensive Income.

Loans at amortised cost

Loans at amortised cost are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans are recognised when the funds are advanced to borrowers and are carried at amortised cost using the effective interest rate method less provisions for impairment.

Purchases and sales of financial assets

Purchases and sales of financial assets are accounted for at trade date. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Fair value estimation

The determination of fair value of investments requires the use of accounting estimates and assumptions that could cause material adjustment to the carrying value of those investments.

Financial liabilities

Borrowings, deposits, debt securities in issue and subordinated liabilities, if any, are recognised initially at fair value, being the issue proceeds net of premiums, discounts and transaction costs incurred.

All borrowings are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is adjusted for the amortisation of any premiums, discounts and transaction costs. The amortisation is recognised in interest expense and similar charges using the effective interest rate method.

Financial liabilities are derecognised when the obligation is discharged, cancelled or has expired.

Derivatives

Derivatives are entered into to reduce exposures to fluctuations in interest rates, exchange rates, market indices and credit risks and are not used for speculative purposes. The Parent Company entered into forward foreign currency exchange contracts as a hedge against exchange rate fluctuations for investments in Portfolio Companies denominated in foreign currencies. A forward foreign currency exchange contract is an agreement between two parties to purchase or sell a specified quantity of a currency at or before a specified date in the future. Forward contracts are typically traded in the OTC markets and all details of the contract are negotiated between the counterparties to the agreement. Accordingly, the forward contracts are valued at the forward rate by reference to the contracts traded in the OTC markets and are classified as Level 2 in the fair value hierarchy.

Derivatives are carried at fair value with movements in fair values recorded in the Consolidated Statement of Comprehensive Income. Derivative financial instruments are valued using discounted cash flow models using yield curves that are based on observable market data or are based on valuations obtained from counterparties.

Gains and losses arising from derivative instruments are credited or charged to the Consolidated Statement of Comprehensive Income. Gains and losses of a revenue nature are reflected in the revenue column and gains and losses of a capital nature are reflected in the capital column. Gains and losses on forward foreign exchange contracts are reflected in Foreign exchange gain/(loss) in the Consolidated Statement of Comprehensive Income.

All derivatives are classified as assets where the fair value is positive and liabilities where the fair value is negative. Where there is the legal ability and intention to settle net, then offsetting is applied and the derivative is classified as a net asset or liability, as appropriate.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the Consolidated Statement of Financial Position if, and only if, there is currently enforceable legal right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise an asset and settle the liability simultaneously.

Investments in funds

Investments in funds are measured at fair value through profit or loss. The NAV of the fund is used as a best estimate of fair value through profit or loss. The NAV is the value of all the assets of the fund less its liabilities to creditors (including provisions for such liabilities) determined in accordance with applicable accounting standards, which represents fair value based on the Company's assessment. Refer to Note 3 and Note 19 for further information.

Equity securities

Equity securities are measured at fair value. These securities are considered either Level 1, 2, or 3 investments. Further details of the valuation of equity securities are included in Note 3. Equity securities consist of common and preferred stock, warrants and convertible note investments.

Other receivables

Other receivables do not carry interest and are short-term in nature and are accordingly recognised at fair value as reduced by appropriate allowances for estimated irrecoverable amounts.

Cash and cash equivalents

Cash comprises of cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments with a maturity of 90 days or less that are readily convertible to known amounts of cash.

Deferred income

The Group and Parent Company defer draw fees received from investments and the deferred fees amortise into income on a straight-line basis over the life of the loan, which approximates the effective interest rate method.

Other liabilities

Other liabilities and accrued expenses are not interest-bearing and are stated at their nominal values. Due to their short-term nature this is determined to be equivalent to their fair value.

Share Capital

The Ordinary Shares are classified as equity. The costs of issuing or acquiring equity are recognised in equity (net of any related income tax benefit), as a reduction of equity on the condition that these are incremental costs directly attributable to the equity transaction that otherwise would have been avoided.

The costs of an equity transaction that is abandoned are recognised as an expense. Those costs might include registration and other regulatory fees, amounts paid to legal, accounting and other professional advisers, printing costs and stamp duties.

The Group's equity NAV per share is calculated by dividing the equity – net assets attributable to the holder of Ordinary Shares by the total number of outstanding Ordinary Shares.

Treasury Shares have no entitlements to vote and are held by the Company.

Foreign exchange

Transactions in foreign currencies are translated into Pound Sterling at the rate of exchange ruling on the date of each transaction. Monetary assets, liabilities and equity investments in foreign currencies at the Consolidated Statement of Financial Position date are translated into Pound Sterling at the rates of exchange ruling on that date. Profits or losses on exchange,

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together with differences arising on the translation of foreign currency assets or liabilities, are taken to the capital return column of the Consolidated Statement of Comprehensive Income. Foreign exchange gains and losses arising on investment assets including loans are included within Net gain/(loss) on investments within the capital return column of the Consolidated Statement of Comprehensive Income.

The assets and liabilities of the Group's foreign operations are translated using the exchange rates prevailing at the reporting date. Income and expense items are translated using the average exchange rates during the period. Exchange differences arising from the translation of foreign operations are taken directly as currency translation differences through the Consolidated Statement of Comprehensive Income.

Capital reserves

Capital reserve – arising on investments sold includes:

- ❖ gains/losses on disposal of investments and the related foreign exchange differences;
- ❖ exchange differences on currency balances;
- ❖ cost of own shares bought back; and
- ❖ other capital charges and credits charged to this account in accordance with the accounting policies above.

Capital reserve – arising on investments held includes:

- ❖ increases and decreases in the valuation of investments held at the year-end;
- ❖ increases and decreases in the IFRS 9 reserve of investments held at the year-end; and
- ❖ investments in subsidiaries by the Parent Company where retained earnings is negative.

In the instance where the retained earnings of the Parent Company's investment in a subsidiary are negative, all income and expenses from that investment are allocated to the capital reserve for both the Group and the Parent Company.

All the above are accounted for in the Consolidated Statement of Comprehensive Income except the cost of own shares bought back, if applicable, which would be accounted for in the Consolidated Statement of Changes in Equity.

Revenue reserves

The revenue reserve represents the accumulated revenue profits retained by the Group. The Group makes interest distributions from the revenue reserve to Shareholders.

Segmental reporting

The chief operating decision maker is the Board of Directors. The Directors are of the opinion that the Group is engaged in a single segment of business, being the investment of the Group's capital in financial assets comprising consumer loans, SME loans, corporate trade receivables and/or advances thereon. The Board focuses on the overall return from these assets irrespective of the structure through which the investment is made.

Critical accounting estimates

The preparation of financial statements in conformity with international accounting standards requires the Group to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Although these estimates are based on the Directors' best knowledge of the amount, actual results may differ ultimately from those estimates.

The areas requiring a higher degree of judgement or complexity and areas where assumptions and estimates are significant to the financial statements, are in relation to expected credit losses and investments at fair value through profit or loss. These are detailed below.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected:

Measurement of the expected credit loss allowance

The calculation of the Group's ECL allowances and provisions against loan commitments and guarantees under IFRS 9 is highly complex and involves the use of significant judgement and estimation. This includes the formulation and incorporation of multiple forward-looking economic conditions into ECL to meet the measurement objective of IFRS 9. The most significant estimates that are discussed are what is considered to be a significant increase in credit risk to affect a movement between stages, and the effect of potential future economic scenarios.

Base case and stress case cash flow methodology under IFRS 9

Each loan in the Group's investment portfolio is analysed to assess the likelihood of the Group incurring any loss either (i) in the normal course of events, or (ii) in a stress scenario. Given that these positions are typically secured by specific collateral, most commonly in the form of loan or lease receivables, and often further secured by guarantees from the operating business, the analysis looks at the impacts on both the specific collateral, as well as any obligations of the operating business to understand how the Group's investment would fair in each scenario. The loss rate assumptions for each transaction is established using all available historical loss performance data on the specific asset pool being assessed, supplemented by additional sources as needed.

Base case

To establish the base case model, a representative portfolio is established based on the average portfolio parameters from the actual collateral pool (based on the most recent available reporting date). The expected cash flows are assessed based on these parameters, such as interest rate, term to maturity, amortisation schedule, etc., as well as estimates of prepayments, losses and any other activity which would impact the expected cash flows. Cash flow assumptions, such as prepayment and loss curves are established using a combination of: (1) historical performance; (2) management forecasts; (3) proxy data from comparable assets or businesses; and (4) judgement from the Investment Manager's investment professionals based on general research and knowledge. Emphasis is given to the loss curves because, for most asset classes, they have a significantly larger impact on the liquidation outcomes compared to other assumptions such as prepayment rates.

The model is then burdened with the following costs: (1) servicing costs which broadly reflect the expected costs of either (i) engaging a backup servicer to wind down the portfolio, or (ii) of operating the business through a liquidation; (2) upfront liquidation costs to reflect potential expenses associated with moving into liquidation; and (3) ongoing liquidation costs to reflect incremental costs born to oversee the liquidation.

The last input component is the terms of the Group's investment, which includes the applicable advance rate and interest rate which are based on the prevailing terms and circumstances of the facility.

The representative portfolio is deemed to reflect the most reliable and relevant information available about the portfolio attributes and expected performance. As part of the ongoing investment monitoring and risk management process, the Investment Manager is monitoring performance on the underlying collateral on a monthly basis to identify whether performance indicators are trending positively or negatively, and how much cushion exists compared to contractual covenant trigger levels. Any such changes would be reviewed to determine whether an adjustment is required to the model assumptions.

For the Group's legal finance asset backed investments, the Investment Manager performs a similar analysis as with our financial services asset backed investments, though in those cases we are assessing the likely return on legal sector investments based on historical data and expert judgement and stressing the return and/or loss expectation on those platforms. In general, those assets by their nature tend to be uncorrelated across both the macro economy as well as across the portfolio(s), which has an impact on the range of outcomes factored into the model.

Stress case

For most of the investments being reviewed, the primary driver of collateral value is the loss rates on the underlying loans or leases, measured by cumulative net loss, which considers the total principal losses between a given point in time and the final repayment on the portfolio. While many of the companies and asset classes being reviewed do not have historical performance data going back to pre-2007, macro-economic data is available which can be used as a proxy for the specific asset classes being analysed. VPC commissioned a study of historical loss rates on various asset classes and segments in the US from 2006-2014 in order to understand the changes in loss rates by segment from the benign credit environment of 2006 through the worst parts of the recession. The following table summarises the loss stress observed by segment where 0% indicates no change and 100% indicates a doubling of the relevant loss rate.

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2008 Recession Loss Scalars by Asset and Population

	SUBPRIME & DEEP SUBPRIME VINTAGE SCORE BELOW 601	NEAR PRIME VINTAGE SCORE 601-660	PRIME VINTAGE SCORE ABOVE 660
Student Loan	0%	10%	8%
Retail	17%	10%	3%
Personal Loan	16%	41%	108%
Auto	24%	54%	88%
Credit Card	43%	71%	132%

Source: Assessing Performance of Consumer Lending Assets through Macroeconomic Shocks, Second Order Solutions (June 2019).

The most heavily represented populations in the Group's borrower portfolios are personal loans (or amortising instalment loans). As seen in the above table, default rates on these loans increased by 1.16x-2.08x. Each portfolio was assessed based on the applicable stress factor range based on the product and borrower population.

IFRS 9 calls for an assessment of the probability of default over the upcoming 12 months, and thus the Investment Manager provides a view of the probability of such a severe scenario occurring in the next 12 months for each of the investments which are at risk of incurring a loss (as some of the variables will vary between investments). Typically, the Investment Manager reviews macroeconomic data to assess the probability of a recession or stress scenario over a 12 month horizon. Given the rapid progression of COVID-19 around the globe and the ensuing macroeconomic impacts of the crisis, relevant models have assumed a 100% probability of a stress scenario, which is a very conservative approach. This is consistent with the prior year. The severity of stress is based on data from the recession in 2008-2009 and continues to be refined with additional information based on the current economic circumstances.

Once the model has been run at the stressed scenario, if the cash flows continue to support the payment of an investment's principal and interest, the portfolio is deemed to have adequate coverage. If there is a shortfall in principal payments, a further assessment is done to note whether there are any excluded variables that need to be considered in determining the need for reserves on the position, including taking into account other additional credit enhancements provided in each deal (i.e., corporate guarantees, etc.). Such assessment would consider the likelihood of a scenario that could pose a loss and the expected magnitude of such loss in order to determine the appropriate reserve level.

For asset backed investments, two of the primary drivers of the impairment analysis are the underlying collateral loss rates and the likelihood of an economic recession in the upcoming 12-month period. Regarding the underlying collateral loss rates, these variables are stressed to 110%-210% as part of the impairment analysis and the impacts of those stresses are reflected in the impairment amounts. Regarding the likelihood of an economic recession in the upcoming 12-month period, as at 31 December 2021 an increase in the likelihood of an economic recession would have no impact on the expected credit losses since the analysis already assumes a 100% likelihood of an economic recession.

Valuation of unquoted investments

The valuation of unquoted investments and investments for which there is an inactive market is a key area of judgement and may cause material adjustment to the carrying value of those assets and liabilities. The unquoted equity assets are valued on periodic basis using techniques including a market approach, costs approach and/or income approach. The valuation process is collaborative, involving the finance and investment functions within the Investment Manager with the final valuations being reviewed by the Board's Audit and Valuation Committee. The specific techniques used typically include earnings multiples, discounted cash flow analysis, the value of recent transactions, and, where appropriate, industry rules of thumb. The valuations often reflect a synthesis of a number of different approaches in determining the final fair value estimate. The individual approach for each investment will vary depending on relevant factors that a market participant would take into account in pricing the asset. Changes in fair value of all investments held at fair value are recognised in the Consolidated Statement of Comprehensive Income as a capital item. On disposal, realised gains and losses are also recognised in the Consolidated Statement of Comprehensive Income as a capital item. Transaction costs are included within gains or losses on investments held at fair value, although any related interest income, dividend income and finance costs are disclosed separately in the Consolidated Financial Statements. The ultimate sale price of investments may not be the same as fair value. Refer to Note 3.

Critical accounting judgments

Judgement is required to determine whether the Parent Company exercises control over its investee entities and whether they should be consolidated. Control is achieved where the Parent Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. The Parent Company controls an investee entity when the Parent Company is exposed to, or has rights to, variable returns from its investment and has the ability to affect those returns through its power over the entity. At each reporting date, an assessment is undertaken of investee entities to determine control. In the intervening period, assessments are undertaken where circumstances change that may give rise to a change in the control assessment. These include when an investment is made into a new entity, or an amendment to existing entity documentation or processes. When assessing whether the Parent Company has the power to affect its variable returns, and therefore control investee entities, an assessment is undertaken of the Parent Company's ability to influence the relevant activities of the investee entity. These activities include considering the ability to appoint or remove key management or the manager, which party has decision making powers over the entity and whether the manager of an entity is acting as principal or agent. The assessment undertaken for entities considers the Parent Company's level of investment into the entity and its intended long-term holding in the entity and there may be instances where the Parent Company owns less than 51% of an investee entity but that entity is consolidated. Further details of the Parent Company's subsidiaries are included in Note 17.

The Group's investments in associates all consist of limited partner interest in funds. There are no significant restrictions between investors with joint control or significant influence over the associates listed above on the ability of the associates to transfer funds to any party in the form of cash dividends or to repay loans or advances made by the Group. Further details of the Parent Company's associates are included in Note 19.

Accounting standards issued but not yet effective or not material to the Group

At the date of authorisation of these financial statements, the following standards and interpretations, which have not been applied in these financial statements, were in issue.

Accounting standards issued but not yet effective

IFRS 17 'Insurance Contract' establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows. IFRS 17 was issued in May 2017 and applies to annual reporting periods beginning on or after 1 January 2023. The Directors do not anticipate that the adoption of this standard and interpretations will have a material impact on the financial statements, given the nature of the Group's business being that it has no insurance contracts.

The narrow-scope amendments to IAS 1 Presentation of Financial Statements clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (e.g., the receipt of a waiver or a breach of covenant). The amendments also clarify what IAS 1 means when it refers to the 'settlement' of a liability. The amendments could affect the classification of liabilities, particularly for entities that previously considered management's intentions to determine classification and for some liabilities that can be converted into equity. They must be applied retrospectively in accordance with the normal requirements in IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. In May 2020, the IASB issued an Exposure Draft proposing to defer the effective date of the amendments to 1 January 2023.

Accounting standards effective in the year

The IASB's Phase 2 amendments in response to issues arising from the replacement of interest rate benchmarks in a number of jurisdictions are effective for annual periods beginning on or after 1 January 2021. Under these amendments, an immediate gain or loss is not recognised in the income statement where the contractual cash flows of a financial asset or financial liability are amended as a direct consequence of the rate reform and the revised contractual terms are economically equivalent to the previous terms. In addition, hedge accounting is continued for relationships that are directly affected by the reform.

Refer to Note 6 for further details on the Group's exposure to IBOR as at 31 December 2021.

Other future developments include the IASB undertaking a comprehensive review of existing IFRSs. The Group will consider the financial impact of these new standards as they are finalised.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

3. FAIR VALUE MEASUREMENT

Financial instruments measured and reported at fair value are classified and disclosed in one of the following fair value hierarchy levels based on the significance of the inputs used in measuring its fair value:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets and liabilities;
- Level 2 – 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); and
- Level 3 – Pricing inputs for the asset or liability that are not based on observable market data (unobservable inputs).

An investment is always categorised as Level 1, 2 or 3 in its entirety. In certain cases, the fair value measurement for an investment may use a number of different inputs that fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The assessment of the significance of a particular input to the fair value measurement requires judgment and is specific to the investment.

Valuation of investments in funds

The Group's investments in funds are subject to the terms and conditions of the respective fund's offering documentation. The investments in funds are primarily valued based on the latest available financial information. The Investment Manager reviews the details of the reported information obtained from the funds and considers: (i) the valuation of the fund's underlying investments; (ii) the value date of the NAV provided; (iii) cash flows (calls/distributions) since the latest value date; and (iv) the basis of accounting and, in instances where the basis of accounting is other than fair value, fair valuation information provided by the funds. If necessary, adjustments to the NAV are made to the funds to obtain the best estimate of fair value. The funds in which the Group invests are close-ended and unquoted. No adjustments have been determined to be necessary to the NAV as provided as at 31 December 2021 as this reflects fair value under the relevant valuation methodology. The NAV is provided to investors only and is not made publicly available.

Valuation of equity securities

Fair value is determined based on the Group's valuation methodology, which is either determined using market comparables, discounted cash flow models or recent transactions.

Under the Enterprise Valuation Waterfall Analysis, the Group estimates the fair value of a portfolio company using traditional valuation methodologies including market, income, and cost approaches, as well as other applicable industry-specific approaches and then waterfall the enterprise value over the portfolio company's securities in order of their preference relative to one another. Some or all the traditional valuation methodologies are weighted based on the individual circumstances of the portfolio company to determine an estimate of the enterprise value. The traditional valuation methodologies consist of valuation estimates based on: valuations of comparable public companies, recent sales of private and public comparable companies, discounting the forecasted cash flows of the portfolio company, estimating the liquidation or collateral value of the portfolio company's assets, third-party valuations of the portfolio company or its assets, considering offers from third-parties to buy the portfolio company, estimating the value to potential strategic buyers and considering the value of recent investments in the equity securities of the portfolio company. To determine the enterprise value of a portfolio company, its historical and projected financial results, as well as other factors that may impact value, such as exposure to litigation, loss of significant customers or other contingencies are considered. This financial and other information is generally obtained from the Group's portfolio companies, and in most cases represents unaudited, projected, or pro-forma financial information.

In using a valuation methodology based on the discounting of forecasted cash flows of the portfolio company, significant judgment is required in the development of an appropriate discount rate to be applied to the forecasted cash flows. When applicable, a weighted average cost of capital approach is used to derive a discount rate that takes into account i) the risk-free rate ii) the cost of debt for creditworthiness and iii) the cost of equity for performance risk. The three inputs to the discount rate are based on third-party market studies, portfolio company interest rates, and an overall understanding of the inherent risk in the cash flows. The remaining assumptions incorporated in the valuation methodologies used to estimate the enterprise value consist primarily of unobservable Level 3 inputs, including management assumptions based on judgment. For example, from time to time, a portfolio company has exposure to potential or actual litigation. In evaluating the impact on the valuation for such items, the amount that a market participant would consider in estimating fair value is considered. These estimates are highly subjective, based on the Group's assessment of the potential outcome(s) and the related impact on the fair value of such potential outcome(s). A change in these assumptions could have a material impact on the determination of fair value.

In using a valuation methodology based on comparable public companies or sales of private or public comparable companies, significant judgment is required in the application of discounts or premiums to the prices of comparable companies for factors such as size, marketability and relative performance. Related to the use of private company transactions, when a portfolio company closes on new equity, the new round's implied valuation is used in valuing the equity investment. The use of an equity

round includes gaining an understanding of the resulting rights between equity classes, and when applicable, a discount related to rights and preference differences is applied to the implied valuation. In addition, when a portfolio company has significant reason to believe an equity round is closing in the near future, a weighted-probability approach with the applicable discounts may be used. Under the yield analysis approach, expected future cash flows are discounted back using a discount rate. The discount rate used incorporates market-based yields for similar credits to the public market and the underlying risk of the individual credit.

Due to the inherent uncertainty of determining the fair value of Level 3 assets that do not have a readily available market value, the fair value of the assets may differ significantly from the values that would have been used had a ready market existed for such assets and may differ materially from the values that may ultimately be received or settled. Further, such assets are generally subject to legal and other restrictions or otherwise are less liquid than publicly traded instruments. If the Group were required to liquidate a portfolio investment in a forced or liquidation sale, the Group may realise significantly less than the value at which such investment had previously been recorded.

The selection of appropriate valuation techniques may be affected by the availability of relevant inputs as well as the relative reliability of the inputs. In some cases, one valuation technique may provide the best indication of fair value while in other circumstances, multiple valuation techniques may be appropriate. The results of the application of the various techniques may not be equally representative of fair value, due to factors such as assumptions made in the valuation.

In some situations, the Group may determine it appropriate to evaluate and weigh the results to develop a range of possible values, with the fair value based on the Group's assessment of the most representative point within the range.

Investments may be classified as Level 2 when market information becomes available, yet the investment is not traded in an active market and/or the investment is subject to transfer restrictions, or the valuation is adjusted to reflect illiquidity and/or non-transferability.

The Group, at times, may hold Level 1 investments and will use the available market quotes to value the investments. As noted above, these investments may include an illiquid period in which the investment does not have the ability to trade and will be classified as Level 2.

