AnaCap Financial Europe S.A. SICAV-RAIF

Audited Consolidated Annual Report
For the Year Ended 31 December 2021

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General Information

Fund

AnaCap Financial Europe S.A. SICAV-RAIF
412F, route d' Esch
L-1471 Luxembourg
Grand Duchy of Luxembourg
R.C.S. Luxembourg: B216080

Board of Directors

- Edward Green;
- Audrey Lewis;
- Yazid Oudina (resigned 24 November 2021);
- Graham Parry-Dew (appointed 7 December 2021);
- Christopher Ross-Roberts;
- Eric Verret (appointed 1 January 2021).

AIFM

Carne Global Fund Managers (Luxembourg) S.A.
3, rue Jean Piret
L-2350 Luxembourg
Grand Duchy of Luxembourg

Board of Directors of the AIFM

- John Alldis;
- Bill Blackwell;
- Veronica Buffoni;
- Martin Dobbins;
- John Donohue;
- David McGowan.

Portfolio Manager

AnaCap Investment Manager Limited
2nd Floor, Windsor House, Lower Pollet
St Peter Port
Guernsey GY1 1WF

Board of Directors of the Portfolio Manager

- David Copperwaite;
- Gregory McKenzie;
- Peter Niven;
- Nigel Ward.

Administrative Agent

IQ EQ Fund Services (Luxembourg) S.A.
412F, Route d'Esch
L-1471 Luxembourg

Depositary

RBS International Depositary Services S.A.
Luxembourg Branch
The Square, Building A – 40 Avenue J.F. Kennedy
L-1855 Luxembourg
Grand Duchy of Luxembourg

Auditor

PricewaterhouseCoopers
2, rue Gerhard Mercator
B.P. 1443 L-1014
Luxembourg
Grand Duchy of Luxembourg

Investment Advisor

AnaCap Financial Partners Limited
1 Stephen Street
London
W1T 1AL

Directors' Report

The Directors of AnaCap Financial Europe S.A. SICAV-RAIF ("AFE") are pleased to present the Directors' Report and Consolidated Annual Report (the "Financial Statements") on the activities and financial performance of AFE and its subsidiaries (together, the "Group") for the year ended 31 December 2021. The Financial Statements incorporate the assets, liabilities, revenue and expenses of the Group.

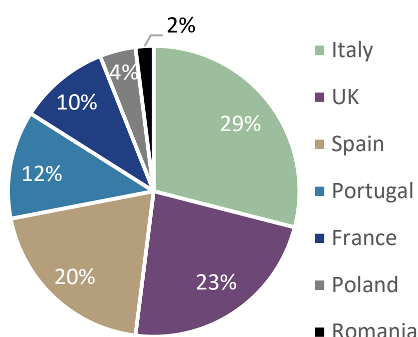
Business Overview

AFE purchases and invests in a diverse range of performing and non-performing debt across Europe. AFE has the capability to price and purchase a wide range of debt, consisting of portfolios of unsecured and secured consumer, SME, mortgage and real estate backed debt* including mixed portfolios. The Directors believe this ability is a key competitive advantage in originating new investment opportunities and further penetrating current markets and unlocking new ones, providing it with the opportunity to generate strong risk-adjusted returns on an ongoing basis. During 2021, AFE continued to source and originate new opportunities in the direct real estate market having successfully executed c.€93.7m transactions in UK, France and Italy, bringing total deployment to c.€100.1m in the year.

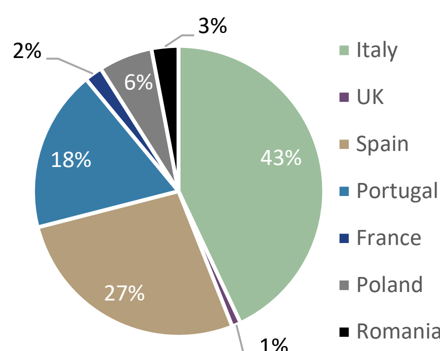
In its debt investment portfolio, AFE has a diverse portfolio of seasoned and granular consumer, SME, mortgage debt and real estate backed debt which is differentiated among debt purchasers in the level of diversification across borrowers, asset types and geographies, as well as with its significant collateral backing.

The following charts illustrate the diversification of AFE's 84-month estimated remaining collections ("ERC") from existing purchased loan portfolios, purchased loan notes, investments in joint ventures and inventory (together, the "Group's Assets") by asset type and geography as of 31 December 2021. Geographic and asset diversity provides resilience throughout the cycle in different countries.