Fair value disclosures

The following table analyses the fair value hierarchy of the Group's assets and liabilities measured at fair value at 31 December 2021:

INVESTMENT ASSETS DESIGNATED AS HELD AT FAIR VALUE	TOTAL £	LEVEL 1 £	LEVEL 2 £	LEVEL 3 £
Investments in funds	12,531,090	–	–	12,531,090
Common stock	49,501,940	11,992,005	21,201,450	16,308,485
Preferred stock	38,090,065	–	–	38,090,065
Warrant	20,984,976	–	1,120,366	19,864,610
Convertible debt	20,689,151	–	–	20,689,151
Total	141,797,222	11,992,005	22,321,816	107,483,401
DERIVATIVE FINANCIAL ASSETS	TOTAL £	LEVEL 1 £	LEVEL 2 £	LEVEL 3 £
Forward foreign exchange contracts	2,069,698	–	2,069,698	–
Total	2,069,698	–	2,069,698	–
DERIVATIVE FINANCIAL LIABILITIES	TOTAL £	LEVEL 1 £	LEVEL 2 £	LEVEL 3 £
Forward foreign exchange contracts	1,508,675	–	1,508,675	–
Total	1,508,675	–	1,508,675	–

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

The following table analyses the fair value hierarchy of the Group's assets and liabilities measured at fair value at 31 December 2020:

INVESTMENT ASSETS DESIGNATED AS HELD AT FAIR VALUE	TOTAL £	LEVEL 1 £	LEVEL 2 £	LEVEL 3 £
Investments in funds	2,522,367	–	–	2,522,367
Equity securities	48,895,616	2,954,366	–	45,941,250
Total	51,417,983	2,954,366	–	48,463,617

DERIVATIVE FINANCIAL ASSETS	TOTAL £	LEVEL 1 £	LEVEL 2 £	LEVEL 3 £
Forward foreign exchange contracts	5,758,880	–	5,758,880	–
Total	5,758,880	–	5,758,880	–

The following table analyses the fair value hierarchy of the Parent Company's assets and liabilities measured at fair value at 31 December 2021:

INVESTMENT ASSETS DESIGNATED AS HELD AT FAIR VALUE	TOTAL £	LEVEL 1 £	LEVEL 2 £	LEVEL 3 £
Investments in funds	12,531,090	–	–	12,531,090
Total	12,531,090	–	–	12,531,090

DERIVATIVE FINANCIAL ASSETS	TOTAL £	LEVEL 1 £	LEVEL 2 £	LEVEL 3 £
Forward foreign exchange contracts	2,069,698	–	2,069,698	–
Total	2,069,698	–	2,069,698	–

DERIVATIVE FINANCIAL LIABILITIES	TOTAL £	LEVEL 1 £	LEVEL 2 £	LEVEL 3 £
Forward foreign exchange contracts	1,508,675	–	1,508,675	–
Total	1,508,675	–	1,508,675	–

The following table analyses the fair value hierarchy of the Parent Company's assets and liabilities measured at fair value at 31 December 2020:

INVESTMENT ASSETS DESIGNATED AS HELD AT FAIR VALUE	TOTAL £	LEVEL 1 £	LEVEL 2 £	LEVEL 3 £
Investments in funds	2,522,366	–	–	2,522,366
Total	2,522,366	–	–	2,522,366

DERIVATIVE FINANCIAL ASSETS	TOTAL £	LEVEL 1 £	LEVEL 2 £	LEVEL 3 £
Forward foreign exchange contracts	5,758,880	–	5,758,880	–
Total	5,758,880	–	5,758,880	–

There were no transfers into and out of Level 3 fair value measurements for either the Parent Company or the Group during the years ended 31 December 2021 and 31 December 2020.

The following table presents the movement in Level 3 positions for the year ended 31 December 2021 for the Group:

	TOTAL £	INVESTMENTS IN FUNDS £	COMMON STOCK £	PREFERRED STOCK £	WARRANT £	CONVERTIBLE DEBT £
Beginning balance, 1 January 2021	48,463,617	2,522,367	11,072,305	19,771,889	4,996,048	10,101,008
Purchases	45,439,031	19,086,855	7,661,428	2,250,450	5,338,445	11,101,853
Sales	(25,600,304)	(16,220,038)	(4,899,071)	(1,275,157)	(2,656,064)	(549,974)
Net change in unrealised gains (losses)	39,181,057	7,141,906	2,473,823	17,342,883	12,186,181	36,264
Ending balance, 31 December 2021	107,483,401	12,531,090	16,308,485	38,090,065	19,864,610	20,689,151

The net change in unrealised gains (losses) is recognised within gains (losses) on investments in the Consolidated Statement of Comprehensive Income.

The following table presents the movement in Level 3 positions for the year ended 31 December 2020 for the Group:

	TOTAL £	INVESTMENTS IN FUNDS £	EQUITY SECURITIES £
Beginning balance, 1 January 2020	39,100,521	4,461,946	34,638,575
Purchases	16,671,467	-	16,671,467
Sales	(8,538,783)	(1,376,253)	(7,162,530)
Net change in unrealised foreign exchange gains (losses)	(1,635,542)	(624,808)	(1,010,734)
Net realised gains (losses)	(8,676,617)	-	(8,676,617)
Net change in unrealised gains (losses)	11,542,571	61,482	11,481,089
Ending balance, 31 December 2020	48,463,617	2,522,367	45,941,250

The following table presents the movement in Level 3 positions for the period ended 31 December 2021 for the Parent Company:

	INVESTMENTS IN FUNDS £
Beginning balance, 1 January 2021	2,522,367
Purchases	19,086,855
Sales	(16,220,038)
Transfers in (out)	-
Net change in unrealised foreign exchange gains (losses)	(5,567,642)
Net change in unrealised gains (losses)	12,709,548
Ending balance, 31 December 2021	12,531,090

FINANCIAL STATEMENTS continued

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

The following table presents the movement in Level 3 positions for the period ended 31 December 2020 for the Parent Company:

	INVESTMENTS IN FUNDS £
Beginning balance, 1 January 2020	4,461,946
Purchases	-
Sales	(1,376,253)
Net change in unrealised foreign exchange gains (losses)	(624,808)
Net change in unrealised gains (losses)	1,482
Ending balance, 31 December 2020	2,522,367

Quantitative information regarding the unobservable inputs for Level 3 positions as at 31 December 2021 is given below:

DESCRIPTION	FAIR VALUE AT 31 DECEMBER 2021 £	VALUATION TECHNIQUE	UNOBSERVABLE INPUT	RANGE
Common stock	4,819,588	Discounted Cash Flows Market Comparables	Discount Rate Price to Book Price to Earnings	10.0% 2.1x 7.3x
	7,472,470	Transaction Price	Cost Basis of Investment	N/A
	1,710,424	Transaction Price/Recent Round Price	Recent Round Price per Share	\$8.81
	2,306,004	Transaction Price	Illiquidity Discount	20.0%
			Illiquidity Discount	30.0%
Convertible debt	10,786,776	Discounted Cash Flows	Discount Rate Annual Free Cash Flow Growth Rates	23.0% 3.0%
	7,374,073	Transaction Price	Cost Basis of Investment	N/A
	2,528,302	Transaction Price/Recent Round Price	Recent Round Price per Share	\$3.41 – €10,530.89
			Illiquidity Discount	20.0%
Preferred stock	38,090,065	Transaction Price/Recent Round Price	Rights and Preferences Discount	0.0% – 20.0%
			Recent Round Price per Share	\$0.19 – €3,671.49
			Illiquidity Discount	0.0% – 20.0%
Investments in funds	12,531,090	Net Asset Value	N/A	N/A
Warrants	15,143,216	Black Scholes	Price Per Share Rights & Preferences Discount Risk Free Rate Term Volatility	\$0.36 – €10,530.89 0.0% – 30.0% 0.7% – 1.3% 1.6 – 5.0 years 22.0% – 40.0%
	2,693,389	Transaction Price	Cost Basis of Investment	N/A
	2,028,004	Transaction Price/Recent Round Price	Deal Execution Risk Discount	20.0%
			Recent Round Price per Share	\$0.92 – \$43.21
			Rights & Preferences Discount	20.0% – 40.0%
			Risk Free Rate	0.73%
			Term	2.3 years
			Volatility	40.0%
Total	107,483,401			

The investments in funds consist of investments in VPC Synthesis, L.P. and VPC Offshore Unleveraged Private Debt Fund Feeder, L.P. These are valued based on the NAV as calculated at the balance sheet date. No adjustments have been deemed necessary to the NAV as it reflects the fair value of the underlying investments, as such no specific unobservable inputs have been identified. The NAVs are sensitive to movements in interest rates due to the funds' underlying investment in loans.

If the illiquidity discount of the convertible debt valued based on discounted cash flows increased/decreased by 10% it would have resulted in an increase/decrease to the total value of those securities of £7,852,065, which would affect the Net gain/(loss) on investments within the capital return column of the Consolidated Statement of Comprehensive Income.

If the illiquidity discount of the preferred stock valued based on discounted cash flows increased/decreased by 10% it would have resulted in an increase/decrease to the total value of those securities of £2,664,149, which would affect the Net gain/(loss) on investments within the capital return column of the Consolidated Statement of Comprehensive Income.

If the volatility rate used for the warrants valued based on a Black Scholes increased/decreased by 10% it would have resulted in an increase/decrease to the total value of those equity securities of £1,405,237, which would affect the Net gain/(loss) on investments within the capital return column of the Consolidated Statement of Comprehensive Income.

If the price of all the investment assets held at period end, including individually those mentioned above, had increased/decreased by 10% it would have resulted in an increase/decrease in the total value the investments in funds and equity securities of £10,600,644 (31 December 2020: £4,846,362) which would affect the Net gain/(loss) on investments within the capital return column of the Consolidated Statement of Comprehensive Income.

Assets and liabilities not carried at fair value but for which fair value is disclosed

The following table presents the fair value of the Group's assets and liabilities not measured at fair value through profit and loss at 31 December 2021 but for which fair value is disclosed:

	CARRYING VALUE £	FAIR MARKET VALUE £
Assets		
Loans	279,339,002	279,339,002
Total	279,339,002	279,339,002

For all other assets and liabilities not carried at fair value, the carrying value is a reasonable approximation of fair value.

The following table presents the fair value of the Group's assets and liabilities not measured at fair value through profit and loss at 31 December 2020 but for which fair value is disclosed:

	CARRYING VALUE £	FAIR MARKET VALUE £
Assets		
Loans	293,123,379	293,123,379
Total	293,123,379	293,123,379

For all other assets and liabilities not carried at fair value, the carrying value is a reasonable approximation of fair value.

4. DERIVATIVES

Typically, derivative contracts serve as components of the Group's investment strategy and are utilised primarily to structure and hedge investments to enhance performance and reduce risk to the Group. In 2021 and 2020, the Group did not designate any derivatives as hedges for hedge accounting purposes as described under IFRS 9. Derivative instruments are also used for trading purposes where the Investment Manager believes this would be more effective than investing directly in the underlying financial instruments. The only derivative contracts that the Group currently holds or issues are forward foreign exchange contracts.

The Group measures its derivative instruments on a fair value basis. See Note 2 for the valuation policy for financial instruments.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

Forward contracts

Forward contracts entered into represent a firm commitment to buy or sell an underlying asset, or currency at a specified value and point in time based upon an agreed or contracted quantity. The realised/unrealised gain or loss is equal to the difference between the value of the contract at the onset and the value of the contract at settlement date/year end date and is included in the Consolidated Statement of Comprehensive Income.

As at 31 December 2021, the following forward foreign exchange contracts were included in the Group's Consolidated Statement of Financial Position at fair value through profit or loss and the Parent Company's Statement of Financial Position at fair value through profit or loss:

SETTLEMENT DATE	PURCHASE CURRENCY	PURCHASE AMOUNT	SALE CURRENCY	SALE AMOUNT	FAIR VALUE £
28 January 2022	GBP	2,620,803	AUD	4,800,000	(18,152)
28 January 2022	GBP	6,683,400	EUR	7,900,000	57,080
28 January 2022	GBP	52,879,392	USD	73,000,000	(1,082,331)
28 January 2022	GBP	3,972,910	EUR	4,700,000	23,367
28 January 2022	GBP	74,903,643	USD	103,000,000	(1,532,042)
25 February 2022	GBP	74,593,466	USD	100,000,000	701,281
25 March 2022	GBP	118,508,454	USD	156,810,386	2,411,820
Unrealised gains on forward foreign exchange contracts					561,023

As at 31 December 2020, the following forward foreign exchange contracts were included in the Group's Consolidated Statement of Financial Position at fair value through profit or loss and the Parent Company's Statement of Financial Position at fair value through profit or loss:

SETTLEMENT DATE	PURCHASE CURRENCY	PURCHASE AMOUNT	SALE CURRENCY	SALE AMOUNT	FAIR VALUE £
22 January 2021	GBP	57,581,855	USD	78,700,000	1,832,031
10 February 2021	GBP	2,194,988	USD	3,000,000	29,483
10 February 2021	GBP	4,389,976	USD	6,000,000	11,655
10 February 2021	GBP	363,026	AUD	643,900	(9,702)
12 February 2021	GBP	54,874,703	USD	75,000,000	267,416
12 February 2021	GBP	1,083,960	EUR	1,200,000	11,208
12 February 2021	GBP	124,382,660	USD	170,000,000	3,616,789
Unrealised gains on forward foreign exchange contracts					5,758,880

The following tables provide information on the financial impact of netting for instruments subject to an enforceable master netting arrangement or similar agreement at 31 December 2021 for both the Parent Company and the Group:

AS AT 31 DECEMBER 2021	GROSS AMOUNTS OF RECOGNISED FINANCIAL ASSETS	GROSS AMOUNTS OF FINANCIAL LIABILITIES TO BE SET-OFF IN THE STATEMENT OF FINANCIAL POSITION	NET AMOUNTS OF RECOGNISED ASSETS PRESENTED IN THE STATEMENT OF FINANCIAL POSITION	RELATED AMOUNTS NOT ELIGIBLE TO BE SET-OFF IN THE STATEMENT OF FINANCIAL POSITION		NET AMOUNT
	£	£	£	FINANCIAL INSTRUMENTS	COLLATERAL RECEIVED	£
Bannockburn Global	2,468,900	(1,100,483)	1,368,417	-	-	1,368,417
Goldman Sachs	23,367	(23,367)	-	-	-	-
Morgan Stanley	701,281	-	701,281	-	-	701,281
Total	3,193,548	(1,123,850)	2,069,698	-	-	2,069,698

AS AT 31 DECEMBER 2021	GROSS AMOUNTS OF RECOGNISED FINANCIAL LIABILITIES	GROSS AMOUNTS OF FINANCIAL ASSETS TO BE SET-OFF IN THE STATEMENT OF FINANCIAL POSITION	NET AMOUNTS OF RECOGNISED LIABILITIES PRESENTED IN THE STATEMENT OF FINANCIAL POSITION	RELATED AMOUNTS NOT ELIGIBLE TO BE SET-OFF IN THE STATEMENT OF FINANCIAL POSITION		NET AMOUNT
	£	£	£	FINANCIAL INSTRUMENTS	COLLATERAL RECEIVED	£
Bannockburn Global	1,100,483	(1,100,483)	-	-	-	-
Goldman Sachs	1,532,042	(23,367)	1,508,675	-	-	1,508,675
Morgan Stanley	-	-	-	-	-	-
Total	2,632,525	(1,123,850)	1,508,675	-	-	1,508,675

The following tables provide information on the financial impact of netting for instruments subject to an enforceable master netting arrangement or similar agreement at 31 December 2020 for both the Parent Company and the Group:

AS AT 31 DECEMBER 2020	GROSS AMOUNTS OF RECOGNISED FINANCIAL ASSETS	GROSS AMOUNTS OF FINANCIAL LIABILITIES TO BE SET-OFF IN THE STATEMENT OF FINANCIAL POSITION	NET AMOUNTS OF RECOGNISED ASSETS PRESENTED IN THE STATEMENT OF FINANCIAL POSITION	RELATED AMOUNTS NOT ELIGIBLE TO BE SET-OFF IN THE STATEMENT OF FINANCIAL POSITION		NET AMOUNT
	£	£	£	FINANCIAL INSTRUMENTS	COLLATERAL RECEIVED	£
Bannockburn Global	3,657,926	(9,702)	3,648,224	-	-	3,648,224
Goldman Sachs	278,624	-	278,624	-	-	278,624
Morgan Stanley	1,832,032	-	1,832,032	-	-	1,832,032
Total	5,768,582	(9,702)	5,758,880	-	-	5,758,880

FINANCIAL STATEMENTS continued

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

AS AT 31 DECEMBER 2020	GROSS AMOUNTS OF RECOGNISED FINANCIAL ASSETS	GROSS AMOUNTS OF FINANCIAL LIABILITIES TO BE SET-OFF IN THE STATEMENT OF FINANCIAL POSITION	NET AMOUNTS OF RECOGNISED ASSETS PRESENTED IN THE STATEMENT OF FINANCIAL POSITION	RELATED AMOUNTS NOT ELIGIBLE TO BE SET-OFF IN THE STATEMENT OF FINANCIAL POSITION		NET AMOUNT
	£	£	£	FINANCIAL INSTRUMENTS £	COLLATERAL RECEIVED £	£
Bannockburn Global	9,702	(9,702)	-	-	-	-
Goldman Sachs	-	-	-	-	-	-
Morgan Stanley	-	-	-	-	-	-
Total	9,702	(9,702)	-	-	-	-

5. INCOME AND GAINS ON INVESTMENTS AND LOANS

Interest income in the amount of £33,158,150 (31 December 2020: £35,454,974) has been allocated to revenue and £nil (31 December 2020: £524,984) has been allocated to capital in line with the Group's policy as set out in Note 2.

	31 DECEMBER 2021 £	31 DECEMBER 2020 £
Other Income		
Distributable income from investments in funds	1,265,158	609,083
Interest income from investment assets designated as held at fair value through profit or loss	2,088,723	4,791,537
Other income	1,065,739	399,147
Total	4,419,620	5,799,767

	31 DECEMBER 2021 £	31 DECEMBER 2020 £
Net gains (losses) on investments		
Realised (loss) gain on sale of investments	(239,441)	(9,159,855)
Unrealised gains on investment in funds	7,141,906	61,482
Unrealised gains on equity securities	60,212,530	10,944,335
Total	67,114,995	1,845,962

6. FINANCIAL INSTRUMENTS AND ASSOCIATED RISKS

Introduction

Risk is inherent in the Group's activities, but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. The Group is exposed to market risk (which includes currency risk, interest rate risk and other price risk), credit risk and liquidity risk arising from the financial instruments held by the Group.

Risk management structure

The Directors are ultimately responsible for identifying and controlling risks. Day to day management of the risks arising from the financial instruments held by the Group has been delegated to Victory Park Capital Advisors, LLC as Investment Manager to the Parent Company and the Group.

The Investment Manager regularly reviews the investment portfolio and industry developments to ensure that any events which impact the Group are identified and considered. This also ensures that any risks affecting the investment portfolio are identified and mitigated to the fullest extent possible.

The Group has no employees, and the Directors have all been appointed on a Non-Executive basis. Whilst the Group has taken all reasonable steps to establish and maintain adequate procedures, systems and controls to enable it to comply with its obligations, the Group is reliant upon the performance of third-party service providers for its executive function. In particular, the Investment Manager, the Custodian, the Administrator, the Corporate Secretary and the Registrar will be performing services which are integral to the operation of the Group. Failure by any service provider to carry out its obligations to the Group in accordance with the terms of its appointment could have a materially detrimental impact on the operation of the Group.

In seeking to implement the investment objectives of the Parent Company while limiting risk, the Parent Company and the Group are subject to the investment limits restrictions set out in the Credit Risk section of this note.

Market risk (incorporating price, interest rate and currency risks)

Market risk is the risk of loss arising from movements in observable market variables such as foreign exchange rates, equity prices and interest rates. The Group is exposed to market risk primarily through its Financial Instruments.

Market price risk

The Group is exposed to price risk arising from the investments held by the Group for which prices in the future are uncertain. The investment in funds and equity investments are exposed to market price risk. Refer to Note 3 for further details on the sensitivity of the Group's Level 3 investments to price risk.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments.

The Group is exposed to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Due to the nature of the investments at 31 December 2021, the Group has limited exposure to variations in interest rates as the key components of interest rates are fixed and determinable or variable based on the size of the loan.

While the Group is exposed to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows, the downside exposure of the Group is limited at 31 December 2021 due to the fixed rate nature of the investments or interest rate floors that are in place on most of the Group's variable interest rate loans. The interest rate floors that are in place on most of the Group's variable interest rate loans reduces the potential impact that a decrease in rates would have on the Group's investments.

As at 31 December 2021, if interest rates had increased by 1%, with all other variables held constant, the change in 12 months of future cash flows on the current investment portfolio, including both interest income and expense, would have been £480,654 (31 December 2020: 461,430). As at 31 December 2021, if interest rates had decreased by 1%, with all other variables held constant, the change in 12 months of future cash flows on the current investment portfolio, including both interest income and expense, would be £nil (31 December 2020: £(224,586) due to the floors in place on the Group's investments.

The Group does not intend to hedge interest rate risk on a regular basis. However, where it enters floating rate liabilities against fixed-rate loans, it may at its sole discretion seek to hedge out the interest rate exposure, taking into consideration amongst other things the cost of hedging and the general interest rate environment.

Effect of IBOR reform

Following the financial crisis, the reform and replacement of benchmark interest rates such as GBP LIBOR and other inter-bank offered rates ('IBORs') has become a priority for global regulators. There remains some uncertainty around the timing and precise nature of these changes.

The effect of a discontinuation of GBP LIBOR on the Company's investments has had little impact to the Group as the underlying investments have little to no exposure to GBP LIBOR at the portfolio company level. It is difficult to predict the full impact of the transition away from USD LIBOR until new reference rates and fallbacks are commercially accepted.

FINANCIAL STATEMENTS continued

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

The following table contains details of all of the financial instruments that the Group holds at 31 December 2021 which reference LIBOR and have not yet transitioned to an alternative interest rate benchmark:

Non-derivative assets and liabilities exposed to USD LIBOR	ASSETS £	LIABILITIES £
Credit assets at amortised cost	261,955,830	107,267,260
Total exposure	261,955,830	107,267,260

Currency risk

Currency risk is the risk that the value of net assets will fluctuate due to changes in foreign exchange rates. Relevant risk variables are generally movements in the exchange rates of non-functional currencies in which the Group holds financial assets and liabilities.

The assets of the Group as at 31 December 2021 were invested in assets which were denominated in US Dollar, Euro, Australian Dollar, Pound Sterling and other currencies. Accordingly, the value of such assets may be affected favourably or unfavourably by fluctuations in currency rates. The Group hedges currency exposure between Pound Sterling and any other currency in which the Group's assets may be denominated, in particular US Dollars, Australian Dollars, and Euros.

The Group continuously monitors for fluctuations in currency rates. The Group performs stress tests and liquidity projections to determine how much cash should be held back to meet potential future obligations to settle margin calls arising from foreign exchange hedging.

Micro and small cap company investing risk

The Group will generally invest with companies that are small, not widely known and not widely held. Small companies tend to be more vulnerable to adverse developments than larger companies and may have little or no track records. Small companies may have limited product lines, markets, or financial resources, and may depend on less seasoned management. Their securities may trade infrequently and in limited volumes. It may take a relatively long period of time to accumulate an investment in a particular issue in order to minimise the effect of purchases on market price. Similarly, it could be difficult to dispose of such investments on a timely basis without adversely affecting market prices. As a result, the prices of these securities may fluctuate more than the prices of larger, more widely traded companies. Also, there may be less publicly available information about small companies or less market interest in their securities compared to larger companies, and it may take longer for the prices of these securities to reflect the full value of their issuers' earnings potential or assets.

Gearing and borrowing risk

Whilst the use of borrowings by the Group should enhance the net asset value of an investment when the value of an investment's underlying assets is rising, it will, however, have the opposite effect where the underlying asset value is falling. In addition, in the event that an investment's income falls for whatever reason, the use of borrowings will increase the impact of such a fall on the net revenue of the Group's investment and accordingly will have an adverse effect on the ability of the investment to make distributions to the Group. This risk is mitigated by limiting borrowings to ring-fenced Special-Purpose Vehicles ("SPVs") without recourse to the Group and employing gearing in a disciplined manner.

Concentration of foreign currency exposure

The Investment Manager monitors the fluctuations in foreign currency exchange rates and may use forward foreign exchange contracts to hedge the currency exposure of the Parent Company and Group's non-Pound Sterling denominated investments. The Investment Manager re-examines the currency exposure on a regular basis in each currency and manages the Parent Company's currency exposure in accordance with market expectations.

The below table presents the net exposure to foreign currency at 31 December 2021. The table includes forward foreign exchange contracts at their notional exposure value and excludes all GBP assets and liabilities recorded on the Group's Consolidated Statement of Financial Position.

	ASSETS 31 DECEMBER 2021 £	LIABILITIES 31 DECEMBER 2021 £	FORWARD CONTRACTS 31 DECEMBER 2021 £	NET EXPOSURE 31 DECEMBER 2021 £
Euro	8,010,560	–	10,656,310	(2,645,750)
US Dollar	402,708,565	(107,267,260)	320,884,955	(25,443,650)
Swiss Francs	10,238,876	–	–	10,238,876
Australian Dollars	2,591,233	–	2,620,803	(29,570)

If the GBP exchange rate simultaneously increased/decreased by 10% against the above currencies, the impact on profit would be an increase/decrease of £1,778,009. 10% is considered to be a reasonably possible movement in foreign exchange rates. The table above includes the exposure of the non-consolidated interest investment in the Group.

The below table presents the net exposure to foreign currency at 31 December 2020. The table includes forward foreign exchange contracts at their notional exposure value and excludes all GBP assets and liabilities recorded on the Group's Consolidated Statement of Financial Position.

	ASSETS 31 DECEMBER 2020 £	LIABILITIES 31 DECEMBER 2020 £	FORWARD CONTRACTS 31 DECEMBER 2020 £	NET EXPOSURE 31 DECEMBER 2020 £
Euro	1,302,950	–	1,083,960	218,990
US Dollar	331,021,454	(86,087,183)	243,424,181	1,510,090
Swiss Francs	4,899,168	–	–	4,899,168
Australian Dollars	543,622	–	363,026	180,596

The table below presents the net exposure to foreign currency at 31 December 2021. The table includes forward foreign exchange contracts at their notional exposure value and excludes all GBP assets and liabilities recorded on the Parent Company's Statement of Financial Position.

	ASSETS 31 DECEMBER 2021 £	LIABILITIES 31 DECEMBER 2021 £	FORWARD CONTRACTS 31 DECEMBER 2021 £	NET EXPOSURE 31 DECEMBER 2021 £
Euro	8,010,560	–	10,656,310	(2,645,750)
US Dollar	295,395,347	–	320,884,955	(25,489,608)
Swiss Francs	10,238,876	–	–	10,238,876
Australian Dollars	2,591,233	–	2,620,803	(29,570)

If the GBP exchange rate simultaneously increased/decreased by 10% against the above currencies, the impact on profit would be an increase/decrease of £1,792,605. 10% is considered to be a reasonably possible movement in foreign exchange rates.

The table below presents the net exposure to foreign currency at 31 December 2020. The table includes forward foreign exchange contracts at their notional exposure value and excludes all GBP assets and liabilities recorded on the Parent Company's Statement of Financial Position.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2021

	ASSETS 31 DECEMBER 2020 £	LIABILITIES 31 DECEMBER 2020 £	FORWARD CONTRACTS 31 DECEMBER 2020 £	NET EXPOSURE 31 DECEMBER 2020 £
Euro	1,302,950	-	1,083,960	218,990
US Dollar	244,914,933	-	243,424,181	1,490,752
Swiss Francs	4,899,168	-	-	4,899,168
Australian Dollars	543,622	-	363,026	180,596

Liquidity risk

Liquidity risk is defined as the risk that the Group may not be able to settle or meet its obligations on time or at a reasonable price. Ordinary Shares are not redeemable at the holder's option.

The maturities of the non-current financial liabilities are disclosed in Note 8. The following tables show the contractual maturity of the financial assets and financial liabilities of the Group as at 31 December 2021:

	WITHIN ONE YEAR £	ONE TO FIVE YEARS £	OVER FIVE YEARS £	TOTAL £
Assets				
Loans	29,270,006	250,068,996	-	279,339,002
Cash and cash equivalents	6,300,572	-	-	6,300,572
Cash posted as collateral	4,133,588	-	-	4,133,588
Interest receivable	4,708,481	-	-	4,708,481
Dividend receivable	3,996	-	-	3,996
Other assets and prepaid expenses	2,877,815	-	-	2,877,815
Total	47,294,458	250,068,996	-	297,363,454

	WITHIN ONE YEAR £	ONE TO FIVE YEARS £	OVER FIVE YEARS £	TOTAL £
Liabilities				
Notes payable	-	19,834,365	87,432,895	107,267,260
Management fee payable	155,399	-	-	155,399
Performance fee payable	12,913,280	-	-	12,913,280
Deferred income	174,603	-	-	174,603
Other liabilities and accrued expenses	1,550,415	-	-	1,550,415
Total	14,793,697	19,834,365	87,432,895	122,060,957

The following tables show the contractual maturity of the financial assets and financial liabilities of the Group as at 31 December 2020:

	WITHIN ONE YEAR £	ONE TO FIVE YEARS £	OVER FIVE YEARS £	TOTAL £
Assets				
Loans	44,436,582	246,668,944	2,017,853	293,123,379
Cash and cash equivalents	6,416,028	–	–	6,416,028
Cash posted as collateral	1,140,000	–	–	1,140,000
Interest receivable	3,613,047	–	–	3,613,047
Dividend receivable	3,812	–	–	3,812
Other assets and prepaid expenses	889,148	–	–	889,148
Total	56,498,617	246,668,944	2,017,853	305,185,414

	WITHIN ONE YEAR £	ONE TO FIVE YEARS £	OVER FIVE YEARS £	TOTAL £
Liabilities				
Notes payable	10,109,810	75,977,373	–	86,087,183
Management fee payable	92,241	–	–	92,241
Performance fee payable	4,040,085	–	–	4,040,085
Deferred income	253,403	–	–	253,403
Other liabilities and accrued expenses	1,332,920	–	–	1,332,920
Total	15,828,459	75,977,373	–	91,805,832

The Investment Manager manages the Group's liquidity risk by investing primarily in a diverse portfolio of assets. At 31 December 2021, the Group had investments in 48 Portfolio Companies (31 December 2020: 43 Portfolio Companies). At 31 December 2021, 10% of the loans had a stated maturity date of less than a year (31 December 2020: 15%).

The Group and Parent Company continuously monitor for fluctuation in currency rates. The Parent Company performs stress tests and liquidity projections to determine how much cash should be held back to meet potential future obligations to settle margin calls arising from foreign exchange hedging.

As at 31 December 2021, £19.8 million (£48.6 million as at 31 December 2020) of the Group's liabilities relating to principal and interest payments are tied directly to the performance of investment assets that mature on or near the same date as the investment liability. The amounts above represent the values as at 31 December 2021 and do not project cash flows until maturity of the investment liabilities.

On 1 March 2021, the Company closed on a USD\$130 million gearing facility with MassMutual. At the closing, the Company repaid its previous facility with Pacific Western Bank. The MassMutual gearing facility has a stated maturity date of 1 March 2027. In accordance with IFRS 7 paragraph 39, the Group has projected cash interest payments of £20,383,279 which is calculated using the amount outstanding and interest rate as at 31 December 2021 and does not factor in any future paydowns, draws or changes in interest and foreign exchange rates before the maturity date on 1 March 2027.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Group's credit risks arise principally through exposures to loans acquired by the Group, which are subject to risk of borrower default. The ability of the Group to earn revenue is completely dependent upon payments being made by the borrower, such as adverse movements in investment markets.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

The Group will invest across various Portfolio Companies, asset classes, geographies (primarily United States, United Kingdom, Europe and Latin America) and credit bands in order to ensure diversification and to seek to mitigate concentration risks.

Under the Asset Backed Lending Model, the Group provides a floating rate credit facility to the portfolio company via an SPV, which retains Debt Instruments that are originated by the portfolio company. The debt financing is typically arranged in the form of a senior secured facility and the portfolio company injects junior capital in the SPV, which provides significant first loss protection to the Group and excess spread. The Group's asset backed investments are loans to SPVs that are capitalised and actively managed by the portfolio companies in their capacity as both the owner and managing partner of the SPVs and the SPVs are not considered structured entities under IFRS 12. Refer to page 11 for further details on the structuring of the lending investments of the Group.

There are no loans past due which are not impaired. Refer to Note 9.

Credit quality

The credit quality of loans is assessed through the evaluation of various factors, including (but not limited to) credit scores, payment data, collateral and other information. Set out below is the analysis of the Group's loan investments by grade, geography, and sector:

				TOTAL 31 DECEMBER 2021 £
INTERNAL GRADE	FINTECH £	eSME £	LEGAL FINANCE £	
Stage 1				
A – 1	42,399,368	15,229,645	–	57,629,013
A – 2	144,483,270	49,803,839	4,216,832	198,503,941
B	9,917,622	3,470,478	8,182,974	21,571,074
C	–	–	–	–
Total	196,800,260	68,503,962	12,399,806	277,704,028
Stage 2				
A – 1	–	–	–	–
A – 2	–	–	–	–
B	–	–	–	–
C	–	–	–	–
Total	–	–	–	–
Stage 3				
A – 1	–	–	–	–
A – 2	–	–	–	–
B	–	–	–	–
C	14,098,947	–	–	14,098,947
Total	14,098,947	–	–	14,098,947

INTERNAL GRADE	UNITED STATES £	LATIN AMERICA £	EUROPE £	ASIA £	TOTAL 31 DECEMBER 2021 £
Stage 1					
A - 1	57,629,013	-	-	-	57,629,013
A - 2	123,954,264	48,352,882	13,417,801	12,778,994	198,503,941
B	18,100,596	-	3,470,478	-	21,571,074
C	-	-	-	-	-
Total	199,683,873	48,352,882	16,888,279	12,778,994	277,704,028
Stage 2					
A - 1	-	-	-	-	-
A - 2	-	-	-	-	-
B	-	-	-	-	-
C	-	-	-	-	-
Total	-	-	-	-	-
Stage 3					
A - 1	-	-	-	-	-
A - 2	-	-	-	-	-
B	-	-	-	-	-
C	-	-	14,098,947	-	14,098,947
Total	-	-	14,098,947	-	14,098,947

INTERNAL GRADE	FINTECH £	eSME £	LEGAL FINANCE £	MARKETPLACE LOANS £	TOTAL 31 DECEMBER 2020 £
Stage 1					
A - 1	85,551,562	-	-	3,001	85,554,563
A - 2	139,465,092	12,296,728	41,934,631	39,332	193,735,783
B	6,351,153	-	-	117,400	6,468,553
C	-	-	-	8,325	8,325
Total	231,367,807	12,296,728	41,934,631	168,058	285,767,224
Stage 2					
A - 1	-	-	-	-	-
A - 2	-	-	-	6,163	6,163
B	-	-	-	20,251	20,251
C	3,675,244	-	-	-	3,675,244
Total	3,675,244	-	-	26,414	3,701,658

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

INTERNAL GRADE	FINTECH £	eSME £	LEGAL FINANCE £	MARKETPLACE LOANS £	TOTAL 31 DECEMBER 2020 £
Stage 3					
A - 1	-	-	-	-	-
A - 2	-	-	-	11,537	11,537
B	-	-	-	170,395	170,395
C	11,952,754	-	-	11,970	11,964,724
Total	11,952,754	-	-	193,902	12,146,656

INTERNAL GRADE	UNITED STATES £	LATIN AMERICA £	EUROPE £	ASIA £	TOTAL 31 DECEMBER 2020 £
Stage 1					
A - 1	80,371,977	-	-	5,182,586	85,554,563
A - 2	148,757,061	41,854,564	2,761,132	363,026	193,735,783
B	6,351,153	-	117,400	-	6,468,553
C	-	-	8,325	-	8,325
Total	235,480,191	41,854,564	2,886,857	5,545,612	285,767,224

Stage 2					
A - 1	-	-	-	-	-
A - 2	-	-	6,163	-	6,163
B	-	-	20,251	-	20,251
C	-	-	3,675,244	-	3,675,244
Total	-	-	3,701,658	-	3,701,658

Stage 3					
A - 1	-	-	-	-	-
A - 2	11,537	-	-	-	11,537
B	170,395	-	-	-	170,395
C	11,970	-	11,952,754	-	11,964,724
Total	193,902	-	11,952,754	-	12,146,656

INTERNAL GRADE	DEFINITION
A - 1	Asset backed loans structured with credit enhancement and strong operating liquidity positions
A - 2	High credit quality borrowers or asset backed loans structured with credit enhancement
B	High credit quality borrowers with some indicators of credit risk or asset backed loans with limited structural credit enhancement
C	Borrowers with elevated levels of credit risk

The following investment limits and restrictions shall apply to the Group, to ensure that the diversification of the Group's portfolio is maintained, and that concentration risk is limited:

Portfolio Company restrictions

The Group does not intend to invest more than 20% of its Gross Assets in Debt Instruments (net of any gearing ring-fenced within any special purpose vehicle which would be without recourse to the Group), originated by, and/or Credit Facilities and equity instruments in, any single Portfolio Company, calculated at the time of investment. All such aggregate exposure to any single Portfolio Company (including investments via a special purpose vehicle) will always be subject to an absolute maximum, calculated at the time of investment, of 25% of the Group's Gross Assets.

Asset class restrictions

The Group does not intend to acquire Debt Instruments for a term longer than five years. The Group will not invest more than 20% of its Gross Assets, at the time of investment, via any single investment fund investing in Debt Instruments and Credit Facilities. In any event, the Group will not invest, in aggregate, more than 60% of its Gross Assets, at the time of investment, in investment funds that invest in Debt Instruments and Credit Facilities.

The Group will not invest more than 10% of its Gross Assets, at the time of investment, in other listed closed-ended investment funds, whether managed by the Investment Manager or not, except that this restriction shall not apply to investments in listed closed-ended investment funds which themselves have stated investment policies to invest no more than 15% of their gross assets in other listed closed-ended investment funds.

The following restrictions apply, in each case at the time of investment by the Group, to both Debt Instruments acquired by the Group via wholly owned special purpose vehicles or partially-owned special purpose vehicles on a proportionate basis under the Marketplace Model, as well as on a look-through basis under the Asset Backed Lending Model and to any Debt Instruments held by another investment fund in which the Group invests:

- ❖ No single consumer loan acquired by the Group shall exceed 0.25% of its Gross Assets.
- ❖ No single SME loan acquired by the Group shall exceed 5.0% of its Gross Assets. For the avoidance of doubt, Credit Facilities entered into directly with Platforms are not considered SME loans.
- ❖ No single trade receivable asset acquired by the Group shall exceed 5.0% of its Gross Assets.

Other restrictions

The Group's un-invested or surplus capital or assets may be invested in Cash Instruments for cash management purposes and with a view to enhancing returns to Shareholders or mitigating credit exposure.

Maximum credit exposure

The carrying value of the Group's loan investments represents the maximum credit exposure of the Group.

7. CASH AND CASH EQUIVALENTS

	GROUP 31 DECEMBER 2021 £	GROUP 31 DECEMBER 2020 £	PARENT COMPANY 31 DECEMBER 2021 £	PARENT COMPANY 31 DECEMBER 2020 £
Cash held at bank	6,300,572	6,416,028	4,301,574	4,738,217
Total	6,300,572	6,416,028	4,301,574	4,738,217

The Parent Company has posted cash collateral of £3,010,000 as at 31 December 2021 (31 December 2020: £1,140,000) with Goldman Sachs and cash of £1,123,927 (31 December 2020: £nil) with Morgan Stanley in relation to the outstanding derivatives.

FINANCIAL STATEMENTS continued

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

Below are the credit ratings of the banks where the Parent Company and Group hold cash as at 31 December 2021 from Moody's:

BANK	RATING
Northern Trust	A2
Goldman Sachs	A2
Morgan Stanley	A1
US Bank	A1
Keybank	A1
Wells Fargo	A2

8. NOTES PAYABLE

The Group entered into contractual obligations with a third party to structurally subordinate a portion of the principal directly attributable to existing investments. The cash flows received by the Group from the underlying investments are used to pay the lender principal, interest, and draw fees based upon the stated terms of the Credit Facility. Unless due to a fraudulent act, as defined by the Credit Facilities, none of the Group's other investment assets can be used to satisfy the obligations of the Credit Facilities in the event that those obligations cannot be met by the subsidiaries. Each subsidiary with a Credit Facility is a bankruptcy remote entity.

The table below provides details of the outstanding debt of the Group at 31 December 2021:

31 DECEMBER 2021	INTEREST RATE	OUTSTANDING PRINCIPAL £	MATURITY
Credit Facility 03-2021	3.95% + 1M LIBOR	87,432,895	1 March 2027
Total		87,432,895	

The table below provides details of the outstanding debt of the Group at 31 December 2020:

31 DECEMBER 2020	INTEREST RATE	OUTSTANDING PRINCIPAL £	MATURITY
Credit Facility 11-2018	4.25% + 1M LIBOR	37,534,297	30 November 2022
Total		37,534,297	

The Group entered into contractual obligations with a third party to structurally subordinate a portion of principal directly attributable to an existing loan facility. The Group is obligated to pay a commitment fee and interest to the third party on the obligation as interest is paid on the underlying loan facility. In the event of a default on the loan facility, the third party has first-out participation rights on the accrued and unpaid interest as well as the principal balance of the note.

The table below provides details of the outstanding first-out participation liabilities of the Group at 31 December 2021:

31 DECEMBER 2021	OUTSTANDING PRINCIPAL £	MATURITY
First-Out Participation 03-2017	18,181,601	1 January 2024
First-Out Participation 04-2019	1,652,764	1 January 2024
Total	19,834,365	

The table below provides details of the outstanding first-out participation liabilities of the Group at 31 December 2020:

31 DECEMBER 2020	OUTSTANDING PRINCIPAL £	MATURITY
First-Out Participation 06-2015	10,109,810	13 June 2021
First-Out Participation 03-2017	20,446,931	1 January 2024
First-Out Participation 04-2019	17,996,145	1 January 2024
Total	48,552,886	

The table below provides the movement of the notes payable and securities sold under agreements to repurchase for the year ended 31 December 2021 for the Group.

	NOTES PAYABLE £
Beginning balance, 1 January 2021	86,087,183
Purchases	179,944,080
Sales	(163,403,782)
Net change in unrealised foreign exchange gains (losses)	4,639,779
Ending balance, 31 December 2021	107,267,260

The table below provides the movement of the notes payable and securities sold under agreements to repurchase for the year ended 31 December 2020 for the Group.

	NOTES PAYABLE £
Beginning balance, 1 January 2020	111,667,069
Purchases	40,758,337
Sales	(64,260,865)
Net change in unrealised foreign exchange gains (losses)	(2,077,358)
Ending balance, 31 December 2020	86,087,183

FINANCIAL STATEMENTS continued

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

9. IMPAIRMENT OF FINANCIAL ASSETS AT AMORTISED COST

The table below provides details of the investments at amortised cost held by the Group as at 31 December 2021 under IFRS 9:

	COST BEFORE ECL £	ECL £	LOANS WRITTEN-OFF £	CARRYING VALUE £
Loans at amortised cost	291,802,975	12,463,973	–	279,339,002
Total	291,802,975	12,463,973	–	279,339,002

The table below provides details of the investments at amortised cost held by the Group as at 31 December 2020 under IFRS 9:

	COST BEFORE ECL £	ECL £	LOANS WRITTEN-OFF £	CARRYING VALUE £
Loans at amortised cost	303,128,410	8,489,159	1,515,872	293,123,379
Total	303,128,410	8,489,159	1,515,872	293,123,379

The Parent Company does not hold any loans.

Credit impairment losses

The credit impairment losses of the Group for the year ended 31 December 2021 comprises of the following under IFRS 9:

	CREDIT IMPAIRMENT LOSSES 31 DECEMBER 2021 £
Loans recovered	(358,867)
Change in expected credit losses	3,974,814
Currency translation on expected credit losses	20,195
Credit impairment losses	3,636,142

The impairment charge of the Group for the year ended 31 December 2020 comprises of the following under IFRS 9:

	CREDIT IMPAIRMENT LOSSES 31 DECEMBER 2020 £
Loans written off	1,515,872
Change in expected credit losses	(1,142,453)
Currency translation on expected credit losses	(260,869)
Credit impairment losses	112,550

Impairment of loans written off

Impairment charges of loans written off (recovered) of £(358,867) (31 December 2020: £1,515,872) have been recorded in the Group's Consolidated Statement of Financial Position and are included in Credit impairment losses on the Consolidated Statement of Comprehensive Income.

Provision for expected credit losses

As at 31 December 2021, the Group has created a reserve provision on the outstanding principal of the Group's loans of £12,463,973 (31 December 2020: £8,489,159), which have been recorded in the Group's Consolidated Statement of Financial Position and are included in Credit impairment losses on the Consolidated Statement of Comprehensive Income.

The expected credit losses comprised the following during 2021:

	31 DECEMBER 2021 £
Beginning balance 1 January 2021	8,489,159
Change in expected credit losses or equivalent	3,974,814
Ending balance 31 December 2021	12,463,973

The expected credit losses comprised the following during 2020:

	31 DECEMBER 2020 £
Beginning balance 1 January 2020	9,631,612
Change in expected credit losses or equivalent	(1,142,453)
Ending balance 31 December 2020	8,489,159

Below is a breakout of the provision for expected credit losses by stage of the ECL model as at 31 December 2021:

	FINTECH £	eSME £	LEGAL FINANCE £	31 DECEMBER 2021 £
INTERNAL GRADE				
Stage 1	-	-	-	-
Stage 2	-	-	-	-
Stage 3	12,463,973	-	-	12,463,973
Expected credit losses	12,463,973	-	-	12,463,973

	UNITED STATES £	LATIN AMERICA £	EUROPE £	ASIA £	31 DECEMBER 2021 £
INTERNAL GRADE					
Stage 1	-	-	-	-	-
Stage 2	-	-	-	-	-
Stage 3	-	-	12,463,973	-	12,463,973
Expected credit losses	-	-	12,463,973	-	12,463,973

Below is a breakout of the provision for expected credit losses by stage of the ECL model as at 31 December 2020:

	FINTECH £	eSME £	LEGAL FINANCE £	MARKETPLACE LOANS £	TOTAL 31 DECEMBER 2020 £
INTERNAL GRADE					
Stage 1	-	-	-	61,040	61,040
Stage 2	500,000	-	-	24,804	524,804
Stage 3	7,793,186	-	-	110,129	7,903,315
Total	8,293,186	-	-	195,973	8,489,159

FINANCIAL STATEMENTS continued

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

INTERNAL GRADE	UNITED STATES £	LATIN AMERICA £	EUROPE £	ASIA £	TOTAL 31 DECEMBER 2020 £
Stage 1	–	–	61,040	–	61,040
Stage 2	–	–	524,804	–	524,804
Stage 3	110,129	–	7,793,186	–	7,903,315
Total	110,129	–	8,379,030	–	8,489,159

The breakout of the gross value of loans by stage of the ECL model as at 31 December 2021 and 31 December 2020 can be found in footnote 6. One investment moved from Level 2 to Level 3 in 2021. All write-offs (recoveries) during the year were on assets that were considered Stage 3. There were no material movements between stages during 2020.