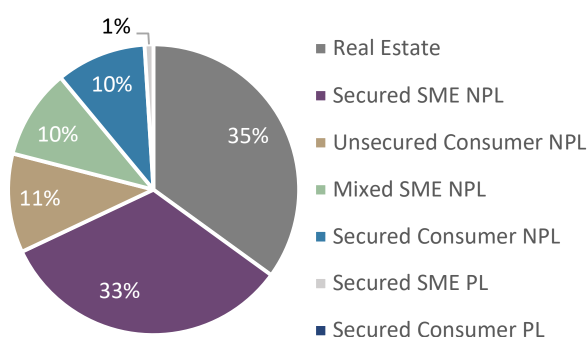
€531.1 million 84-month ERC by geography
31 December 2021



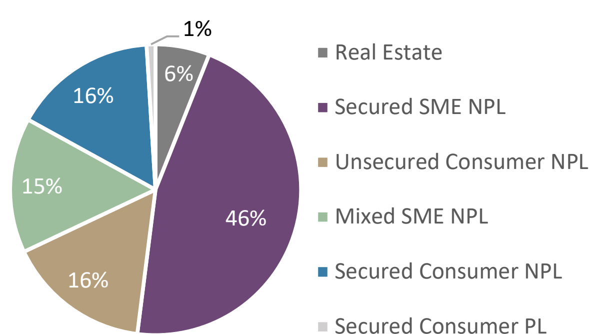
€472.5 million 84-month ERC by geography
31 December 2020



€531.1 million 84-month ERC by asset type
31 December 2021



€472.5 million 84-month ERC by asset type
31 December 2020



* AFE invests in real estate assets through joint venture arrangements, the funding is provided to the joint venture through loan instruments alongside equity.

Directors' Report (continued)

Key Performance Indicators

The Directors use a variety of key performance indicators ("KPI's") to monitor, assess and evaluate the performance of the Group, as well as providing the Directors with key financial data to aid with key decision making. The KPI's included within the Directors Report have been prepared on a basis consistent with the financial data contained in the Offering Memorandum. The data below is based on the Group for the years ended 31 December 2021 and 31 December 2020. The Directors are satisfied that the financial data in the Financial Statements, and therefore the financial data also used to compute these KPIs, gives a fair and materially accurate reflection of the Group's performance for the year.

		Year ended 31 December 2021	Year ended 31 December 2020	% change
84-month ERC (€'000s)	1	531,098	472,494	12.4%
84-month Gross ERC (€'000s)	2	556,167	500,910	11.0%
Cumulative purchases of loan portfolios and loan notes (€'000s)	3	697,600	615,492	13.3%
Number of investments	4	52	37	40.5%
Number of accounts	5	209,445	209,725	-0.1%
Total attributable collections (€'000s)	6	131,484	86,611	51.8%
Total gross collections (€'000s)	7	129,010	84,567	52.6%
Core collections (€'000s)	8	122,554	82,576	48.4%
Operating expenses (€'000s)	9	31,998	31,383	2.0%
Core collection cost ratio	10	26.1%	38.0%	-31.3%
Adjusted EBITDA (€'000s)	11	99,071	53,162	86.4%
Normalised Adjusted EBITDA (€'000s)	12	92,615	51,171	81.0%

(1) 84-month ERC ("ERC") means AFE's estimated remaining collections on the Group's Assets over an 84-month period, assuming no additional purchases are made and on an undiscounted basis.

(2) 84-month Gross ERC means 84-month ERC plus any proportionate share of remaining cash collections that may be payable to a co-investor holding secured loan notes.

(3) Cumulative purchases of the Group's Assets includes the original purchase price of assets made by the Portfolio Business, plus the purchase price of subsequent portfolio and real estate backed debt by AFE, related capitalised costs (including due diligence, legal and other fees relating to the acquisition but excluding future litigation costs) less pre-determination cash (consisting of collections during the period between pricing of a portfolio and the closing of its acquisition) up to the specified date, less the purchase price for all fully sold portfolios prior to the specified date.

(4) Number of investments represents the number of real estate backed debt investments and individual debt portfolios as of the specified date, including portfolios held by entities which are not under the control of AFE, but give AFE proportionate rights to the cash flows from such portfolios through loan notes.

(5) Number of accounts represent the number of individual accounts acquired at the time of purchase or investment with respect to loan portfolios and real estate backed debt investments, including portfolios held by entities which are not under the control of AFE, but give AFE proportionate rights to the cash flows from such portfolios through loan notes.