10. FEES AND EXPENSES

Investment management fees

Under the terms of the Management Agreement, the Investment Manager is entitled to a management fee and a performance fee together with reimbursement of reasonable expenses incurred by it in the performance of its duties.

The management fee is payable in Pound Sterling monthly in arrears and is at the rate of 1/12 of 1.0% per month of NAV (the "Management Fee"). For the period from Admission until the date on which 90% of the net proceeds of the Issue have been invested or committed for investment (other than in Cash Instruments), the value attributable to any Cash Instruments of the Group held for investment purposes will be excluded from the calculation of NAV for the purposes of determining the Management Fee. The management fee expense for the year is £3,802,097 (31 December 2020: £3,394,740), of which £155,399 (31 December 2020: £92,241) was payable as at 31 December 2021.

The Investment Manager shall not charge a management fee twice. Accordingly, if at any time the Group invests in or through any other investment fund or special purpose vehicle and a management fee or advisory fee is charged to such investment fund or special purpose vehicle by the Investment Manager or any of its affiliates, the Investment Manager agrees to either (at the option of the Investment Manager): (i) waive such management fee or advisory fee due to the Investment Manager or any of its affiliates in respect of such investment fund or special purpose vehicle, other than the fees charged by the Investment Manager under the Management Agreement; or (ii) charge the relevant fee to the relevant investment fund or special purpose vehicle, subject to the cap set out in the paragraph below, and ensure that the value of such investment shall be excluded from the calculation of the NAV for the purposes of determining the Management Fee payable pursuant to the above.

Notwithstanding the above, where such investment fund or special purpose vehicle employs gearing from third parties and the Investment Manager or any of its affiliates is entitled to charge it a fee based on gross assets in respect of such investment, the Investment Manager may not charge a fee greater than 1.0% per annum of gross assets in respect of any investment made by the Parent Company or any member of the Group.

Performance fees

The performance fee is calculated by reference to the movements in the Adjusted Net Asset Value since the end of the Calculation Period in respect of which a performance fee was last earned or Admission if no performance fee has yet been earned. The payment of any performance fees to the Investment Manager will be conditional on the Parent Company achieving at least a 5.0% per annum total return for shareholders relative to a 30 April 2017 High Water Mark.

The performance fee will be calculated in respect of each 12 month period starting on 1 January and ending on 31 December in each calendar year (a "Calculation Period") and provided further that if at the end of what would otherwise be a Calculation Period no performance fee has been earned in respect of that period, the Calculation Period shall carry on for the next 12 month period and shall be deemed to be the same Calculation Period and this process shall continue until a performance fee is next earned at the end of the relevant period. The performance fee expense for the year is £12,913,280 (31 December 2020: £4,040,085), of which £12,913,280 was payable as at 31 December 2021 (31 December 2020: £4,040,085).

The performance fee will be equal to the lower of (i) in each case as at the end of the Calculation Period, an amount equal to (a) Adjusted Net Asset Value minus the Adjusted Hurdle Value, minus (b) the aggregate of all Performance Fees paid to the Manager in respect of all previous Calculation Periods; and (ii) the amount by which (a) 15% of the total increase in the Adjusted Net Asset Value since the Net Asset Value as at 30 April 2017 (being the aggregate of the increase in the Adjusted Net Asset Value in the relevant Calculation Period and in each previous Calculation Period) exceeds (b) the aggregate of all Performance Fees paid to the Manager in respect of all previous Calculation Periods. In the foregoing calculation, the Adjusted Net Asset Value will be adjusted for any increases or decreases in the Net Asset Value attributable to the issue or repurchase of any Ordinary Shares in order to calculate the total increase in the Net Asset Value attributable to the performance of the Parent Company.

"Adjusted Net Asset Value" means the Net Asset Value plus (a) the aggregate amount of any dividends paid or distributions made in respect of any Ordinary Shares and (b) the aggregate amount of any dividends or distributions accrued but unpaid in respect of any Ordinary Shares, plus the amount of any Performance Fees both paid and accrued but unpaid, in each case after the Effective Date and without duplication. "Adjusted Hurdle Value" means the Net Asset Value as at 30 April 2017 adjusted for any increases or decreases in the Net Asset Value attributable to the issue or repurchase of any Ordinary Shares increasing at an uncompounded rate equal to the Hurdle. The "Hurdle" means a 5% per annum total return for shareholders.

The Investment Manager shall not charge a performance fee twice. Accordingly, if at any time the Group invests in or through any other investment fund, special purpose vehicle or managed account arrangement and a performance fee or carried interest is charged to such investment fund, special purpose vehicle or managed account arrangement by the Investment Manager or any of its affiliates, the Investment Manager agrees to (and shall procure that all of its relevant affiliates shall) either (at the option of the Investment Manager): (i) waive such performance fee or carried interest suffered by the Group by virtue of the Investment Manager's (or such relevant affiliate's/affiliates') management of (or advisory role in respect of) such investment fund, special purpose vehicle or managed account, other than the fees charged by the Investment Manager under the Management Agreement; or (ii) calculate the performance fee as above, except that in making such calculation the NAV (as of the date of the High Water Mark) and the Adjusted NAV (as of the NAV calculation date) shall not include the value of any assets invested in any other investment fund, special purpose vehicle or managed account arrangement that is charged a performance fee or carried interest by the Investment Manager or any of its affiliates (and such performance fee or carried interest is not waived with respect to the Group).

Administration

The Group has entered into an administration agreement with Citco Fund Administration (Cayman Islands) Limited. The Group pays to the Administrator an annual administration fee based on the Parent Company's net assets subject to a monthly minimum charge.

The Administrator shall also be entitled to be repaid all its reasonable out-of-pocket expenses incurred on behalf of the Group. All Administrator fees are included in other expenses on the Consolidated Statement of Comprehensive Income.

Secretary

Under the terms of the Company Secretarial Agreement, Link Group is entitled to an annual fee of £75,000 (exclusive of VAT and disbursements). All Secretary fees are included in other expenses on the Consolidated Statement of Comprehensive Income.

Registrar

Under the terms of the Registrar Agreement, the Registrar is entitled to an annual maintenance fee of £1.25 per Shareholder account per annum, subject to a minimum fee of £2,500 per annum (exclusive of VAT). All Registrar fees are included in other expenses on the Consolidated Statement of Comprehensive Income.

Custodian

Under the terms of the Custodian Agreement, Merrill Lynch, Pierce, Fenner & Smith Incorporated is entitled to be paid a fee of between US\$180 and US\$500 per annum per holding of securities in an entity. In addition, the Custodian is entitled to be paid fees up to US\$300 per account per annum and other incidental fees. All Custodian fees are included in other expenses on the Consolidated Statement of Comprehensive Income.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

Auditors' remuneration

For the year ended 31 December 2021, the remuneration for work carried out by PricewaterhouseCoopers LLP, the statutory auditors, was as follows:

	31 DECEMBER 2021 £	31 DECEMBER 2020 £
Fees charged by PricewaterhouseCoopers LLP:		
❖ the audit of the Parent Company and Consolidated Financial Statements; and	317,000	245,000
❖ the audit of the Company's subsidiaries.	22,300	13,000

Amounts are included in other expenses on the Consolidated Statement of Comprehensive Income and are exclusive of VAT. There were no non-audit services provided by PricewaterhouseCoopers LLP during the year.

11. TAXATION ON ORDINARY ACTIVITIES

Investment trust status

It is the intention of the Directors to conduct the affairs of the Group so as to satisfy the conditions for approval as an investment trust under section 1158 of the Corporation Taxes Act 2010. As an investment trust the Parent Company is exempt from corporation tax on capital gains made on investments. Although interest income received would ordinarily be subject to corporation tax, the Parent Company will receive relief from corporation tax relief to the extent that interest distributions are made to shareholders. It is the intention of the Parent Company to make sufficient interest distributions so that no corporation tax liability will arise in the Parent Company.

Any change in the Group's tax status or in taxation legislation generally could affect the value of the investments held by the Group, affect the Group's ability to provide returns to Shareholders, lead to the loss of investment trust status or alter the post-tax returns to Shareholders.

The following table presents the tax chargeable on the Group for the period ended 31 December 2021:

	REVENUE £	CAPITAL £	TOTAL £
Net return on ordinary activities before taxation	21,123,168	52,090,200	73,213,368
Tax at the standard UK corporation tax rate of 19.00%	4,013,402	9,897,138	13,910,540
Effects of:			
Non-taxable income	(4,013,402)	-	(4,013,402)
Capital items exempt from corporation tax	-	(9,897,138)	(9,897,138)
Total tax charge	-	-	-

The following table presents the tax chargeable on the Group for the period ended 31 December 2020:

	REVENUE £	CAPITAL £	TOTAL £
Net return on ordinary activities before taxation	23,898,852	(944,173)	22,954,679
Tax at the standard UK corporation tax rate of 19.00%	4,540,782	(179,393)	4,361,389
Effects of:			
Non-taxable income	(4,540,782)	-	(4,540,782)
Capital items exempt from corporation tax	-	179,393	179,393
Total tax charge	-	-	-

Overseas taxation

The Parent Company and Group may be subject to taxation under the tax rules of the jurisdictions in which they invest, including by way of withholding of tax from interest and other income receipts. Although the Parent Company and Group will endeavour to minimise any such taxes this may affect the level of returns to Shareholders of the Parent Company.

12. NET ASSET VALUE PER ORDINARY SHARE

	AS AT 31 DECEMBER 2021 £	AS AT 31 DECEMBER 2020 £
Net assets attributable to Shareholders of the Parent Company	317,614,784	270,537,108
Ordinary Shares in issue (excluding Treasury Shares)	278,276,392	282,647,364
Net asset value per Ordinary Share	114.14p	95.72p

13. RETURN PER ORDINARY SHARE

Basic earnings per share is calculated using the weighted average number of shares in issue during the year, excluding the average number of Ordinary Shares purchased by the Parent Company and held as Treasury Shares.

	AS AT 31 DECEMBER 2021 £	AS AT 31 DECEMBER 2020 £
Profit for the year	73,183,772	22,879,629
Average number of Ordinary Shares in issue during the year	279,617,119	295,430,078
Earnings per Share (basic and diluted)	26.17p	7.74p

The Parent Company has not issued any shares or other instruments that are considered to have dilutive potential.

FINANCIAL STATEMENTS continued

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

14. SHAREHOLDERS' CAPITAL

Set out below is the issued share capital of the Company as at 31 December 2021. All shares issued are fully paid with none not fully paid:

	NOMINAL VALUE £	NUMBER OF SHARES
Ordinary Shares	0.01	278,276,392

Set out below is the issued share capital of the Company as at 31 December 2020. All shares issued are fully paid with none not fully paid:

	NOMINAL VALUE £	NUMBER OF SHARES
Ordinary Shares	0.01	282,647,364

Rights attaching to the Ordinary Shares

The holders of the Ordinary Shares are entitled to receive, and to participate in, any dividends declared in relation to the Ordinary Shares. The holders of the Ordinary Shares shall be entitled to all the Parent Company's remaining net assets after taking into account any net assets attributable to other share classes in issue. The Shares shall carry the right to receive notice of, attend and vote at general meetings of the Parent Company. The consent of the holders of Shares will be required for the variation of any rights attached to the Ordinary Shares. The net return per Ordinary Share is calculated by dividing the net return on ordinary activities after taxation by the number of shares in issue.

Voting rights

Subject to any rights or restrictions attached to any shares, on a show of hands every shareholder present in person has one vote and every proxy present who has been duly appointed by a shareholder entitled to vote has one vote, and on a poll, every shareholder (whether present in person or by proxy) has one vote for every share of which he is the holder. A shareholder entitled to more than one vote need not, if he votes, use all his votes or cast all the votes he uses the same way. In the case of joint holders, the vote of the senior who tenders a vote shall be accepted to the exclusion of the vote of the other joint holders, and seniority shall be determined by the order in which the names of the holders stand in the Register.

No shareholder shall have any right to vote at any general meeting or at any separate meeting of the holders of any class of shares, either in person or by proxy, in respect of any share held by him unless all amounts presently payable by him in respect of that share have been paid.

Variation of Rights & Distribution on Winding Up

Subject to the provisions of the Act as amended and every other statute for the time being in force concerning companies and affecting the Parent Company (the "Statutes"), if at any time the share capital of the Parent Company is divided into different classes of shares, the rights attached to any class may be varied either with the consent in writing of the holders of three-quarters in nominal value of the issued shares of that class or with the sanction of an extraordinary resolution passed at a separate meeting of the holders of the shares of that class (but not otherwise) and may be so varied either whilst the Parent Company is a going concern or during or in contemplation of a winding-up.

At every such separate general meeting the necessary quorum shall be at least two persons holding or representing by proxy at least one-third in nominal value of the issued shares of the class in question (but at any adjourned meeting any holder of shares of the class present in person or by proxy shall be a quorum), any holder of shares of the class present in person or by proxy may demand a poll and every such holder shall on a poll have one vote for every share of the class held by him. Where the rights of some only of the shares of any class are to be varied, the foregoing provisions apply as if each group of shares of the class differently treated formed a separate class whose rights are to be varied.

The Parent Company has no fixed life but, pursuant to the Articles, an ordinary resolution for the continuation of the Parent Company will be proposed at the annual general meeting of the Parent Company to be held in 2025 and, if passed, every five years thereafter. Upon any such resolution, not being passed, proposals will be put forward within three months after the date of the resolution to the effect that the Parent Company be wound up, liquidated, reconstructed or unitised.

If the Parent Company is wound up, the liquidator may divide among the shareholders in specie the whole or any part of the assets of the Parent Company and for that purpose may value any assets and determine how the division shall be carried out as between the shareholders or different classes of shareholders.

The table below shows the movement in shares through 31 December 2021:

FOR THE YEAR FROM 1 JANUARY 2021 TO 31 DECEMBER 2021	SHARES IN ISSUE AT THE BEGINNING OF THE PERIOD	SHARES REPURCHASED	SHARES IN ISSUE AT THE END OF THE PERIOD
Ordinary Shares	282,647,364	(4,370,972)	278,276,392

The table below shows the movement in shares through 31 December 2020:

FOR THE YEAR FROM 1 JANUARY 2020 TO 31 DECEMBER 2020	SHARES IN ISSUE AT THE BEGINNING OF THE PERIOD	SHARES REPURCHASED	SHARES IN ISSUE AT THE END OF THE PERIOD
Ordinary Shares	312,302,305	(29,654,941)	282,647,364

Share buyback programme

All Ordinary Shares bought back through the share buyback programme are held in treasury as at 31 December 2021. Details of the programme are as follows:

DATE OF PURCHASE	ORDINARY SHARES PURCHASED	AVERAGE PRICE PER SHARE	LOWEST PRICE PER SHARE	HIGHEST PRICE PER SHARE	TOTAL TREASURY SHARES
January 2021	-	0.00p	0.00p	0.00p	99,968,301
February 2021	583,465	88.25p	86.65p	88.99p	100,551,766
March 2021	1,587,507	84.01p	82.61p	89.77p	102,139,273
April 2021	550,000	85.56p	85.39p	85.80p	102,689,273
May 2021	600,000	85.63p	85.00p	86.20p	103,289,273
June 2021	1,050,000	84.07p	83.48p	84.07p	104,339,273
July 2021	-	0.00p	0.00p	0.00p	104,339,273
August 2021	-	0.00p	0.00p	0.00p	104,339,273
September 2021	-	0.00p	0.00p	0.00p	104,339,273
October 2021	-	0.00p	0.00p	0.00p	104,339,273
November 2021	-	0.00p	0.00p	0.00p	104,339,273
December 2021	-	0.00p	0.00p	0.00p	104,339,273

FINANCIAL STATEMENTS continued

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

Details of the share buyback programme during the year ended 31 December 2020 as follows:

DATE OF PURCHASE	ORDINARY SHARES PURCHASED	AVERAGE PRICE PER SHARE	LOWEST PRICE PER SHARE	HIGHEST PRICE PER SHARE	TOTAL TREASURY SHARES
January 2020	1,824,187	80.52p	78.64p	81.00p	72,137,547
February 2020	1,153,000	81.30p	78.10p	82.29p	73,290,547
March 2020	3,513,837	62.26p	54.97p	80.00p	76,804,384
April 2020	-	0.00p	0.00p	0.00p	76,804,384
May 2020	4,259,700	61.57p	58.44p	62.83p	81,064,084
June 2020	11,515,569	69.18p	66.60p	71.50p	92,579,653
July 2020	3,636,867	65.19p	63.03p	67.00p	96,216,520
August 2020	1,000,000	64.60p	63.00p	65.00p	97,216,520
September 2020	1,547,589	64.02p	62.80p	65.38p	98,764,109
October 2020	-	0.00p	0.00p	0.00p	98,764,109
November 2020	725,000	65.98p	65.92p	66.00p	99,489,109
December 2020	479,192	73.26p	73.05p	73.55p	99,968,301

Other distributable reserve

During 2021, the Company declared and paid dividends of £Nil (2020: £Nil) from the other distributable reserve. Further, the cost of the buyback of Ordinary Shares as detailed above was funded by the other distributable reserve of £3,741,814 (2020: £20,161,216). The closing balance in the other distributable reserve has been reduced to £112,779,146 (31 December 2020: £116,520,960).

15. DIVIDENDS PER SHARE

The following table summarises the amounts recognised as distributions to equity shareholders in the period:

	31 DECEMBER 2021 £	31 DECEMBER 2020 £
2019 interim dividend of 2.00 pence per Ordinary Share paid on 2 April 2020	-	6,184,004
2020 interim dividend of 2.00 pence per Ordinary Share paid on 11 June 2020	-	6,116,226
2020 interim dividend of 2.00 pence per Ordinary Share paid on 17 September 2020	-	5,711,983
2020 interim dividend of 2.00 pence per Ordinary Share paid on 17 December 2020	-	5,662,531
2020 interim dividend of 2.00 pence per Ordinary Share paid on 1 April 2021	5,638,178	-
2021 interim dividend of 2.00 pence per Ordinary Share paid on 24 June 2021	5,586,527	-
2021 interim dividend of 2.00 pence per Ordinary Share paid on 23 September 2021	5,565,528	-
2021 interim dividend of 2.00 pence per Ordinary Share paid on 23 December 2021	5,565,528	-
Total	22,355,761	23,674,744

An interim dividend of 2.00 pence per Ordinary Share, equalling £5,565,528, was declared by the Board on 24 February 2022 in respect of the period to 31 December 2021, was paid to shareholders on 31 March 2022. The interim dividend has not been included as a liability in these financial statements in accordance with International Accounting Standard 10: Events After the Balance Sheet Date. The Parent Company allocated £88,856 of the 2021 interim dividend paid on 1 April 2021 to a 2020 final dividend.

16. RELATED PARTY TRANSACTIONS

Each of the Directors is entitled to receive a fee from the Parent Company at such rate as may be determined in accordance with the Articles. Save for the Chair of the Board, the fees are £33,000 for each Director per annum. The Chair's fee is £55,000 per annum. The chair of the Audit and Valuation Committee may also receive additional fees for acting as the chairman of such a committee. The current fee for serving as the chair of the Audit and Valuation Committee is £5,500 per annum.

All 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 Parent Company.

At 31 December 2021, £193,200 (31 December 2020: £179,563) was paid to the Directors and £nil (31 December 2020: £nil) was owed for services performed.

As at 31 December 2021 and 31 December 2020, the Directors' interests in the Parent Company's Shares were as follows:

		31 DECEMBER 2021	31 DECEMBER 2020
Oliver Grundy	Ordinary Shares	30,000	N/A
Kevin Ingram	Ordinary Shares	N/A	64,968
Mark Katzenellenbogen	Ordinary Shares	215,000	215,000
Elizabeth Passey	Ordinary Shares	10,000	10,000
Clive Peggram	Ordinary Shares	333,240	333,240
Graeme Proudfoot	Ordinary Shares	130,000	50,000

Investment management fees for the year ended 31 December 2021 are payable by the Parent Company to the Investment Manager and these are presented on the Consolidated Statement of Comprehensive Income. Details of investment management fees and performance fees payable during the year are disclosed in Note 10.

During 2021, as part of an amendment to its management agreement, the Investment Manager continued to purchase Ordinary Shares of the Parent Company with 20% of its monthly management fee. The Ordinary Shares were purchased at the prevailing market price. As at 31 December 2021, the Investment Manager has purchased 4,496,991 (31 December 2020: 3,705,991) Ordinary Shares.

As at 31 December 2021, Partners and Principals of the Investment Manager held 510,000 (31 December 2020: 510,000) Shares in the Parent Company.

The Group has invested in VPC Offshore Unleveraged Private Debt Fund Feeder, L.P. The Investment Manager of the Parent Company also acts as manager to VPC Offshore Unleveraged Private Debt Fund Feeder, L.P. The principal activity of VPC Offshore Unleveraged Private Debt Fund Feeder, L.P. is to invest in alternative finance investments and related instruments with a view to achieving the Parent Company's investment objective. As at 31 December 2021 the Group owned 26% of VPC Offshore Unleveraged Private Debt Fund Feeder, L.P. (31 December 2020: 26%) and the value of the Group's investment in VPC Offshore Unleveraged Private Debt Fund Feeder, L.P. was £1,640,256 (31 December 2020: £2,454,004).

The Group has invested in VPC Synthesis, L.P. The Investment Manager of the Parent Company also acts as manager to VPC Synthesis, L.P. The principal activity of VPC Synthesis, L.P. is to invest in alternative finance investments and related instruments with a view to achieving the Parent Company's investment objective. As at 31 December 2021 the Group owned 4% of VPC Synthesis, L.P. (31 December 2020: £nil) and the value of the Group's investment in VPC Synthesis, L.P. was £10,890,834 (31 December 2020: £nil).

The Investment Manager may pay directly various expenses that are attributable to the Group. These expenses are allocated to and reimbursed by the Group to the Investment Manager as outlined in the Management Agreement. Any excess expense previously allocated to and paid by the Group to the Investment Manager will be reimbursed to the Group by the Investment Manager. At 31 December 2021, £23,697 was due to the Investment Manager (31 December 2020: £44,240) and is included in the Accrued expenses and other liabilities balance on the Consolidated Statement of Financial Position.

FINANCIAL STATEMENTS continued

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

17. SUBSIDIARIES

NAME	PRINCIPAL ACTIVITY	COUNTRY OF INCORPORATION	NATURE OF INVESTMENT	PERCENTAGE OWNERSHIP AS AT 31 DECEMBER 2021	PERCENTAGE OWNERSHIP AS AT 31 DECEMBER 2020
VPC Specialty Lending Investments Intermediate, L.P.	Investment vehicle	USA	Limited partner interest	Sole limited partner	Sole limited partner
VPC Specialty Lending Investments Intermediate Holdings, L.P.	Investment vehicle	USA	Limited partner interest	Sole limited partner	N/A
VPC Specialty Lending Investments Intermediate GP, LLC	General partner	USA	Membership interest	Sole member	Sole member
Fore London, L.P.	Investment vehicle	UK	Limited partner interest	Sole limited partner	Sole limited partner
Fore London GP, LLC	General partner	UK	Membership interest	Sole member	Sole member
Duxbury Court I, L.P.	Investment vehicle	USA	Limited partner interest	95%	95%
Duxbury Court I GP, LLC	General partner	USA	Membership interest	95%	95%
Drexel I, L.P.	Investment vehicle	USA	Limited partner interest	52%	52%
Drexel I GP, LLC	General partner	USA	Membership interest	52%	52%

The subsidiaries listed above as investment vehicles are consolidated by the Group and there is no activity to consolidate within the subsidiaries listed as general partners.

NAME	REGISTERED ADDRESS
VPC Specialty Lending Investments Intermediate, L.P.	150 North Riverside Plaza, Suite 5200, Chicago, IL 60606
VPC Specialty Lending Investments Intermediate Holdings, L.P.	150 North Riverside Plaza, Suite 5200, Chicago, IL 60606
VPC Specialty Lending Investments Intermediate GP, LLC	150 North Riverside Plaza, Suite 5200, Chicago, IL 60606
Fore London, L.P.	6th Floor, 65 Gresham Street, London, EC2V 7NQ United Kingdom
Fore London GP, LLC	150 North Riverside Plaza, Suite 5200, Chicago, IL 60606
Duxbury Court I, L.P.	150 North Riverside Plaza, Suite 5200, Chicago, IL 60606
Duxbury Court I GP, LLC	150 North Riverside Plaza, Suite 5200, Chicago, IL 60606
Drexel I, L.P.	150 North Riverside Plaza, Suite 5200, Chicago, IL 60606
Drexel I GP, LLC	150 North Riverside Plaza, Suite 5200, Chicago, IL 60606

The table below illustrates the movement of the investment in subsidiaries of the Parent Company in 2021:

	INVESTMENTS IN SUBSIDIARIES £
Beginning balance, 1 January 2021	257,491,532
Purchases	29,910,829
Sales	(45,377,842)
Appreciation of investments in subsidiaries	61,150,460
Ending balance, 31 December 2021	303,174,979

The table below illustrates the movement of the investment in subsidiaries of the Parent Company in 2020:

	INVESTMENTS IN SUBSIDIARIES £
Beginning balance, 1 January 2020	281,465,228
Purchases	80,568,889
Sales	(103,634,392)
Appreciation of investments in subsidiaries	(908,193)
Ending balance, 31 December 2020	257,491,532

FINANCIAL STATEMENTS continued

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021

18. NON-CONTROLLING INTERESTS

The non-controlling interests arises from investments in limited partnerships considered to be controlled subsidiaries into which there are other investors. The value of the non-controlling interests at 31 December 2021 represents the portion of the NAV of the controlled subsidiaries attributable to the other investors. As at 31 December 2021, the portion of the NAV attributable to non-controlling interests investments totalled £45,958 (31 December 2020: £19,337). In the Consolidated Statement of Comprehensive Income, the amount attributable to non-controlling interests represents the increase in the fair value of the investment in the period.

The following entities have been consolidated which have non-controlling interests as at 31 December 2021:

NAME OF SUBSIDIARY	PRINCIPAL PLACE OF BUSINESS	PROPORTION OF OWNERSHIP INTERESTS HELD BY NON-CONTROLLING INTERESTS AS AT 31 DECEMBER 2021	PROFIT OR LOSS OF SUBSIDIARY ALLOCATED TO NON-CONTROLLING INTERESTS DURING THE PERIOD ENDED 31 DECEMBER 2021 £	ACCUMULATED NON-CONTROLLING INTERESTS IN SUBSIDIARY AS AT 31 DECEMBER 2021 £
Drexel I, L.P.	USA	47%	14,468	20,506
Duxbury Court I, L.P.	USA	5%	15,128	25,452
Totals			29,596	45,958

NAME OF SUBSIDIARY	SUMMARISED FINANCIAL INFORMATION FOR SUBSIDIARY	31 DECEMBER 2021 £
Drexel I, L.P.	Distributions to non-controlling interests	-
	Profit/(loss) of subsidiary for period ended 31 December 2021	31,707
	Assets as at 31 December 2021	81,028
	Liabilities as at 31 December 2021	36,960
Duxbury Court I, L.P.	Distributions to non-controlling interests	-
	Profit/(loss) of subsidiary for period ended 31 December 2021	32,424
	Assets as at 31 December 2021	527,330
	Liabilities as at 31 December 2021	36,960

The following entities have been consolidated which have non-controlling interests during 2020:

NAME OF SUBSIDIARY	PRINCIPAL PLACE OF BUSINESS	PROPORTION OF OWNERSHIP INTERESTS HELD BY NON-CONTROLLING INTERESTS AS AT 31 DECEMBER 2020	PROFIT OR LOSS OF SUBSIDIARY ALLOCATED TO NON-CONTROLLING INTERESTS DURING THE PERIOD ENDED 31 DECEMBER 2020	ACCUMULATED NON-CONTROLLING INTERESTS IN SUBSIDIARY AS AT 31 DECEMBER 2020
			£	£
Drexel I, L.P.	USA	47%	51,213	5,699
Duxbury Court I, L.P.	USA	5%	3,321	13,638
Larkdale I, L.P.	USA	39%	20,554	-
SVTW, L.P.	USA	1%	(38)	-
Totals			75,050	19,337

NAME OF SUBSIDIARY	SUMMARISED FINANCIAL INFORMATION FOR SUBSIDIARY	31 DECEMBER 2020
		£
Drexel I, L.P.	Distributions to non-controlling interests	49,333
	Profit/(loss) of subsidiary for period ended 31 December 2020	103,596
	Assets as at 31 December 2020	35,200
	Liabilities as at 31 December 2020	22,965
Duxbury Court I, L.P.	Distributions to non-controlling interests	-
	Profit/(loss) of subsidiary for period ended 31 December 2020	60,888
	Assets as at 31 December 2020	471,560
	Liabilities as at 31 December 2020	18,285
Larkdale I, L.P.	Distributions to non-controlling interests	72,605
	Profit/(loss) of subsidiary for period ended 31 December 2020	83,800
	Assets as at 31 December 2020	-
	Liabilities as at 31 December 2020	-
SVTW, L.P.	Distributions to non-controlling interests	1,970
	Profit/(loss) of subsidiary for period ended 31 December 2020	(11,191)
	Assets as at 31 December 2020	-
	Liabilities as at 31 December 2020	-

FINANCIAL STATEMENTS continued

19. INVESTMENTS IN FUNDS

The Group has been determined to exercise significant influence in relation to certain of its in funds and other entities, as such these investments are considered to be associates for accounting purposes and represent interests in unconsolidated structured entities. The following additional information is therefore provided as required by IFRS 12, Disclosure of Interests in Other Entities:

NAME OF ASSOCIATE	PRINCIPAL PLACE OF BUSINESS	PRINCIPAL ACTIVITY	PROPORTION OF OWNERSHIP INTERESTS HELD	BASIS OF VALUATION	FAIR VALUE OF INTEREST AS AT 31 DECEMBER 2021 £	MAXIMUM EXPOSURE TO LOSS AS AT 31 DECEMBER 2021 £
VPC Offshore Unleveraged Private Debt Fund Feeder, L.P.	Cayman Islands	Investment fund	26%	Designated as held at fair value through profit or loss – using NAV	1,640,256	1,640,256
VPC Synthesis, L.P.	USA	Investment vehicle	4%	Designated as held at fair value through profit or loss – using NAV	10,890,834	10,890,834

NAME OF ASSOCIATE	SUMMARISED FINANCIAL INFORMATION FOR ASSOCIATE	31 DECEMBER 2021 £
VPC Offshore Unleveraged Private Debt Fund Feeder, L.P.	Profit/(loss) of associate for period ended 31 December 2021	1,151,744
	Assets as at 31 December 2021	4,431,392
	Liabilities at 31 December 2021	157,672
VPC Synthesis, L.P.	Profit/(loss) of associate for period ended 31 December 2021	5,838,471
	Assets as at 31 December 2021	283,302,763
	Liabilities at 31 December 2021	237,818,787

NAME OF ASSOCIATE	PRINCIPAL PLACE OF BUSINESS	PRINCIPAL ACTIVITY	PROPORTION OF OWNERSHIP INTERESTS HELD	BASIS OF VALUATION	FAIR VALUE OF INTEREST AS AT 31 DECEMBER 2020 £	MAXIMUM EXPOSURE TO LOSS AS AT 31 DECEMBER 2020 £
VPC Offshore Unleveraged Private Debt Fund Feeder, L.P.	Cayman Islands	Investment fund	26%	Designated as held at fair value through profit or loss - using NAV	2,454,004	2,454,004
Larkdale III, L.P.	USA	Investment vehicle	52%*	Designated as held at fair value through profit or loss - using NAV	68,362	68,362

NAME OF ASSOCIATE	SUMMARISED FINANCIAL INFORMATION FOR ASSOCIATE	31 DECEMBER 2020 £
VPC Offshore Unleveraged	Profit/(loss) of associate for period ended 31 December 2020	345,196
Private Debt Fund Feeder, L.P.	Assets as at 31 December 2020	7,049,729
	Liabilities at 31 December 2020	1,356,552
Larkdale III, L.P.	Profit/(loss) of associate for period ended 31 December 2020	12,207
	Assets as at 31 December 2020	190,860
	Liabilities at 31 December 2020	58,441

The Group's investments in associates all consist of limited partner interest in funds. There are no significant restrictions between investors with joint control or significant influence over the associates listed above on the ability of the associates to transfer funds to any party in the form of cash dividends or to repay loans or advances made by the Group.

*The Group holds 52% interest in Larkdale III, L.P. while the Group's ultimate ownership of the investment held by Larkdale III, L.P. is 34%. The Group has determined it does not have accounting control as the general partner has operating control over the vehicle and acts as an agent for a number of the Investment Manager's funds.

20. SUBSEQUENT EVENTS AFTER THE REPORTING PERIOD

The Company declared a dividend of 2.00 pence per Ordinary Share, equalling £5,565,528 for the three-month period ended 31 December 2021 and paid the dividend on 31 March 2022.

There were no other significant events subsequent to the year end.

GOVERNANCE

BOARD OF DIRECTORS

This section forms part of the Directors' Report.

All Directors are Non-Executive and are independent of the Investment Manager. The Directors of the Company who were in office during the year and up to the date of signing the financial statements were as follows:

GRAEME PROUDFOOT, CHAIR

Appointed 1 December 2020^{1,2,3,4}

Appointed Chairman 24 June 2021

Independent Non-Executive Director

Graeme is also Chairman of BlackRock Income and Growth Investment Trust plc and brings a wealth of asset management expertise and investment trust experience, having spent his executive career at Invesco, latterly as Managing Director, EMEA and CEO of Invesco Pensions. Graeme joined Invesco in 1992 as a legal advisor and held various roles within the Invesco Group, including General Counsel of Invesco Global, before moving to take responsibility for several of Invesco's UK functions including its investment trust business, which he led from 1999 until his retirement in 2019. Graeme began his career at Wilde Sapte Solicitors, practising in London and New York.

MARK KATZENELLENBOGEN

Appointed 1 May 2019^{1,2,3,4}

Independent Non-Executive Director

Mark Katzenellenbogen has been involved in financial services for more than 39 years. He began his career in credit and banking with S.G Warburg before working for the bank's mergers and acquisitions department in the UK, US and South Africa. Mark has been a non-executive director of Oldfield, a long-only value equity manager, since 2005. In 2007, Mark was appointed CEO of Auden Capital LLP, a London-based corporate finance advisory firm specialising in the investment and wealth management sector.

ELIZABETH PASSEY

Appointed 19 February 2015^{1,2,3,4}

Independent Non-Executive Director

Elizabeth Passey is a Senior Adviser to J. Stern & Co Private Investment Office, is a Member of the Board of the National Lottery Community Fund and Chairman of the Rural Payments Agency. She is a past Managing Director of Morgan Stanley and past Chairman of the Board of Morgan Stanley International Foundation as well as a past Managing Director of Investec Asset Management. Elizabeth is the Convener of Court of The University of Glasgow and is a Freeman of the Goldsmiths Company.

CLIVE PEGGRAM

Appointed 19 February 2015^{1,2,3,4}

Independent Non-Executive Director

Clive Peggram has more than 35 years' experience of working in the asset management industry, from private equity through to structured finance. He is currently Chairman of Apex2100, a high-performance facility based in France. Before this appointment, he was Deputy Group CEO of Financial Risk Management, a US\$10 billion institutionally focused asset manager. Clive was formerly Managing Director of Banque AIG for ten years, where he was responsible for establishing and running its investment management team. Previously, he gained considerable experience in the developing derivative markets at Swiss Bank Corporation. Clive is a Non-Executive Director of several asset management companies and is also a Trustee of the Apex2100 Foundation.

1 = Management Engagement Committee *Chair of Committee.

2 = Audit & Valuation Committee *Chair of Committee.

3 = Nomination Committee *Chair of Committee.

4 = Disclosure Committee *Chair of Committee.

GOVERNANCE continued

OLIVER GRUNDY

Appointed 12 March 2021^{1,2,3,4}

Independent Non-Executive Director

Oliver was an audit partner at Deloitte LLP for 28 years until his retirement in November 2019. He worked both in London and New York in various roles, including leading Deloitte's Banking Group team of 35 partners and 500 professionals, before becoming the audit and advisory partner to significant funds. From 2017 to 2019, Oliver was the Deloitte UK ethics partner, with responsibility for all whistleblowing and conduct matters as well as the firm's Public Interest Review Group. During his Deloitte career, Oliver also held several roles at the Institute of Chartered Accountants of England & Wales (ICAEW), including as Council member, Disciplinary Committee Tribunal Chairman and serving on the Practice, Risk & Regulation and the Ethics Standards Committees. Oliver is currently a member of the Red Cross International Medical Fundraising Board.

1 = Management Engagement Committee *Chair of Committee.

2 = Audit & Valuation Committee *Chair of Committee.

3 = Nomination Committee *Chair of Committee.

4 = Disclosure Committee *Chair of Committee.

DIRECTORS' REPORT

The Directors of the Company are pleased to present the Annual Report for the Company and its subsidiaries (the "Group") for the year ended 31 December 2021.

The Corporate Governance Statement, Audit and Valuation Committee Report and the Directors' Remuneration Report are included in this Directors' Report. The Board seeks to understand the needs and priorities of the Company's stakeholders. The report can be found within the Strategic Report on pages 27 to 30.

RESULTS AND DIVIDENDS

The interim dividends paid by the Company are set out in Note 15 of the financial statements. A summary of the Company's performance during the year is set out in the Strategic Report on pages 7 to 31.

INVESTMENT TRUST STATUS

The Company has received written approval from HM Revenue & Customs ("HMRC") as an authorised investment trust under Sections 1158/1159 of the Corporation Tax Act 2010. The Directors are of the opinion that the Company has conducted its affairs in compliance with such approval and intends to continue doing so.

DIRECTORS

Directors' Appointments

As at the date of this report, the Board consists of five Non-Executive Directors, all of whom are considered by the Board to be independent. Biographies of the Directors are set out on pages 105 and 106 and demonstrate the range of skills and experience each Director brings to the Board. During the period, Graeme Proudfoot was appointed Chair of the Board on 24 June 2021, and Oliver Grundy was appointed as a Non-Executive Director on 12 March 2021.

The appointment and replacement of Directors is governed by the Company's Articles of Association (the "Articles"), the Companies Act 2006, related legislation and Listing Rules. The Articles may be amended by a special resolution of the shareholders.

Directors' Interests

None of the current Directors, or any persons connected with them, had a material interest in the transactions and arrangements of, or an agreement with, the Investment Manager during the period. The remuneration of the Directors and their beneficial interests in the Company's securities are set out in the Directors' Remuneration Report on pages 126 to 130.

Directors' Indemnity and Compensation for Loss of Office

Save for such indemnity provisions in the Articles and in Directors' letters of appointment, there are no qualifying third-party indemnity provisions in force. The Board has agreed to a procedure by which Directors may seek independent professional advice if necessary and at the Company's expense. The Company has also arranged for the appropriate provision of Directors' and Officers' Liability Insurance. The Company does not have any arrangements in place with any Director that would provide compensation for loss of office.

Directors' Share Dealings

On 3 July 2016, the European Union's Market Abuse Regulation ("MAR") became effective following which the Board adopted a MAR compliant Share Dealing Code. MAR was adopted into UK law by virtue of the European Union (Withdrawal) Act 2018. Details of the Directors' shareholdings are set out in the Directors' Remuneration Report on page 129.

Conflicts of Interest

The Articles provide that the Directors may authorise any actual or potential conflict of interest that may arise, with or without imposing any conditions that they consider appropriate on the Director. Directors are not able to vote in respect of any contract, arrangement or transaction in which they have a material interest and, in such circumstances, they are not counted in the quorum. A process has been developed to identify any of the Directors' potential or actual conflicts of interest. This includes

GOVERNANCE continued

declaring any potential new conflicts before the start of each Board meeting. The Directors are satisfied that this procedure is adequate.

SHARES AND SHAREHOLDERS

Share Capital

The share capital as at 31 December 2021, and rights attaching to the Shares are set out in Note 14 to the financial statements. As at the date of this report, the Company's issued share capital consisted of 278,276,392 Ordinary Shares of £0.01 each with voting rights. In addition, 104,339,273 shares were held in Treasury.

At the Company's Annual General Meeting ("AGM") on 24 June 2021, the shareholders of the Company passed certain resolutions in relation to the allotment and buyback of its equity securities which remained valid as at 31 December 2021. In summary, these resolutions were:

- ❖ An ordinary resolution, to issue shares other than pursuant to the Share Issuance Programme up to an aggregate nominal amount of £279,526, representing approximately 10% of the issued Ordinary Share capital at the date of the Notice of AGM, excluding shares held in treasury. The Board has authority to continue to allot shares up until the conclusion of the Company's next Annual General Meeting in 2022.
- ❖ A special resolution authorising the Directors to dis-apply the pre-emption rights of existing Shareholders in relation to issues of Ordinary Shares (being in respect of Ordinary Shares up to an aggregate nominal amount of £279,526 representing up to 10% of the Company's issued Ordinary Share capital as at the date of the Notice, excluding shares held in treasury). This authority shall expire at the conclusion of the Company's next Annual General Meeting in 2022.
- ❖ A special resolution authorising market purchases of Ordinary Shares, provided that the maximum number of Ordinary Shares authorised to be purchased is up to 41,901,006 ordinary shares, representing 14.99% of the issued Ordinary Shares at the date of the Notice of AGM, excluding shares held in treasury. This authority shall expire at the conclusion of the Company's next Annual General Meeting in 2022.

No shares were allotted by the Company during the year. During the year the Company bought back a total of 4,370,972 Ordinary Shares to be held in Treasury, representing 1.14% of the issued share capital as at 31 December 2021, with an aggregate nominal value of £43,709.72. The total amount paid for these shares was £3,741,814 at an average price of £0.8561 per Ordinary Share.

At the Company's AGM in 2022, the Board will seek authority to issue Shares and to renew its authority to purchase Ordinary Shares.

Shares bought back and held in Treasury will not be sold out of Treasury at a discount wider than the discount at which the Shares were initially bought back by the Company. The authority to allot new Ordinary Shares, dis-apply pre-emption rights or for the Company to purchase its own Shares will only be used if the Directors believe it is in the best interests of the Company. Proposals for these and other authorities sought at the AGM, including their restrictions, will be set out in the Notice of the 2022 AGM.

Except as set out in the Company's Articles, there are no restrictions concerning the transfer of securities in the Company or on voting rights; no special rights with regard to control attached to securities; no agreements between holders of securities regarding their transfer known to the Company; and no agreements which the Company is party to that might affect its control following a successful takeover bid.

Substantial Shareholdings

The Company has been informed of the following notifiable interests as at 31 December 2021 in the Company's voting rights under DTR 5. This information was correct at the date of notification. It should be noted that these holdings may have changed since notified to the Company and may not therefore be wholly accurate statements of actual holdings as at 31 December 2021. However, notification of any change is not required until the next applicable threshold is crossed.

SHAREHOLDER	NUMBER OF SHARES	PERCENTAGE OF VOTING RIGHTS*
SVS Opportunity Fund GP, L.P.	56,256,107	20.22%
Premier Fund Managers Limited	22,165,000	7.97%
Newton Investment Management Limited	16,389,923	5.89%
Schroders plc	22,400,000	8.05%
AXA Investment Managers	19,450,000	6.99%
Metage Capital Limited	8,201,393	2.95%

* Percentage of voting rights as at 31 December 2021.

The Company has been notified of the following changes in notifiable interests since 31 December 2021 and up until the date of this report:

Newton Investment Management Limited had an interest in 12,870,021 ordinary shares representing 4.62% of the total voting rights.

Articles of Association

Any amendments to the Articles of Association must be made by special resolution at a general meeting of the shareholders.

The Annual General Meeting

The Company's AGM will be held on 13 June 2022 and explanations of the business proposed at the AGM will be contained in the Notice of that Meeting.

AUDITORS AND FINANCIAL STATEMENTS

Independent Auditors

The auditors to the Company, PricewaterhouseCoopers LLP ("PwC" or the "Auditors"), were appointed in February 2015. They have indicated their willingness to continue in office as Auditors of the Company.

The Audit and Valuation Committee has the responsibility for making a recommendation to the Board on the reappointment of the external auditors. After careful consideration and a review of their effectiveness as external auditors, the Audit and Valuation Committee has recommended that PwC be reappointed as the Company's Auditors. Resolutions will therefore be proposed at the forthcoming Annual General Meeting to re-appoint PwC as Auditors and for the Audit and Valuation Committee to determine PwC's remuneration. For more information refer to the Audit and Valuation Committee Report on pages 123 to 125.

Audit Information

The Directors who held office at the date of this Annual Report confirm that, so far as they are aware, there is no relevant audit information of which the Company's Auditors are unaware; and each Director has taken all the steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Company's Auditors are aware of that information. This confirmation is given in accordance with the provisions of Section 418 of the Companies Act 2006.

Financial Risk Management

The principal financial risks and the Group's policies for managing these risks are set out on pages 22 to 26.

Subsequent Events

The important subsequent events are included on page 103.

GOVERNANCE continued

Responsibility for Financial Statements and Going Concern Statement

The Directors have reviewed the financial projections of the Group and Company from the date of this report, which shows that the Group and Company will be able to generate sufficient cash flows in order to meet its liabilities as they fall due. In assessing the Group's and Company's ability to continue as a going concern, the Directors have considered the Company's investment objective, risk management policies capital management, the monthly NAV and the nature of its portfolio and expenditure projections.

Additionally, the Directors have considered the risks arising of reduced asset values and economic disruption caused by the COVID-19 pandemic. The Investment Manager has also performed a range of stress tests and demonstrated to the Directors that even in an adverse scenario of depressed markets that the Group could still generate sufficient funds to meet its liabilities over the next 12 months. The Directors believe that the Group has adequate resources, an appropriate financial structure and suitable management arrangements in place to continue in operational existence for the foreseeable future being a period of at least 12 months from the date of this report.

Based on their assessment and considerations above, the Directors have concluded that the financial statements of the Group and Company should continue to be prepared on a going concern basis.