(6) Total attributable collections represent total cash collections gross of servicer fees and other costs to collect for all investments comprising the Group's Assets, excluding any share of cash collections that relate to the interests of co-investors holding secured loan notes.

(7) Total gross collections represent cash collected from debtors in connection with purchased loan portfolios and net cash collections (after servicing costs) for purchased loan notes and investments in joint ventures, as well as any disposals of the Groups Assets. Total gross collections include any proportionate share of cash collections that relate to the interests of co-investors holdings of secured loan notes.

(8) Core collections represent total gross collections, less any disposals of the Group's Assets.

(9) Operating expenses represent direct costs of collections related to purchased loan portfolios and other operating expenses, excluding impairment of the Group's Assets, net foreign currency (losses)/gains and non-recurring items.

(10) Core collection cost ratio represent the ratio of operating expenses to core collections.

(11) Adjusted EBITDA represents (loss)/profit before tax adjusted to exclude the effects of finance costs and finance income, share of profit/(loss) in associates, share of profit/(loss) in joint ventures, net foreign currency losses/(gains), impairment of the Group's Assets, disposals and repayments of secured loan notes, and non-recurring items. Revenue on the Group's Assets and costs on secured loan notes calculated using the effective interest rate method are replaced with total gross collections in the period.

Directors' Report (continued)

Key Performance Indicators (continued)

(12) Normalised Adjusted EBITDA represents Adjusted EBITDA excluding disposals of the Group's Assets.

Asset base and returns on portfolios purchased

The table below reflects historical capital deployment of the Portfolio Business from 2012 to 27 June 2017 plus capital that has been deployed since the incorporation of AFE; a total of €769 million has been deployed through acquisitions of 58 investments with an aggregate face value of €13.5 billion. Since 2012, 6 portfolios have been fully sold. As of 31 December 2021, the portfolios held by AFE had an aggregate face value of €10.9 billion following the historical sale of deals with a face value of €2.6 billion, with an 84-month ERC of €531.1 million.

Portfolios purchased in the year ended:	Purchase price (13)	Actual collections to 31 December 2021	84-month ERC	Total estimated collections (14)	Gross money multiple (15)
	€000	€000	€000	€000	
Year ended 31 December 2012	75,084	170,768	16,182	186,950	2.5x
Year ended 31 December 2013	77,386	150,102	21,044	171,146	2.2x
Year ended 31 December 2014	59,025	124,289	15,585	139,874	2.4x
Year ended 31 December 2015	47,806	56,755	18,276	75,031	1.6x
Year ended 31 December 2016	125,617	182,077	75,287	257,364	2.0x
Year ended 31 December 2017	65,017	85,845	28,344	114,189	1.8x
Year ended 31 December 2018	161,507	124,920	116,999	241,919	1.5x
Year ended 31 December 2019	36,265	16,483	42,252	58,735	1.6x
Year ended 31 December 2020	21,020	24,146	15,732	39,878	1.9x
Year ended 31 December 2021	100,112	4,353	181,397	185,750	1.9x
Total	**768,839**	**939,738**	**531,098**	**1,470,836**	**1.9x**

For real estate investments AFE will be required to fund its share of capital expenditure and other working capital needs; these additional capital injections will increase the invested capital of the investment. In parallel, ERC will be recognised over the duration of the investment such that the gross money multiple at any given time reflects the expected returns AFE anticipates to generate upon exit.

(13) Purchase price represents the aggregate amount paid plus costs less any cash received between the cut-off date for pricing an asset and the completion date of the purchase for all portfolio purchases in the period indicated.

(14) Total estimated collections represent actual collections to 31 December 2021 plus forecast collections for the following 84 months.

(15) The Gross money multiple is total estimated collections divided by purchase price, although collections can extend beyond the period covered for total estimated collections.

Directors' Report (continued)

Net debt

Net debt represents third-party indebtedness, including bank guarantees, less cash and cash equivalents excluding unamortised debt issue costs, facility fees and amounts due to co-investors under secured loan notes.

		Year ended 31 December 2021
		€000
Borrowings:	The Notes	307,500
	Revolving Credit Facility	68,465
	Term Facility	15,404
Less:	Cash at bank	(21,438)
	Cash held on AFE's account at servicers'	(12,486)
	Less cash deposits paid	(3,592)
Add back:	Cash collected on behalf of secured loan note holders	897
Net debt		**354,750**

LTV ratio at period end	16	66.8%
Adjusted EBITDA leverage ratio	17	3.58
LTM Adjusted EBITDA	18	99,071
Net interest expense	19	18,659
Fixed charge cover ratio ("FCCR")	20	5.31

(16) LTV ratio means the aggregate secured indebtedness of the Group less cash and cash equivalents (including cash and cash equivalents in servicers' accounts or otherwise that are due from servicers but not yet paid by servicers to the Group, less cash collections due to be paid to co-investors under secured loan notes) divided by 84-month ERC.

(17) Adjusted EBITDA leverage ratio means net debt divided by the Adjusted EBITDA for the 12 months ended 31 December 2021. During June 2021 a successful sale of a pool of low recovery assets within a legacy lead to c.€4m collection proceeds compared to an ERC of c.€1.5m. In December 2021 a residual portfolio of assets was sold releasing sales proceeds of c.€2.5m compared to an ERC of c.€2.6m. Excluding these sales brings Normalised Adjusted EBITDA leverage ratio to 3.76.

(18) LTM Adjusted EBITDA means Adjusted EBITDA for the 12 months ended 31 December 2021.

(19) Net interest expense means interest expense on total debt for the 12 months ended 31 December 2021.

(20) FCCR is calculated as LTM Adjusted EBITDA divided by net interest expense.

Borrowings used in calculating net debt can be reconciled to the Financial Statements as follows:

		Year ended 31 December 2021
		€000
Borrowings:	The Notes	307,500
	Unamortised discount on issuance of the Notes	(726)
	Unamortised transaction fees	(3,250)
	Term Facility - non-current liability	7,553
	Unamortised transaction fees on Term Facility	(256)
	Per Financial Statements (non-current liability)	310,821
	Interest payable at 31 December 2021 (current liability)	2,605
	Revolving credit facility - amount drawn	68,465
	Term Facility - current liability	7,851
Total borrowings		**389,742**

Directors' Report (continued)

Key risks and uncertainties

The Group is exposed to a range of risks and uncertainties in its day to day operations. The following section aims to highlight the key risks arising from the Group's business model, the potential impact on the Group, and the steps that have been taken to mitigate and manage these risks. Additional quantitative information in respect of the following risks can be found in Note 21 in the Financial Statements:

Risk	Definition	Impact	Mitigation
COVID-19	The risk that COVID-19 continues to cause a slowdown in economic growth in core markets and causes short term disruption in collection activity.	A continued slowdown in economic growth could lead to adverse movements in asset prices and therefore underlying collateral values, which could have an effect on the Group's ability to meet collections targets. Disruption to court schedules and closure of auctions could result in collections being lower and delayed.	The Group continues to remain close to developments of COVID-19 and the impact it is having across core markets. The risks caused by COVID-19 are mitigated by the Group maintaining a conservative and prudent approach on its cash flow projections and forecasts, as well as being able to benefit from a dedicated master servicing platform providing local on the ground presence across the Group's core geographies.
Market/economic risk	Changes in the economic environment in the markets in which the Group operates may negatively impact the Group's performance.	Unfavorable movements in interest rates may have an adverse effect on potential recoveries. Rising rates could also impact the Group's ability to finance its debt.	The Group reviews and revises as necessary business plans for underlying portfolios on a periodic basis and also monitors closely economic growth and the economic environment across Europe.
Credit/liquidity risk	The value of the Group's investments may deteriorate, or the Group may not be able to meet its day to day working capital requirements if collections performance fall.	This could lead to reduced recoveries from debtors, as well as the risk that the Group may not be able to finance its debt or remain competitive due to a lack of capital to deploy and potentially putting pressure on the Group's ability to meet financial covenants.	The Group closely and regularly monitors actual collections performance against forecasted targets in order to quickly assess whether any portfolio is underperforming. The Group also works closely with its engaged servicers in order to quickly establish recovery strategies for any underperforming portfolios. The Group also monitors its cash position on a regular basis to ensure that there is sufficient cash available to manage the day to day operations of the Group.