Viability Statement

In accordance with provision 31 of the UK Corporate Governance Code, published by the Financial Reporting Council in July 2018, and as part of an ongoing programme of risk assessment, the Directors have assessed the prospects of the Company, to the extent that they are able, over a three-year period. The Directors have chosen a three-year period as this is viewed as sufficiently long term to provide shareholders with a meaningful view, without extending the period so far into the future as to undermine the exercise. Additionally, the asset backed loan investments held by the Group have a weighted average maturity of approximately three years which allows the investment cash flows, recycling of investments and expenditures commitments of the Group to be reasonably forecasted over this timeframe.

The three-year review considers the Group's cash flow, cash distributions and other key financial ratios over the period. The three-year review also makes certain assumptions about the normal level of expenditure likely to occur and considers the impact on the financing facilities of the Group.

Furthermore, the three-year review period to 31 December 2024 was modelled under scenarios addressing the two conditions below:

- ❖ (i) The Board will offer shareholders an exit opportunity for up to 100% of the Ordinary Shares in issue immediately following the Company's AGM in 2023 if the Company's NAV (Cum Income) Return (calculated as set out in the Company's annual report and financial statements) for the period from 1 April 2020 to 31 March 2023 is less than 24%; and
- ❖ (ii) If the average discount to NAV at which the shares trade over the three-month period ending on 31 March 2023 is greater than 5%, the Board will offer shareholders an exit opportunity for up to 25% of the Ordinary Shares in issue immediately following the Company's AGM in 2023. For the avoidance of doubt, this exit opportunity will not be offered in the event the 100% exit opportunity in condition (iii) has been triggered.

As a part of this review, the Directors reviewed a series of stress test scenarios carried out by the Investment Manager which assumed a significant fall in income and asset levels, including the impacts to the Group's financing facilities and were satisfied with the result of this analysis. In making this assessment on the viability of the Group, the Directors have also taken into consideration each of the principal risks and uncertainties on pages 22 to 26, their mitigants and the impact these might have on the business model, future performance, solvency and liquidity. Both the principal risks and the monitoring system are subject to a robust assessment at least annually.

In addition, the Directors considered the Company's current financial position and prospects, the composition of the investment portfolio, the level of outstanding capital commitments, the term structure and availability of borrowings and the ongoing costs of the business. As part of the approach, due consideration has been given to the uncertainty inherent in financial forecasts and, where applicable, as described above reasonable sensitivities have been applied to the investment portfolio in stress situations.

All the analysis above indicates that due to the stability and cash generating nature of the investment portfolio, specifically the asset backed investments, as well as the debt facility in place, the Group would be able to withstand the impacts outlined above. Based on the robust assessment of the principal risks, prospects and viability of the Group, the Board confirms that they have reasonable expectation that the Group will be able to continue operation and meet its liabilities as they fall due over the three-year period to 31 December 2024.

ADDITIONAL DISCLOSURES

Requirements of the Listing Rules

Listing Rule 9.8.4 requires the Company to include certain information in a single identifiable section of the Annual Report or a cross-reference table indicating where the information is set out.

The Directors confirm that there are no disclosures to be made in relation to Listing Rule 9.8.4.

Political Donations

The Company made no political donations during the period to organisations either within or outside of the EU. (Period to 31 December 2020: £nil).

Modern Slavery Act

The Company is not within the scope of the Modern Slavery Act 2015 because it has insufficient turnover and is therefore not obliged to make a human trafficking statement.

This Report was approved by the Board of Directors on 27 April 2022 and signed on its behalf by

Link Company Matters Limited

Company Secretary

27 April 2022

GOVERNANCE continued

CORPORATE GOVERNANCE STATEMENT

This Corporate Governance Statement forms part of the Directors' Report and includes the Audit and Valuation Committee Report and Directors' Remuneration Report.

APPLICABLE CORPORATE GOVERNANCE CODE

The Company is committed to high standards of corporate governance. This statement, together with the Statement of Directors' Responsibilities on page 131, indicates how the Company has applied the principles of recommended governance of the Financial Reporting Council ("FRC") 2018 UK Corporate Governance Code (the 'UK Code') and the AIC's Code of Corporate Governance issued in 2019, (the 'AIC Code'), which complements the UK Corporate Governance Code and provides a framework of best practice for investment trusts.

The Board considers that reporting against the principles and provisions of the AIC Code, which has been endorsed by the FRC, provides more relevant information to both Shareholders and stakeholders and that by reporting against the AIC Code the Company has met its obligations in relation to the UK Code and associated disclosure requirements under paragraph 9.8.6 of the Listing Rules.

The UK Code is available on the FRC website (www.frc.org.uk). The AIC Code is available on the AIC website (www.theaic.co.uk) and includes an explanation of how the AIC Code adapts the principles and provisions set out in the UK Code to make them relevant for investment companies.

STATEMENT OF COMPLIANCE

The Board is responsible for ensuring the appropriate level of corporate governance and considers that the Company has complied with the principles and provisions of the AIC Code except as disclosed below:

- ❖ Provision 14: No senior independent director has been appointed. All the Directors have different qualities and areas of expertise on which they lead, and concerns can be conveyed to another Director if Shareholders do not wish to raise concerns with the Chairman or the Chairman of the Audit and Valuation Committee. Any other Director will chair the Board or Nomination Committee meeting when the annual evaluation of the Chairman's performance, his re-election, or the recruitment of his successor, is discussed;
- ❖ Provision 23: Directors are not appointed for a specified term, as all Directors are non-executive and the Board believes that a Director's performance and their continued contribution to the running of the Company is of greater importance and relevance to Shareholders than the length of time for which they have served as a Director of the Company. Each Director is subject to the election and re-election provisions set out in the Articles which provide that a Director appointed during the year is required to retire and seek election by Shareholders at the next Annual General Meeting ("AGM") following their appointment. Thereafter the Directors intend to offer themselves for re-election annually; and
- ❖ Provision 37: As all the Directors are non-executive, the Board is of the view that there is no requirement for a separate remuneration committee. Directors' fees will be considered by the Board as a whole within the limits approved by Shareholders.

THE PRINCIPLES OF THE AIC CODE

The AIC Code is made up of 17 principles split into five sections covering:

- ❖ Board leadership and purpose;
- ❖ Division of responsibilities;
- ❖ Composition, succession and evaluation;
- ❖ Audit, risk and internal control; and
- ❖ Remuneration.

BOARD LEADERSHIP AND PURPOSE

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- A.** A successful company is led by an effective board, whose role is to promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society.
- The Board considers the long-term sustainable success as their main focus and all decisions are considered from this point of view. As outlined below, the Company has a set of core values and corporate culture which are embedded into everything the Company does. VPC takes an active interest in how the portfolio companies manage environmental, social and governance (ESG) issues and the Board and VPC agree that responsible business practices help to generate long term sustainable returns. VPC and the Board continue to work on implementing an ESG policy.
- As part of this the opportunities and risks faced by the business are considered, monitored and assessed on a regular basis, both in terms of potential and emerging risks that the business may face. More detail regarding the principal risk and uncertainties and the sustainability of the business model can be found in the Strategic Report on pages 22 to 26.
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- B.** The board should establish the company's purpose, values and strategy, and satisfy itself that these and its culture are aligned. All directors must act with integrity, lead by example and promote the desired culture.
- The purpose of the Company is the investment objective as set out on page 5. The strategy that the Board follows in order to achieve this objective, is outlined in the Strategic Report on pages 7 to 31.
- The Board adopts some key values which are embedded into the culture of the business and are key to any investment decision made by the Company. These values and culture also drive how the Board and the relationship with the Investment Manager proceed. These are:
- ❖ Ensure all business decisions are made once all potential impacts on stakeholders are fully understood.
 - ❖ Encourage open, honest and collaborative discussions at all levels in Board meetings, with shareholders and stakeholders and with third party service providers.
 - ❖ To avoid any potential conflicts of interest.
- The values and culture of the business are considered as part of the annual board evaluation process to ensure that they remain a key focus that all decisions are based on.
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- C.** The board should ensure that the necessary resources are in place for the company to meet its objectives and measure performance against them. The board should also establish a framework of prudent and effective controls, which enable risk to be assessed and managed.
- The Board regularly considers the Company's position the balance sheet, cash flow projections, the availability of funding and the Company's contractual commitments. The Company's objective is to deliver consistent, long-term returns to shareholders; therefore, one of the measures the Board considers is the total return per share.
- The Board and the Management Engagement Committee assesses the performance of the Investment Manager in a number of different ways including through the KPIs set out on page 21.
- The Audit and Valuation Committee is responsible for assessing and managing risks and further information about how this is done can be found in the Audit and Valuation Committee Report on pages 123 to 125.
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- D.** In order for the company to meet its responsibilities to shareholders and stakeholders, the board should ensure effective engagement with, and encourage participation from, these parties.
- The Board understands its responsibilities to shareholders and stakeholders and considers the opinions of all such parties when making any decision. The Board considers that, other than shareholders, their other key stakeholders are their portfolio companies, their third-party providers and the Investment Manager in particular. The Management Engagement Committee considers the relationship with all third-party providers on at least an annual basis and there is an ongoing dialogue with the Investment Manager to ensure views are aligned.
- The Board considers the impact any decision will have on all stakeholders to ensure that they are making a decision that promotes the long-term success of the Company, whether this be in relation to dividends, new investment opportunities, potential future fundraisings, etc.
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GOVERNANCE continued

BOARD LEADERSHIP AND PURPOSE

In addition, the Directors welcome the views of all shareholders and place considerable importance on communications with them. In addition, the Directors are available to meet shareholders in person when able to do so or virtually. Shareholders wishing to communicate with the Chairman, or any other member of the Board, may do so by writing to the Company, for the attention of the Company Secretary at the Registered Office.

In accordance with the guidance issued by the Investment Association in the cases where shareholder votes against a resolution exceed 20%, the Board must consult with shareholders to understand the reasons for their votes.

Representatives of the Investment Manager regularly meet institutional shareholders to discuss historical performance and to understand their issues and concerns and, if applicable, to discuss corporate governance issues. The results of such meetings are reported at the following Board meeting. Regular reports on investor sentiment and industry issues from the Company's broker are submitted to the Board.

Any substantive communications regarding any major corporate issues would be discussed by the Board taking into account representations from the Investment Manager, the Auditor, legal advisers, broker and Company Secretary.

Further details of the Board's engagement with shareholders during the year can be found in the Strategic Report on pages 27 to 30 and the Chairman's Statement on pages 7 to 9.

DIVISION OF RESPONSIBILITIES

F. The chair leads the board and is responsible for its overall effectiveness in directing the company. They should demonstrate objective judgement throughout their tenure and promote a culture of openness and debate. In addition, the chair facilitates constructive board relations and the effective contribution of all non-executive directors, and ensures that directors receive accurate, timely and clear information.

There is a clear division of responsibility between the Chair, the Directors, the Investment Manager and the Company's other third-party service providers. The Chair is responsible for leading the Board, ensuring its effectiveness in all aspects of its role and is responsible for ensuring that all Directors receive accurate, timely and clear information. The responsibilities of the Chair are set out in writing and are available on the Company's website.

The Board meets regularly throughout the year and representatives of the Investment Manager are in attendance, when appropriate, at each meeting and most Committee meetings.

The Board has agreed a schedule of matters specifically reserved for decision by the Board. This includes establishing the investment objectives, strategy and benchmarks, the permitted types or categories of investments, the markets in which transactions may be undertaken, the level of permitted gearing and borrowings, the amount or proportion of the assets that may be invested in any category of investment or in any one investment, and the Company's treasury and share buyback policies.

The Board, at its regular meetings, undertakes reviews of key investment and financial data, revenue projections and expenses, analyses of asset allocation, transactions and performance comparisons, share price and net asset value performance, gearing, marketing and shareholder communication strategies, the risks associated with pursuing the investment strategy, peer group information and industry issues.

The review of each Director's performance was undertaken by the Chair and the review of the Chair's performance was carried out during the period under review by Elizabeth Passey. This concluded that the Directors believed the Chair encouraged good debate, ensured all Directors were involved in discussions and that the Board as a whole was working well.

DIVISION OF RESPONSIBILITIES

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| <p>G. The board should consist of an appropriate combination of directors (and, in particular, independent non-executive directors) such that no one individual or small group of individuals dominates the board's decision making.</p> | <p>All of the Directors are non-executive and are independent of the Investment Manager and the other service providers.</p> <p>The Chair, Graeme Proudfoot, was independent of the Investment Manager at the time of his appointment and remains so. The Board is aware of the AIC's guidance on this issue and regards Graeme Proudfoot as independent.</p> <p>Each Director is not a director of another investment company managed by the Company's Investment Manager, nor has any Board member been an employee of the Company or any of its service providers.</p> <p>The Board evaluation concluded that each Director provides a valuable contribution to Board meeting discussions and exercises appropriate levels of challenge and debate.</p> |
| <p>H. Non-executive directors should have sufficient time to meet their board responsibilities. They should provide constructive challenge, strategic guidance, offer specialist advice and hold third party service providers to account.</p> | <p>As part of the Board evaluation process, the contributions of each director, as well as the time commitments made by each board member are considered and reviewed. As explained above, it was concluded that each Director provided appropriate levels of challenge and provided the Company and the Investment Manager with guidance and advice when required.</p> <p>The Management Engagement Committee reviews the performance and cost of the Company's third-party service providers on an annual basis. More information regarding the work of the Management Engagement Committee can be found on page 120.</p> |
| <p>I. The board, supported by the company secretary, should ensure that it has the policies, processes, information, time and resources it needs in order to function effectively and efficiently.</p> | <p>The Directors have access to the advice and services of the Company Secretary through its appointed representative which is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with. The Company Secretary is also responsible for ensuring good information flows between all parties.</p> |

COMPOSITION, SUCCESSION AND EVALUATION

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| <p>J. Appointments to the board should be subject to a formal, rigorous and transparent procedure, and an effective succession plan should be maintained. Both appointments and succession plans should be based on merit and objective criteria and, within this context, should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.</p> | <p>The Board has established a Nomination Committee, comprising all of the independent Directors. This Committee will lead the appointment process of new Directors, as and when vacancies arise and as part of the Directors' ongoing succession plans. More information regarding the work of the Nomination Committee can be found on page 120.</p> <p>The Board has adopted a diversity policy, which acknowledges the benefits of greater diversity, and remains committed to ensuring that the Company's Directors bring a wide range of skills, knowledge, experience, backgrounds and perspectives to the Board. Whilst the Board does not feel that it would be appropriate to set targets as all appointments are made on merit, the following objectives for the appointment of Directors have been established:</p> <ul style="list-style-type: none"> ❖ all Board appointments will be made on merit, in the context of the skills, knowledge and experience that are needed for the Board to be effective; and ❖ long lists, and, ideally, short lists of potential should include diverse candidates of appropriate merit. <p>The Company is committed to ensuring that any vacancies to the Board arising in future are filled by the most qualified candidates.</p> |
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GOVERNANCE continued

COMPOSITION, SUCCESSION AND EVALUATION

K. The board and its committees should have a combination of skills, experience and knowledge. Consideration should be given to the length of service of the board as a whole and membership regularly refreshed.

Directors biographical details are set out on pages 105 and 106 of this Report. These demonstrate the wide range of skills and experience that they bring to the Board.

Each Director was appointed with a view to having a Board with a good combination of skills, experience and knowledge. This is reviewed as part of the annual evaluation process. When considering new appointments, the Board will review the skills of the Directors and seek to add persons with complementary skills or who possess skills and experience which fill any gaps in the Board's knowledge or experience and who can devote sufficient time to the Company to carry out their duties effectively.

Details of the policies on tenure of the Directors and the Chairman can be found below on page 119 of this Report.

L. Annual evaluation of the board should consider its composition, diversity and how effectively members work together to achieve objectives. Individual evaluation should demonstrate whether each director continues to contribute effectively.

The Board has agreed to evaluate its own performance and that of its Committees, Chair and Directors on an annual basis. For the period under review this was carried out by way of a questionnaire. The Chair led the assessment, which covered the functioning of the Board as a whole, the effectiveness of the Board Committees and the independence and contribution made by each Director.

As necessary, the Chair discussed the responses with each Director individually. The Chair absented himself from the Board's review of his effectiveness as the Company Chair, and this review was led by Elizabeth Passey.

Following this review, the Board is satisfied that the structure, mix of skills and operation of the Board is effective and relevant for the Company.

The individual performance of each Director standing for election and re-election has been evaluated and a recommendation is being made that shareholders vote in favour of their election or re-election at the AGM. All Directors will be subject to annual re-election by shareholders. More information regarding the proposed election or re-election of each Director at the 2022 AGM can be found in the separate AGM circular.

AUDIT, RISK AND INTERNAL CONTROL

M. The board should establish formal and transparent policies and procedures to ensure the independence and effectiveness of external audit functions and satisfy itself on the integrity of financial and narrative statements.

The Audit and Valuation Committee has put in place a non-audit services policy, which ensures that any work outside the scope of the standard audit work requires prior approval by the Audit and Valuation Committee. This enables the Committee to ensure that the external auditors remain fully independent.

In addition, the Audit and Valuation Committee carries out a review of the performance of the external auditor on an annual basis. Feedback from other third parties, including the Investment Manager, is included as part of this assessment to ensure the Audit and Valuation Committee takes into account the views of different parties who have a close working relationship with the external auditor.

Further information regarding the work of the Audit and Valuation Committee can be found on page 120.

N. The board should present a fair, balanced and understandable assessment of the company's position and prospects.

The Board and Audit and Valuation Committee have considered the Annual Report and Financial Statements as a whole and agreed that they believe that the document presents a fair, balanced and understandable assessment of the Company's position and prospects. In particular, they have considered the language used in the document to ensure unnecessary jargon is avoided. They have also considered in particular the content of the Strategic Report which provides a clear outline of the Company's position and prospects.

AUDIT, RISK AND INTERNAL CONTROL

- O.** The board should establish procedures to manage risk, oversee the internal control framework, and determine the nature and extent of the principal and emerging risks the company is willing to take in order to achieve its long-term strategic objectives.

The Audit and Valuation Committee reviews reports from the principal service providers on compliance and the internal and financial control systems in operation and relevant independent audit reports thereon.

The Directors have carried out a review of the effectiveness of the Company's systems of internal control as they have operated over the year and up to the date of approval of the Annual Report. Given the nature of the business, the Company is reliant on its service providers and their internal controls. The Audit and Valuation Committee reviews the Investment Manager's compliance and control systems in operation insofar as they relate to the affairs of the Company.

As set out in more detail in the Audit and Valuation Committee Report on pages 123 to 125, the Company has in place a system for assessing the adequacy of those controls.

There were no material matters arising from the review of the Company's controls that required further investigation and no significant failings or weaknesses were identified.

REMUNERATION

- P.** Remuneration policies and practices should be designed to support strategy and promote long-term sustainable success.

As outlined in the Remuneration Report on page 126, the Company follows the recommendation of the AIC Code that non-executive Directors' remuneration should reflect the time commitment and responsibilities of the role. The Company's policy is that the remuneration of non-executive Directors should reflect the experience of the Board as a whole and be determined with reference to comparable organisations and appointments. Directors are not eligible for bonuses, share options, long-term incentive schemes or other performance-related benefits as the Board does not believe that this is appropriate for non-executive Directors.

The remuneration policy is therefore designed to attract and retain high quality Directors, whilst ensuring that Directors remain focused and incentivised to promote the long-term sustainable success of the Company.

All Directors own shares in the Company, all of which were purchased in the open market and using the Directors' own resources.

The Board will periodically review the fees paid to the Directors and compare these with the fees paid by the Company's peer group and the investment trust industry generally, taking into account the time commitment and responsibility of each Board member.

More information regarding the work of the Remuneration Committee can be found in the Remuneration Report on pages 126 to 130.

- Q.** A formal and transparent procedure for developing remuneration policy should be established. No director should be involved in deciding their own remuneration outcome.

The Remuneration Policy has been developed with reference to comparable organisations and appointments. There is an agreed fee which all non-executive directors receive (irrespective of experience or tenure) and an additional fee for the role of Audit and Valuation Committee Chair. There is also an agreed fee for the role of Chair. Any changes to the Chair's fee is considered by the Board as a whole, with the exception of the Chair who excuses himself from this part of the meeting.

- R.** Directors should exercise independent judgement and discretion when authorising remuneration outcomes, taking account of company and individual performance, and wider circumstances.

Any decision with regard to remuneration is taken after considering the performance of the Company and the current market conditions. Any increase in directors' fees would need to be supported by positive growth of the Company.

The Board has no current intention to change the proposed Remuneration Policy for the foreseeable future. If any significant changes to the Remuneration Policy were to be considered, the Board would consult with shareholders and external remuneration consultants before proposing any such changes.

GOVERNANCE continued

2021 ANNUAL GENERAL MEETING – UPDATE STATEMENT

On 25 June 2021, the Board of the Company announced that all resolutions proposed at the 2021 Annual General Meeting of the Company (the “AGM”) had been passed. The Investment Association outlines that investment trusts should consult with shareholders if any resolutions receive votes against exceeding 20%. In the case of the 2021 AGM no resolution reached the threshold.

ROLE OF THE BOARD

A management agreement between the Company and the Investment Manager sets out the matters over which the Investment Manager has authority. This includes management of the Company’s assets and some marketing services. The Board is collectively responsible for the success of the Company and a formal schedule of matters reserved to the Board for decision has been approved, which is available on the Company’s website: <https://vpcspecialtylending.com>. This includes strategy and management, Board and committee membership and other appointments, appointment and oversight of delegates, corporate structure and share capital, remuneration, financial reporting and controls, company contracts, internal controls, corporate governance and policies.

The Board is responsible for the approval of annual and half year results and other public documents and for ensuring that such documents provide a fair, balanced and understandable assessment of the Group’s position and prospects.

The Board’s role is to provide leadership within a framework of prudent and effective controls that enable risk to be assessed and managed. It is responsible for setting the Company’s standards and values and for ensuring that its obligations to its Shareholders and other stakeholders are understood and met. The Board sets the Company’s strategic aims (subject to the Company’s Articles of Association, and to such approval of the Shareholders in General Meeting as may be required from time to time) and ensures that the necessary resources are in place to enable the Company’s objectives to be met.

The Board meets formally at least seven times a year, with additional ad hoc Board or Committee meetings arranged when required. The Directors have regular contact with the Investment Manager and Company Secretary between formal meetings.

Full and timely information is provided to the Board to enable it to function effectively and to allow Directors to discharge their responsibilities.

At each meeting the Directors follow a formal agenda, which includes a review of the Company’s NAV, share price, discount, financial position, gearing levels, peer group performance, investment performance, asset allocation and transactions and any other relevant business matters to ensure that control is maintained over the affairs of the Company. The Board monitors compliance with the investment restrictions required by the FCA and s1158 of the Corporation Tax Act 2010, the Company’s objective, investment, borrowing and hedging policies and reviews the investment strategy. The Board regularly receives reports from the Investment Manager on marketing and investor relations. The proceedings at all Board and Committee meetings are fully recorded through a process that allows any Director’s concerns to be recorded in the minutes.

There is an agreed procedure for Directors to take independent professional advice if necessary and at the Company’s expense. This is in addition to the access that every Director has to the advice and services of the Company Secretary, Link Company Matters Limited, which is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with.

BOARD COMPOSITION

The Board was chaired by Kevin Ingram until his retirement at the 2021 AGM and Graeme Proudfoot was appointed as his successor with effect 24 June 2021. The Board consists of five non-executive Directors who have all served throughout the period, with the exception of Oliver Grundy who joined the Board on 12 March 2021. All current members of the Board are regarded as independent of the Company’s Investment Manager.

The Directors have a breadth of investment, financial and professional experience relevant to the Company’s business and brief biographical details of each Director are set out on pages 105 and 106.

A review of Board composition and balance is included as part of the annual performance evaluation of the Board, details of which may be found below.

TENURE

Directors are generally initially appointed by the Board, until the following AGM when, as required by the Company's Articles of Association, they will stand for election by Shareholders. Thereafter, a Director's appointment is subject to an annual performance evaluation and the approval of Shareholders at each AGM, in accordance with corporate governance best practice.

Under the Articles of Association, Shareholders may remove a Director before the end of his or her term by passing a special resolution at a meeting, and may by ordinary resolution appoint another person who is willing to act to be a Director in his or her place. A special resolution is passed if more than 75% and an ordinary resolution is passed if 50% of the votes cast, in person or by proxy, are in favour of the resolution.

In accordance with the above and the AIC Code, all Directors will stand for election or re-election at the 2022 AGM. The contribution and performance of the Directors seeking election or re-election was reviewed by the Nomination Committee at its meeting in February 2022 which recommended to the Board their continuing appointment. Biographies of each Director are available on pages 105 and 106. It is the Board's view that the Directors' biographies illustrate why each Director's contribution is, and continues to be, important to the Company's long-term sustainable success.

The Board has adopted a formal tenure policy for Directors based on a continual review of performance. The Board does not believe that length of service in itself necessarily disqualifies a Director from seeking reappointment but, when making a recommendation, the Board takes into account the on-going requirements of the UK Corporate Governance Code, including the need to refresh the Board and its Committees. It is not anticipated that any of the Directors would normally serve in excess of nine years. In exceptional circumstances, which would be fully explained to Shareholders at the time, a short extension might be appropriate.

Similarly, it is not anticipated that the Chair will normally serve in excess of nine years. However, given the entirely non-executive nature of the Board and as the Chair may not be appointed as such at the time of their initial appointment as a Director, in exceptional circumstances, which would be fully explained at the time, a short extension might be appropriate. As with all Directors, the continuing appointment of the Chairman is subject to on-going review of performance, including a satisfactory annual evaluation, annual re-election by Shareholders and may be further subject to the particular circumstances of the Company at the time he or she intends to retire from the Board.

DIVERSITY

The Directors acknowledge the benefits of Board diversity and continual review of the Board's and individual Directors' effectiveness, while seeking to retain a balance of knowledge of the Company, diversity and continuity in the relationship with the Investment Manager. The Board has adopted a Diversity Policy in line with its commitment to ensuring that the Company's Directors bring a wide range of skills, knowledge, experience, backgrounds and perspectives to the Board.

The Board does not feel that it would be appropriate to set targets as all appointments must be made on merit. However, diversity generally will be taken into consideration when evaluating the skills, knowledge and experience desirable to fill each Board vacancy.

INDUCTION AND TRAINING

On appointment, the Investment Manager and Company Secretary provides new Directors with induction training as appropriate. The training covers the Company's investment strategy, policies and practices. The Directors are also given regular briefings on changes in law and regulatory requirements that affect the Company and the Directors. It is the Chair's responsibility to ensure that the Directors have sufficient knowledge to fulfil their role and Directors are encouraged to attend industry and other seminars covering issues and developments relevant to investment trust companies. Regular reviews of Directors' training needs are carried out by the Chair by means of the evaluation process described below.

The Directors have access to the advice and services of the Company Secretary through its appointed representative, who is responsible for general secretarial functions and for assisting the Company with compliance with its continuing obligations as a company listed on the premium segment of the Official List. The Company Secretary is also responsible for ensuring good information flows between all parties.

GOVERNANCE continued

BOARD COMMITTEES

Directors are members of each of the Committees, as this was deemed appropriate given the size and nature of the Board. Each of the Committees has formal terms of reference established by the Board, which are available on the Company's website.

Unless invited to attend by the Committee's Chair or members, only members of the Committees are entitled to be present at Committee meetings. An outline of the remit of each of the Committees and their activities during the period are set out below.

Audit and Valuation Committee

The Company's Audit and Valuation Committee meets at least twice during the year and is chaired by Oliver Grundy.

The main responsibilities of the Audit and Valuation Committee are set out below. The Company's Audit and Valuation Committee Report is on pages 123 to 125.

The Audit and Valuation Committee is responsible for monitoring the integrity of the financial statements of the Group and any other formal announcements in relation to its financial performance. On an annual basis, it reviews the adequacy and effectiveness of the Group's financial reporting and internal control policies. The Committee reviews the scope, results, cost effectiveness, independence and objectivity of the external auditor and makes recommendations to the Board in relation to the appointment, re-appointment and removal of the Company's Auditors.

Management Engagement Committee

The Management Engagement Committee is chaired by Clive Peggram and meets at least once a year, or more often if required.

The Management Engagement Committee is principally responsible for reasonably satisfying itself that the IMA is fair, and its terms remain appropriate, relevant, competitive and sensible.

It also reviews the systems put in place by the Investment Manager, including those relating to compliance. It annually reviews the performance and fees of the Investment Manager in order to make a recommendation to the Board regarding its continued appointment. In addition, it reviews and considers the appointment and remuneration of providers of services to the Company.

During the year, the Management Engagement Committee met once to consider the performance of the service providers and Investment Manager. Following the recommendation from the Management Engagement Committee, the Board agreed that the continuing appointment of the Investment Manager on the current terms (as summarised on page 122) was in the interest of the shareholders as a whole. This is primarily driven by the Investment Manager's extensive experience and impressive track record in the specialty lending sector. After the year end, one of the non executive directors, Clive Peggram, advised the Board that a family member had been approached by VPC with an offer of employment. The individual is no longer a dependent of Mr Peggram and the Board felt that the appointment did not affect Mr Peggram's independence of the Investment Manager. It was also felt that Mr Peggram's experience remained important to the board's effectiveness. It was however decided that Mr Peggram would step down from the Management Engagement Committee, and the role of chair of that committee would be passed to Elizabeth Passey. In board meetings, should a conflict be perceived at any future point, should the relative be engaged in any matter relevant to the Company, Mr Peggram would recuse himself from decisions on that topic.

Nomination Committee

The Nomination Committee is chaired by Mark Katzenellenbogen and meets at least once a year, or more often if required. The Nomination Committee is responsible for considering the structure, size and composition of the Board. The Nomination Committee considers recommendations to shareholders concerning the (re)election of the Directors and is also responsible for considering succession planning.

During the period, the Nomination Committee met three times.

Disclosure Committee

In response to the Market Abuse Regulation, the Board has established a Disclosure Committee. The principal role of the Committee is to monitor the implementation of procedures for identifying inside information when it arises and ensuring the Company complies with its disclosure and other obligations in respect of such inside information.

The Committee is chaired by Elizabeth Passey. The other members are any one of the other independent non-executive directors and a senior executive of the investment manager. The performance of the Investment Manager in its submissions to the Disclosure Committee forms part of the overall review of the performance of the Investment Manager by the Management Engagement Committee.

Since the last Annual Report, the Disclosure Committee has met once in February 2022. The Investment Manager regularly provided papers and updated the Board on items as they related to the Market Abuse Regulation.

BOARD AND COMMITTEE MEETING ATTENDANCE

The Board has at least seven scheduled meetings a year and meets more often if required. Directors' attendance at Board and Committee meetings held during the year to 31 December 2021 is set out in the below table:

DIRECTOR	BOARD ¹	AUDIT AND VALUATION COMMITTEE ¹	MANAGEMENT ENGAGEMENT COMMITTEE ¹	NOMINATION COMMITTEE ¹
Oliver Grundy ³	6 (6)	5 (5)	1 (1)	1 (1)
Kevin Ingram ²	5 (5)	3 (3)	0 (0)	2 (2)
Mark Katzenellenbogen	8 (8)	6 (6)	1 (1)	3 (3)
Elizabeth Passey	8 (8)	6 (6)	1 (1)	3 (3)
Clive Peggram	8 (8)	6 (6)	1 (1)	3 (3)
Graeme Proudfoot	8 (8)	6 (6)	1 (1)	3 (3)

BOARD RESPONSIBILITIES AND RELATIONSHIP WITH INVESTMENT MANAGER

The Board has overall responsibility for the Company's activities, including the review of investment activity and performance and the control and supervision of all suppliers of services to the Company including the Investment Manager. It is also responsible for the determination of the Company's investment policy and strategy and the Company's system of internal and financial controls, including ensuring that commercial risks and financing needs are properly considered and that the obligations of a public limited company are adhered to.

To assist the Board in the day-to-day operations of the Company, arrangements have been put in place to delegate authority for the performance of day-to-day operations of the Company to the Investment Manager and other third-party service providers. The Board has appointed the Investment Manager to manage the Company's investment portfolio within guidelines set by the Board. The Investment Manager has been actively involved in the specialty lending marketplace and has made investments and commitments across multiple Portfolio Companies, geographies (US, UK, Europe and Caribbean), products (consumer and business) and structures (senior credit facilities).

The Investment Manager is in frequent contact with the Board and supplies the Directors with regular updates on the Company's activities and detailed reports at each Board meeting.

Summary of Investment Management Agreement

Under the IMA dated 26 February 2015 between the Company and the Investment Manager, the Investment Manager is appointed to act as investment manager and Alternative Investment Fund Manager ("AIFM") of the Company with responsibility for portfolio management and risk management of the Company's investments.

Under the terms of the IMA, the Investment Manager is entitled to a management fee together with reimbursement of all reasonable costs and expenses incurred by it in the performance of its duties. The Investment Manager is also entitled to a performance fee in certain circumstances (see further below). Further documentation of the fees are included in Note 10 of the financial statements on pages 90 and 91.

The IMA shall continue in force until and unless terminated by any party giving to the other not less than six months' notice in writing to terminate the same. The Management Agreement may be terminated with immediate effect on the occurrence of certain events, including insolvency or material breach of agreement.

The Company has given an indemnity in favour of the Investment Manager in respect of the Investment Manager's potential losses in carrying on its responsibilities under the IMA.

¹ The number in brackets denotes the number of meetings each Director was entitled to attend. In addition, during the course of the year the Board delegated to a sub-committee specific remit for consideration and recommendation but with the final responsibility in these areas remaining with the Board.

² Kevin Ingram retired from the Board at the AGM held on 24 June 2021.

³ Oliver Grundy was appointed to the Board 12 March 2021.

GOVERNANCE continued

In 2016, the Company and the Investment Manager agreed on an amendment to the IMA. Under the revised agreement, the Investment Manager agreed to invest 20% of its monthly management fee received from the Company into shares in the Company at the prevailing market price on an on-going basis, provided that the shares are trading at a discount to the prevailing net asset value and the Investment Manager does not hold more than 10% of the voting rights of the Company. Since 2016 the Investment Manager has acquired 4,496,991 Ordinary Shares in the Company through this mechanism.

In 2017, the Company and Investment Manager agreed to the introduction of a performance hurdle in respect of the performance fees payable to the Investment Manager. With effect from 1 May 2017, the payment of any performance fees to the Investment Manager is conditional on the Company achieving at least a 5.0% per annum total return for shareholders relative to a 30 April 2017 High Water Mark.

Continuing appointment of the Investment Manager

It is considered that the Investment Manager has executed the Company's investment strategy according to the Board's expectations. Accordingly, the Directors believe that the continuing appointment of Victory Park Capital Advisors, LLC as the Investment Manager of the Company, on the terms agreed, is in the best interests of the Company and its shareholders as a whole.

This statement was approved by the Board of Directors and signed on its behalf by:

Link Company Matters Limited

Company Secretary

27 April 2022

AUDIT AND VALUATION COMMITTEE REPORT

MEMBERSHIP OF THE COMMITTEE

The Audit and Valuation Committee (the "Committee") meets at least two times a year and met six times during 2021. All the Directors are members of the Committee and Oliver Grundy is the Chairman. At least one member of the Committee has recent and relevant financial experience, and the Committee as a whole has competence relevant to the sector within which the Company operates. Representatives of the Auditors also attend and present at meetings of the Committee. The other Directors considered that it was appropriate for Graeme Proudfoot as Chair of the Board to be a member of, but not chair, the Committee, due to the Board's small size, the lack of perceived conflict of interest, and because the other Directors believe that Graeme Proudfoot continues to be independent. The Investment Manager's management team also attends meetings of the Committee by invitation.

THE ROLE OF THE AUDIT AND VALUATION COMMITTEE

The responsibilities of the Committee are set out in the AIC Code, Disclosure Guidance and Transparency Rule 7.1 and the Committee's terms of reference. These include that it shall:

- ❖ monitor the integrity of the financial statements of the Group and any other formal announcements relating to its financial performance;
- ❖ review and challenge, where necessary, the Group's financial statements;
- ❖ review annually the adequacy and effectiveness of the Group's financial reporting and internal control policies and procedures, including related reporting;
- ❖ review the Investment Manager's whistleblowing procedures, adequacy and effectiveness of the compliance function and its financial viability, when required;
- ❖ review the adequacy and security of the Group's arrangements for its contractors to raise concerns, the Group's service providers' procedures for detecting fraud, the Group's systems and controls for the prevention of bribery and receive reports on non-compliance;
- ❖ review all reports on the Group from the Investment Manager's operational control function and consider annually whether there is a need for an internal audit function;
- ❖ oversee the relationship with the external auditor, including considering and making recommendations to the Board in relation to their appointment, reappointment and removal, including in relation to any tender for the audit service including approval of audit fees and non-audit services and fees;
- ❖ recommend valuations of the Group's investments to the Board and monitor the integrity of the recommended valuations made by the Investment Manager;
- ❖ review the content of the annual report and financial statements and advise the Board on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy; and
- ❖ *report formally to the Board on its proceedings after each meeting on all matters within its duties and responsibilities and shall also formally report to the Board on how it has discharged its responsibilities.*

MATTERS CONSIDERED IN THE YEAR

The principal matters considered by the Committee were as follows:

- ❖ the internal controls, including cyber security, and risk management of the Group and Investment Manager;
- ❖ the Auditors' fees;
- ❖ the timetable for the approval, announcement and distribution of dividends;
- ❖ the valuation of loans and equity, including warrants, convertible debt, common stock, preferred stock and other investments;
- ❖ the plan for the audit of the Group's Annual Financial Statements;
- ❖ the Group's half-year financial statements and Annual Financial Statements;
- ❖ making recommendations to the Board regarding interim dividend payments;
- ❖ key risks in relation to the Group's financial statements (see page 125 for more details).
- ❖ the Group's expected credit loss reserve policy;
- ❖ the Group's non-audit services policy;
- ❖ the Viability and Going Concern statements;
- ❖ consideration of COVID-19 and its impact on the Group's financial statements; and
- ❖ its own performance as a Committee, and its terms of reference.

GOVERNANCE continued

INTERNAL AUDIT

The Board has considered the need for an internal audit function and it has decided that the systems and procedures employed by the Investment Manager and the other third-party providers in relation to the Group give sufficient assurance that a sound system of internal control, which safeguards the Group's assets, is maintained. An internal audit function specific to the Group is therefore considered unnecessary. The requirement, however, will be re-visited on an annual basis in accordance with the Committee's terms of reference.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Committee is responsible for satisfying itself that the accounting and internal control systems of the Company, the Investment Manager and other service providers are appropriate and adequate. The Committee has received reports from the Investment Manager for the purpose of reviewing the control mechanisms in place and the Committee is satisfied that the relevant legal and regulatory requirements have been met. The Committee is also responsible for ensuring that compliance is under proper review and is provided with an update and reports from the Investment Manager at regular Committee meetings.

Risk is inherent in the Group's activities and accordingly, the Company has established a risk map consisting of the key risks and controls in place to mitigate those risks. The risk map provides a basis for the Committee and the Board to monitor the effective operation of the controls and to update the matrix when new risks are identified.

The Investment Manager is responsible for operating the Group's internal system of control and for initially reviewing its effectiveness. Such systems are however designed to minimise risk rather than eliminate risk; they can provide only reasonable and not absolute assurance against material misstatement of loss. The Management Engagement Committee carries out reviews at least annually of the performance of the Investment Manager as well as the other service providers appointed by the Group.

The following are the key components which the Group has in place to provide effective internal control:

- ❖ The Board has agreed clearly defined investment criteria and platform restrictions, which specify levels of authority and exposure limits. The Investment Manager regularly reports to the Audit and Valuation Committee on compliance with these criteria.
- ❖ The Board has a procedure to ensure that the Company can continue to be approved as an investment company by complying with sections 1158/1159 of the Corporation Tax Act 2010.
- ❖ The Investment Manager and Administrator prepare forecasts and management financial statements, covering investment activities and financial matters, which allow the Committee to assess the Group's activities and review its performance.
- ❖ Contractual arrangements with the Investment Manager and other third-party service providers are in place which specifically define their roles and responsibilities to the Group.
- ❖ The services and controls of the Investment Manager and other third-party service providers are subject to review by the Management Engagement Committee on an on-going basis. Regular reports are provided to the Board by the Administrator and the Depositary.

The Investment Manager's operations and compliance departments continually review the Investment Manager's operations and report to the Committee. The Investment Manager works with the Committee to comply in all material respects with rules and requirements of governmental authorities (as modified or re-enacted from time to time) applicable to it and obtain appropriate advice with a view to assisting the Company in its compliance with the laws, rules and regulations (including, without limit, those relating to environmental matters) prevailing in each jurisdiction in which the Group may invest.

The Committee recognises that these control systems can only be designed to manage, rather than eliminate, the risk of failure to achieve business objectives and to provide reasonable, but not absolute, assurance against material misstatement or loss.

Discussion of the Group's principal risks is on pages 22 to 26.

EXTERNAL AUDIT

The Company's Auditors, PricewaterhouseCoopers LLP ("PwC"), were appointed in 2015. The Committee monitors the Company's relationship with the Auditors and has discussed and considered their independence and objectivity. The Auditors also provide confirmation that they are independent within the meaning of all regulatory and professional requirements and that objectivity of the audit is not impaired. The Committee is, therefore, satisfied that PwC was independent, especially considering the term of appointment to date, and will continue to monitor this position. Under the Financial Reporting Council's regulations, the Company is required to re-tender, at the latest, by 2025. The Committee intends to re-tender within this timeframe. The Committee intends to keep under review the requirement to re-tender within this timeframe. Ethical standards generally require the rotation of the lead audit partner every five years for a listed client. Claire Sandford has acted as lead audit partner since 2020.

The Auditors are invited to attend Committee meetings and meet with the Committee and its Chair without the presence of the Investment Manager. After the external audit has been completed, the Committee obtains feedback on the conduct of the audit.

Following the completion of the audit, the Committee reviewed PwC's effectiveness by:

- ❖ discussing the overall risk-based audit process and the audit procedures taken to address the identified significant risks;
- ❖ considering 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 Audit and Valuation Committee has considered the significant risks identified by the audit team during the audit of the financial statements for the year. The feedback provided by the Investment Manager and by the Administrator regarding the audit team's performance on the audit is positive. The Committee acknowledged that the audit team, including the audit partner, comprised staff with appropriate levels of knowledge and experience of the investment trust sector. Accordingly, the Committee has recommended to the Board that PwC be re-appointed as Auditors at the forthcoming AGM. PwC has confirmed its willingness to continue in office.

AUDIT FEES AND NON-AUDIT SERVICES

The breakdown of fees between audit services and non-audit services for the period are provided in Note 10 of the financial statements. There were no non-audit services rendered during the year.

The Committee reviews and approves in advance the provision of non-audit services during the year by the Auditors, taking into account the recommendations of the Financial Reporting Council. There were no non-audit services provided during the year and the Committee does not believe there was any impediment to the Auditors' objectivity and independence from doing this work during the period.

SIGNIFICANT ISSUES CONSIDERED BY THE AUDIT AND VALUATION COMMITTEE

After discussion with the Investment Manager and the Auditors, the Committee determined that the significant issues considered by the Committee in the context of the Group's financial statements were:

SIGNIFICANT AREA	HOW ADDRESSED
Valuation of unquoted investments reported at fair value through profit or loss	Investments that are unlisted or not actively traded are valued using a variety of techniques to determine a fair value, as set out in the accounting policies note on beginning on page 54, and all such valuations are carefully reviewed by the Investment Manager's valuation committee as well as the Committee. Actively traded listed investments are valued using stock exchange prices provided by third party pricing vendors.
Expected credit losses on loans reported at amortised cost	The Investment Manager values the loans at amortised cost and monitors the performance and repayment of the loans to assess whether any expected credit losses exist, as set out in the accounting policies note beginning on page 54. The valuation approach has been reviewed by the Investment Manager's valuation committee as well as the Committee.
Fraud in income recognition	The Investment Manager recognises income as revenue return provided that the underlying assets of the investments comprise solely income generating loans, or investments in lending Portfolio Companies which themselves generate net interest income. The Committee has reviewed income recognition with the Investment Manager and has inquired with the Auditors regarding the testing performed over income recognition and the conclusions reached.

These issues were discussed with the Investment Manager and the Auditors at the time the Committee reviewed and agreed to the Audit plan for the year. After full consideration, the Committee was also content with the judgements made by the Investment Manager in respect of the key risks.

For and on behalf of the Audit and Valuation Committee

Oliver Grundy

Audit and Valuation Committee, Chair

27 April 2022

GOVERNANCE continued

DIRECTORS' REMUNERATION REPORT

ANNUAL STATEMENT FROM THE CHAIR

This Directors' Remuneration Report for the year ended 31 December 2021 has been prepared in accordance with Schedule 8 of the Large and Medium-Sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 and, alongside this Annual Statement, comprises two separate parts: the Annual Report on Remuneration and the Directors' Remuneration Report.

The Annual Report on Remuneration sets out payments made to the Directors during the period. This report, including this Annual Statement, is subject to an advisory vote by Ordinary Resolution at the Company's forthcoming AGM. The Directors' Remuneration Report is forward-looking and was approved by shareholders at the Company's last AGM in June 2021. The resolution at the 2021 AGM to approve the Directors' Remuneration Report was passed with 99.96% of the votes 'for'. The current shareholder approved policy governs the remuneration of the directors for a period of three years expiring at the AGM in 2022 (and was passed with 100% of the votes 'for'). Any views expressed by shareholders on the remuneration being paid to Directors will be taken into consideration by the Board.

During the year, the Directors reviewed the need for the Company to have a separate Remuneration Committee. Due to the nature and structure of the Company, it was agreed that the role and duties of a Remuneration Committee can continue to be fulfilled by the Board.

The Directors of the Company are all Non-Executive and receive a fee per annum which for the year ended 31 December 2021 was £55,000 for the Chair and £33,000 for the other Directors. The Chairman is entitled to a higher fee to reflect the additional work required to carry out the role. The Chair of the Audit and Valuation Committee receives an additional fee of £5,500 per annum for taking on this responsibility. Mr. Proudfoot received £33,000 per annum with his fee increasing to the remuneration payable to the Chair of the Board on his appointment at the 2021 AGM. In addition, Mr Katzenellenbogen received a one-off fee of £4,000 for his contribution to the Board during 2021. With the exception of the one-off payment to Mr Katzenellenbogen, the current fees have been unchanged for the past five years.

DIRECTORS' REMUNERATION POLICY

The components of the remuneration package for the Company's Non-Executive Directors, which comprise the Directors' Remuneration Policy, are set out below:

REMUNERATION TYPE	DESCRIPTION AND APPROACH TO DETERMINATION
Fixed fees	Annual fees are set for each of the Directors, taking into account the wider industry and individual skills, time commitment and experience. These fees shall not exceed £500,000 per annum, divided between the Directors as they may determine. Directors do not participate in discussions relating to their own fee.
Additional fees	If any Director, being willing and having been called upon to do so, shall render or perform extra or special services of any kind, including services on any Committee of the Board, or shall travel or reside abroad for any business or purposes of the Company, he or she shall be entitled to receive such sum as the Board may think fit for expenses, and also such remuneration as the Board may think fit, either as a fixed sum or as a percentage of profits or otherwise, and such remuneration may, as the Board shall determine, be either in addition to or in substitution for any other remuneration he or she may be entitled to receive.
Expenses	The Directors shall be entitled to be paid all expenses properly incurred by them in attending General Meetings or separate meetings of the holders of any class of shares or meetings of the Board or Committees of the Board or otherwise in or with a view to the performance of their duties.
Other	Directors are not eligible for bonuses, share options or long-term incentives schemes or other performance-related benefits. There are no pension arrangements in place for the Directors of the Company.

Directors' fee levels

COMPONENT	ROLE	RATE AS AT 31 DECEMBER 2021	PURPOSE OF REMUNERATION
Annual fee	Chair	£55,000	Commitment as Chair ¹
Annual fee	Non- executive Director	£33,000	Commitment as non-executive Director ²
Additional fee	Chair of the Audit & Valuation Committee	£5,500	For additional responsibilities and time commitments ³
Additional fee	Non- executive Director	£4,000	One-time payment in 2021 for additional responsibilities and time commitments to the Board ⁴
Additional fee	All Directors	N/A	For extra or special services performed in their role as a Director ⁴

The Directors hold their office in accordance with the Articles and their appointment letters. No Director has a service contract with the Company and there are no notice periods. On termination of their appointment, Directors should only be entitled to accrued fees as at the date of termination together with reimbursement of any expenses properly incurred to that date.

Fees of any new Director appointed will be on the above basis and are likely to be in-line with the fees of existing Directors. Fees payable in respect of subsequent periods will be determined following an annual review. The Company has no employees other than its Directors who are all Non-Executive. When considering the level of fees, the Board will evaluate the contribution and responsibilities of each Director and the time spent on the Company's affairs. Following approval of the Directors' Remuneration Policy by Shareholders at the AGM in June 2021, the Company believes the remuneration of Directors to be appropriate given the nature of the Company and will review the Directors' fees against remuneration of other investment companies of similar size in future years. The current fees are also within the limits set out in the Company's Articles of Association, which prohibit the total aggregate annual fees payable to the Directors in respect of any financial period to exceed £500,000 per annum. Any views expressed by shareholders on the fees being paid to Directors would be taken into consideration by the Board.

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 is not entitled to compensation payments upon termination of their appointment or loss of office.

¹ The Chair of the Board is paid a higher fee than the other Directors to reflect the more onerous role.

² The Company's Articles of Association limit the aggregate fees payable to the Board of Directors to £500,000 per annum.

³ The Chair of the Audit & Valuation Committee is paid a higher fee than the other Directors to reflect the more onerous role.

⁴ Additional fees would only be paid in exceptional circumstances in relation to the performance of extra or special services.

GOVERNANCE continued

Total Remuneration Paid to Each Director (Audited)

	31 DECEMBER 2021 £	31 DECEMBER 2020 £
DIRECTORS' REMUNERATION		
Oliver Grundy ¹	30,236	Nil
Kevin Ingram ²	13,750	55,000
Mark Katzenellenbogen ³	37,000	33,000
Elizabeth Passey	33,000	33,000
Clive Peggram	34,791	38,500
Graeme Proudfoot ⁴	44,423	2,750
Total	193,200	162,250

No Director is eligible for any pension entitlements.

Share Price Total Return

The graph below compares the shareholder return on the Company's Shares compared to that of the FTSE All-Share Total Return Index ("ASX Total Return Index") from 16 March 2015 to 31 December 2021. The Board has adopted as this measure for the Company's performance as there is no widely used comparative benchmark for the underlying credit assets that the Company invests in.

VSL vs ASX Total Return Index

Source: Bloomberg.

This graph assumes that on the respective placing dates, £100 was invested in the Ordinary Shares and the FTSE All-Share Total Return Index. The graphs also assume the reinvestment of all cash dividends received prior to any tax effect at the closing share price on the day the dividend was paid.

¹ Oliver Grundy was appointed as a Director on 12 March 2021.

² Kevin Ingram retired as Chair of the Board at the Company's AGM in 2021.

³ Mark Katzenellenbogen received an additional fee for his additional responsibilities and commitment to the Board in 2021.

⁴ Graeme Proudfoot was appointed as Chair of the Board at the Company's AGM in 2021.

Relative Importance of Spend on Pay

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

	2021 £	2020 £
Total Directors' Remuneration	193,200	162,250
Total Share Buyback	3,741,814	20,161,216
Total Dividend Payments	22,283,112	23,128,918

The 2021 total dividend payments above includes the fourth quarter dividend to be paid in the second quarter of 2022. The 2020 total dividend payments above includes the fourth quarter dividend that was declared and paid in the second quarter of 2021. Refer to Note 15 to the financial statements further disclosures on the total dividend payments.

Remuneration Advisors

The Board has not sought the advice or service by any outside person in respect of its consideration of the Directors' remuneration.

Directors' Interests (Audited)

There is no requirement under the Company's Articles of Association or letters of appointment for Directors to hold shares in the Company.

The interests of the Directors in the shares of the Company at the end of the period under review were as follows:

DIRECTOR		31 DECEMBER 2021	31 DECEMBER 2020
Oliver Grundy ¹	Ordinary Shares	30,000	Nil
Kevin Ingram ²	Ordinary Shares	N/A	64,968
Mark Katzenellenbogen	Ordinary Shares	215,000	215,000
Elizabeth Passey	Ordinary Shares	10,000	10,000
Clive Peggram	Ordinary Shares	333,240	333,240
Graeme Proudfoot	Ordinary Shares	130,000	50,000

Implementation of Policy in the Next Year

No significant changes to the remuneration policy are expected for the upcoming fiscal year. The Board may continue to review fees against peer companies and in light of the time commitment and skills of the Directors.

¹ Oliver Grundy was appointed as a Director on 12 March 2021.

² Kevin Ingram retired from the Board at the Company's AGM in 2021.

GOVERNANCE continued

Approval

On behalf of the Board and in accordance with Part 2 of Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, I confirm that the above Report on Remuneration Implementation summarises, as applicable, for the year to 31 December 2021:

- (a) the major decisions on Directors' remuneration;
- (b) any substantial changes relating to Directors' remuneration made during the year; and
- (c) the context in which the changes, if any, occurred and decisions have been taken.

This report was approved by the Board of Directors on 27 April 2022 and signed on its behalf by

Graeme Proudfoot

Chair

27 April 2022

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group and the company financial statements in accordance with UK-adopted international accounting standards.

Under company law, directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company and of the profit or loss of the group for that period. In preparing the financial statements, the directors are required to:

- ❖ select suitable accounting policies and then apply them consistently;
- ❖ state whether applicable UK-adopted international accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- ❖ make judgements and accounting estimates that are reasonable and prudent; and
- ❖ prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business.

The directors are responsible for safeguarding the assets of the group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the group's and company's transactions and disclose with reasonable accuracy at any time the financial position of the group and company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

DIRECTORS' CONFIRMATIONS

The directors consider that the Annual Report and the financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's and Company's position and performance, business model and strategy.

Each of the directors, whose names and functions are listed in Strategic Report and Directors' Report confirm that, to the best of their knowledge:

- ❖ the group and company financial statements, which have been prepared in accordance with UK-adopted international accounting standards, give a true and fair view of the assets, liabilities and financial position of the group and company, and of the profit of the group; and
- ❖ the Strategic Report and Directors' Report includes a fair review of the development and performance of the business and the position of the group and company, together with a description of the principal risks and uncertainties that it faces.

For and on behalf of the Board:

Graeme Proudfoot
Chair

27 April 2022

GOVERNANCE continued

REGULATORY DISCLOSURES

AIFMD DISCLOSURES

In accordance with the Alternative Investment Fund Managers Directive ("AIFMD"), the Company is an Alternative Investment Fund ("AIF") and has appointed Victory Park Capital Advisors, LLC as its Alternative Investment Fund Manager (the "AIFM") to provide portfolio management and risk management services to the Company in accordance with the IMA.

The Company is categorised as an externally managed European Economic Area ("EEA") domiciled AIF for the purposes of the AIFMD. Since the Investment Manager is a non-EEA AIFM, the Investment Manager is only subject to the AIFMD to the extent that it markets an EEA AIF in the EEA. Accordingly, the Investment Manager is required to make only certain financial and non-financial disclosures.

REPORT ON REMUNERATION

AIFMs are obliged to publish certain information for investors and prospective investors and that information may be found either in this annual report or on the Company's website. Any information on remuneration not already disclosed in the remuneration report will be provided to investors on request.

RISK DISCLOSURES

The financial risk disclosures relating to risk framework, gearing and liquidity risk as required in accordance with the AIFMD are set out on pages 22 to 26 and in Note 6 of the financial statements.

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, gearing, risk, liquidity, administration, management, fees, conflicts of interest and other shareholder information is available on the Company's website. There have been no material changes to this information requiring disclosure. Any information requiring immediate disclosure pursuant to the AIFMD will be disclosed to the London Stock Exchange through a primary information provider.

INFORMATION TO BE DISCLOSED IN ACCORDANCE WITH LISTING RULE 9.8.4R

The following table provides cross-references to where the relevant required information by Listing Rule 9.8.4R for the Period is disclosed.

SECTION	LISTING RULE REQUIREMENT	LOCATION
9.8.4 (1)	A statement of the amount of interest capitalised during the period under review and details of any related tax relief.	Not applicable
9.8.4 (2)	Information required in relation to the publication of unaudited financial information.	Not applicable
9.8.4 (4)	Details of any long-term incentive schemes.	Not applicable
9.8.4 (5), (6)	Details of any arrangements under which a director has waived emoluments, or agreed to waive any future emoluments, from the company.	Not applicable
9.8.4 (7)	Details of any non pre-emptive issues of equity for cash.	Not applicable
9.8.4 (8)	Details of any non pre-emptive issues of equity for cash by any unlisted major subsidiary undertaking.	Not applicable
9.8.4 (9)	Details of parent participation in a placing by a listed subsidiary.	Not applicable
9.8.4 (10)	Details of any contract of significance with the Company (or one of its subsidiaries) with respect to which a director or controlling shareholder is material interested.	Pages 107 and 121
9.8.4 (11)	Details of any contract of significance for the provision of services to the Company (or one of its subsidiaries) by a controlling shareholder.	Not applicable
9.8.4 (12), (13)	Details of waiver of dividends by a shareholder.	Not applicable
9.8.4 (14)	Board statement in respect of relationship agreement with the controlling shareholder.	Not applicable

SHAREHOLDER INFORMATION

SHAREHOLDER INFORMATION

INVESTMENT OBJECTIVE

The Company's investment objective is to generate an attractive total return for shareholders consisting of distributable income and capital growth through investments in financial services opportunities. The Company provides asset-backed lending solutions to emerging and established businesses with the goal of building long-term, sustainable income generation. The Company focuses on providing capital to vital segments of the economy, which for regulatory and structural reasons are underserved by the traditional banking industry. Among others, these segments include small business lending, working capital products, consumer finance and real estate. The Company offers shareholders access to a diversified portfolio of opportunistic credit investments originated by non-bank lenders with a focus on the rapidly developing technology-enabled lending sector. Through rigorous diligence and credit monitoring, the Company generates stable income with significant downside protection.

INVESTMENT POLICY

The Company seeks to achieve its investment objective by investing in opportunities in the financial services market through portfolio companies and other lending related opportunities.

The Company invests directly or indirectly into available opportunities, including by making investments in, or acquiring interests held by, third-party funds (including those managed by the Investment Manager or its affiliates).

Direct investments include consumer loans, SME loans, advances against corporate trade receivables and/or purchases of corporate trade receivables originated by portfolio companies ("Debt Instruments"). Such Debt Instruments may be subordinated in nature, or may be second lien, mezzanine or unsecured loans.

Indirect investments include investments in portfolio companies (or in structures set up by portfolio companies) through the provision of senior secured floating rate credit facilities ("Credit Facilities"), equity or other instruments. Additionally, the Company's investments in Debt Instruments and Credit Facilities are made through subsidiaries of the Company or through partnerships in order to achieve bankruptcy remoteness from the platform itself, providing an extra layer of credit protection.

The Company may also invest in other financial services related opportunities through a combination of debt facilities, equity or other instruments.

The Company may also invest (in aggregate) up to 10% of its Gross Assets (at the time of investment) in listed or unlisted securities (including equity and convertible securities or any warrants) issued by one or more of its portfolio companies or financial services entities.

The Company invests across several portfolio companies, asset classes, geographies (primarily US, UK, Europe, Asia and Latin America) and credit bands in order to create a diversified portfolio and thereby mitigates concentration risks.

INVESTMENT RESTRICTIONS

The following investment limits and restrictions apply to the Company, to ensure that the diversification of the Company's portfolio is maintained, and that concentration risk is limited.

PLATFORM RESTRICTIONS

Subject to the following, the Company generally does not intend to invest more than 20% of its Gross Assets in Debt Instruments (net of any gearing ring-fenced within any SPV which would be without recourse to the Company), originated by, and/or Credit Facilities and equity instruments in, any single portfolio company, calculated at the time of investment. All such aggregate exposure to any single portfolio company (including investments via an SPV) will always be subject to an absolute maximum, calculated at the time of investment, of 25% of the Company's Gross Assets.

ASSET CLASS RESTRICTIONS

Single loans acquired by the Company will typically be for a term no longer than five years.

The Company will not invest more than 20% of its Gross Assets, at the time of investment, via any single investment fund investing in Debt Instruments and Credit Facilities. In any event, the Company will not invest, in aggregate, more than 60% of its Gross Assets, at the time of investment, in investment funds that invest in Debt Instruments and Credit Facilities.

The Company will not invest more than 10% of its Gross Assets, at the time of investment, in other listed closed-ended investment funds, whether managed by the Investment Manager or not, except that this restriction shall not apply to investments in listed closed-ended investment funds which themselves have stated investment policies to invest no more than 15% of their gross assets in other listed closed-ended investment funds.

The following restrictions apply, in each case at the time of investment by the Company, to both Debt Instruments acquired by the Company via wholly-owned SPVs or partially-owned SPVs on a proportionate basis under the Marketplace Model, on a look-through basis under the Asset Backed Lending Model and to any Debt Instruments held by another investment fund in which the Company invests:

- ❖ No single consumer loan acquired by the Company shall exceed 0.25% of its Gross Assets.
- ❖ No single SME loan acquired by the Company shall exceed 5.0% of its Gross Assets. For the avoidance of doubt, Credit Facilities entered into directly with portfolio companies are not considered SME loans.
- ❖ No single trade receivable asset acquired by the Company shall exceed 5.0% of its Gross Assets.

OTHER RESTRICTIONS

The Company's un-invested or surplus capital or assets may be invested in Cash Instruments for cash management purposes and with a view to enhancing returns to shareholders or mitigating credit exposure.

Where appropriate, the Company will ensure that any SPV used by it to acquire or receive (by way of assignment or otherwise) any loans to UK consumers shall first obtain the appropriate authorisation from the FCA for consumer credit business.

BORROWING POLICY

Borrowings may be employed at the level of the Company and at the level of any investee entity (including any other investment fund in which the Company invests or any SPV that may be established by the Company in connection with obtaining gearing against any of its assets).

The Company may, in connection with seeking such gearing or securitising its loans, seek to assign existing assets to one or more SPVs and/or seek to acquire loans using an SPV.

The Company may establish SPVs in connection with obtaining gearing against any of its assets or in connection with the securitisation of its loans (as set out further below). It intends to use SPVs for these purposes to seek to protect the geared portfolio from group level bankruptcy or financing risks.

The aggregate leverage of the Company and any investee entity (on a look-through basis, including borrowing through securitisation using SPVs) shall not exceed 1.5 times its NAV (1.5x).

As is customary in financing transactions of this nature, the particular SPV will be the borrower and the Company may from time to time be required to guarantee or indemnify a third-party lender for losses incurred as a result of certain "bad boy" acts of the SPV or the Company, typically including fraud or wilful misrepresentation or causing the SPV voluntarily to file for bankruptcy protection. Any such arrangement will be treated as 'non-recourse' with respect to the Company provided that any such obligation of the Company shall not extend to guaranteeing or indemnifying Ordinary portfolio losses or the value of the collateral provided by the SPV.

SHARE REGISTER ENQUIRIES

For shareholder enquiries, please contact the Company's registrar, Link Group on +44 (0) 371 664 0391.

Calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open between 09:00 – 17:30, Monday to Friday (excluding public holidays in England and Wales).

SHAREHOLDER INFORMATION

continued

SHARE CAPITAL AND NET ASSET VALUE INFORMATION

Ordinary £0.01 Shares	278,276,392
SEDOL Number	BVG6X43
ISIN Number	GB00BVG6X439

SHARE PRICES

The Company's shares are listed on the London Stock Exchange.

ANNUAL AND HALF-YEARLY REPORTS

Copies of the Annual and Half-Yearly Reports are available from the Investment Manager on and are available on the Company's website <http://vpcspecialtylending.com>.

PROVISIONAL FINANCIAL CALENDAR

June 2022	Annual General Meeting
June 2022	Payment of interim dividend to 31 March 2022
30 June 2022	Half-year End
September 2022	Announcement of half-yearly results
September 2022	Payment of interim dividend to 30 June 2022
December 2022	Payment of interim dividend to 30 September 2022
31 December 2022	Year End

DIVIDENDS

The following table summarises the amounts recognised as distributions to equity shareholders relating to 2021:

	£
2021 interim dividend of 2.00 pence per Ordinary Share paid on 24 June 2021	5,586,528
2021 interim dividend of 2.00 pence per Ordinary Share paid on 23 September 2021	5,565,528
2021 interim dividend of 2.00 pence per Ordinary Share paid on 23 December 2021	5,565,528
2021 interim dividend of 2.00 pence per Ordinary Share paid on 31 March 2022	5,565,528
Total	22,283,112

DEFINITIONS OF TERMS AND ALTERNATIVE PERFORMANCE MEASURES

The Group uses the terms and alternative performance measures below to present a measure of profitability which is aligned with the requirements of our investors and potential investors, to draw out meaningful subtotals of revenues and earnings and to provide additional information not required for disclosure under accounting standards to assist users of the financial statements in gauging the profit levels of the Group. Alternative performance measures are used to improve the comparability of information between reporting periods, either by adjusting for uncontrollable or one-off factors which impact upon IFRS measures or, by aggregating measures, to aid the user understand the activity taking place. The Strategic Report includes both statutory and adjusted measures, the latter of which, reflects the underlying performance of the business and provides a more meaningful comparison of how the business is managed. APMs are not considered to be a substitute for IFRS measures but provide additional insight on the performance of the business. All terms and performance measures relate to past performance:

Discount to NAV – Calculated as the difference in the NAV (Cum Income) per Ordinary Share and the Ordinary Share price divided by the NAV Cum (Income) per Ordinary Share.

Dividend Yield on Average NAV – Calculated as the dividends declared during 2021 divided by the average Net Asset Value (Cum Income) of the Company for the year.

Gross Returns – Represents the return on shareholder's funds per share on investments of the Company before operating and other expenses of the Company.

Look-Through Gearing Ratio – The aggregate gearing of the Company and any investee entity (on a look through basis, including borrowing through securitisations using SPVs) shall not exceed 1.50 times its NAV (1.5x).

NAV (Cum Income) or NAV or Net Asset Value – The value of assets of the Company less liabilities determined in accordance with the accounting principles adopted by the Company.

NAV (Cum Income) Return – The theoretical total return on shareholders' funds per share reflecting the change in NAV assuming that dividends paid to shareholders were reinvested at NAV at the time dividend was announced.

	2021 Calculation	2020 Calculation	Inception to Date Calculation
(A) Closing NAV (Cum Income) per share	114.14p	95.72p	114.14p
(B) Opening NAV (Cum Income) per share	95.72p	93.33p	98.00p
(C) Dividends declared and paid	8.00p	8.00p	47.59p
$D = (A - B + C) / B$	27.60%	11.12%	65.03%

NAV per Share (Cum Income) – The NAV (Cum Income) divided by the number of shares in issue.

Net Returns – Represents the return on shareholder's funds per share on investments of the Company after operating and other expenses of the Company.

Ongoing Charges Ratio – Ongoing charges represents the management fee and all other operating expenses, excluding finance costs, transaction costs and any performance fee payable, expressed as a percentage of the average net asset values during the year.

Premium/(Discount) to NAV (Cum Income) – The amount by which the share price of the Company is either higher (at a premium) or lower (at a discount) than the NAV per Share (Cum Income), expressed as a percentage of the NAV per share.

Share Price – Closing share price at month end (excluding dividends reinvested).

Total Shareholder Return – Calculated as the change in the traded share price from 31 December 2021 to 31 December 2020 plus the dividends declared in 2021 divided by the traded share price as at 31 December 2020.

	2021 Calculation	2020 Calculation	Inception to Date Calculation
(A) Closing Ordinary Share price	92.20p	78.70p	92.20p
(B) Opening Ordinary Share price	78.70p	78.20p	100.00p
(C) Dividends declared and paid	8.00p	8.00p	47.59p
$D = (A - B + C) / B$	27.32%	10.87%	39.79%

Trailing Twelve Month Dividend Yield – Calculated as the total dividends declared over the last 12 months as at 31 December 2021 divided by the 31 December 2021 closing share price.

SHAREHOLDER INFORMATION

continued

CONTACT DETAILS OF THE ADVISERS

Directors	Oliver Grundy Mark Katzenellenbogen Elizabeth Passey Clive Peggram Graeme Proudfoot <i>all of the registered office below</i>
Registered Office	6th Floor 65 Gresham Street London EC2V 7NQ United Kingdom
Company Number	9385218
Website Address	https://vpcspecialtylending.com
Corporate Brokers	Jefferies International Limited 100 Bishopsgate London EC2N 4JL United Kingdom Winterflood Securities Limited Cannon Bridge House 25 Dowgate Hill London EC4R 2GA
Investment Manager and AIFM	Victory Park Capital Advisors, LLC 150 North Riverside Plaza, Suite 5200 Chicago IL 60606 United States
Company Secretary	Link Company Matters Limited Beaufort House 51 New North Road Exeter EX4 4EP United Kingdom
Administrator	Northern Trust Hedge Fund Services LLC 50 South LaSalle Street Chicago IL 60603 United States
Registrar	Link Group Central Square 29 Wellington Street Leeds LS1 4DL United Kingdom
Custodians	Merrill Lynch, Pierce, Fenner & Smith Incorporated 101 California Street San Francisco CA 94111 United States Millennium Trust Company 2001 Spring Road Oak Brook IL 60523 United States

English Legal Adviser to the Company

Stephenson Harwood LLP
1 Finsbury Circus
London EC2M 7SH
United Kingdom

Independent Auditors

PricewaterhouseCoopers LLP
7 More London Riverside
London SE1 2RT
United Kingdom



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6th Floor, 65 Gresham Street

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United Kingdom