Directors' Report (continued)

Key risks and uncertainties (continued)

Risk	Definition	Impact	Mitigation
Compliance/regulatory/ tax risk	Failure to comply with applicable legislation/regulatory requirements within the geographies and markets the Group operates within. The Group also operates in an environment where tax legislation is continually evolving.	Potential breach of compliance acts/regulatory provisions or non-compliance or misinterpretation of local tax legislations may result in potential reputational damage in the industry, potential large fines, impairments etc. which may impact the Groups ability to remain competitive in the market.	The Group maintains strong operational compliance controls and has various legal advisors in different jurisdictions in order to keep up to date with any changes to any regulatory environment which could adversely impact the Group. The Group continually monitors its corporate and structural set up and tax reporting requirements to ensure full compliance with local tax legislation.
Third party/operational risk	Risk of loss of relationship/underperformance/ over reliance of servicers/third parties that the Group engages with.	Any failure by third parties/servicers that the Group engages with could materially impact cash flows, income, and profitability of the portfolios, and therefore adversely impact the Groups results.	The Group constantly assesses the capabilities and value that is delivered by third parties in order to determine whether there is any underperformance. Regular audits are carried out of servicers to ensure that they are compliant with necessary regulations and that they are performing as expected.

Significant recent developments

COVID-19

Following a gradual easing of restrictions, Group employees returned to the offices at the start of Q2 2021 with strict virus prevention measures in place. The Group continues to work with its servicing partners, agents, and advisors to help safeguard the health and wellbeing of all staff and customers.

Russian Invasion of Ukraine

The ongoing military invasion of Ukraine and the related sanctions targeted against the Russian Federation may have impact on the European economies and globally. The Group does not have any direct exposure to Ukraine, Russia or Belarus. However, the impact on the general economic situation may require revisions of certain assumptions and estimates. This may lead to material adjustments to the carrying value of certain assets and liabilities within the next financial year. At this stage management is not able to reliably estimate the impact as events are unfolding day-by-day.

2021 Performance

In 2021, AFE continued to successfully execute on its strategy, demonstrating the resilience of its business model and strong cash generation, with performance and leverage returning to normalised pre-COVID levels. After a subdued 2020 deployment returned to normalised levels, €100.1m was deployed during 2021. AFE continued an expansion into direct real estate increasing portfolio diversification and predictability of collections, eliminating the volatility of court proceedings. The group reported total attributable collections of €131.5m against a target of €113.7m, set in December 2020, this represents a €17.8m or 15.7% outperformance. Performance has been driven by an active asset management strategy combined with improved macroeconomic conditions driven by the retreat of Covid-19 during 2021.

The Group performed a reforecast in Q2 2021 and Q4 2021 in line with the wider policy of reviewing portfolio level future cash flows in June and December each year. Cash flow timings and assumptions revision, where appropriate, returned a €0.2m impairment gain in aggregate.

Directors' Report (continued)

Significant recent developments (continued)

New investments

During the year ended 31 December 2021, the Group successfully deployed €100.1m of capital across Non-Performing Loans ("NPL") and real estate backed debt investments.

On 7 January 2021 the Group financed its share of a joint venture acquisition to facilitate the purchase of an office complex in the U.K for a total amount of c.€1.9m. Further follow on investments of €0.6m were made in the year taking total invested capital to €2.5m, AFE's economic interest in the transaction is 50%.

On 12 February 2021 AFE completed the acquisition of an Italian SME secured NPL portfolio for c.€1.3m, the Groups economic interest is 33.3%.

Following the 'sale promise' agreement that the Group entered into on 15 December 2020 for the opportunity to acquire a Grade A listed office complex in Paris, the Group successfully signed and entered into a VEFA contract on 10 March 2021, c.€0.5m was paid on closing as consideration, securing a 50% economic interest in the transaction. On 21st January 2021, AFE made an additional funding of c.€0.6m to the joint venture.

On 11 May 2021, the Group entered a 'sale promise' agreement in connection with joint venture opportunity to acquire a c.10,000 sqm office property in Paris. On signing of the 'sale promise' agreement the Group paid c.€1.3m as a deposit. The investment completed in July 2021 with a further deployment of c.€5.6m with AFE'S economic interest amounting to 40%.

On 21 May and 29 June 2021 AFE completed acquisitions of two further Italian SME predominantly secured NPL portfolios for c.€0.6m and c.€1.7m respectively, the Groups economic interest is 33.3%.

On 17 December 2020, the Group entered a 'sale promise' agreement in a joint venture with a 40% economic interest, to acquire a partly occupied office complex in Paris. The transaction completed in May 2021, the total invested capital in this asset is €16.4m at year end. On 3rd February 2022 and 18th March 2022, the group made additional fundings of c.€0.5m and c.€1.4m to the joint venture.

On 23 August 2021, the Group completed the acquisition of a shopping center in central Liverpool, UK. AFE paid c.€19.0m on closing, retaining a 40% economic interest in the joint venture.

The group completed the acquisition of an office and hotel development opportunity in London on 8th October 2021, total invested capital at year end was c.€34.5m, retaining a 38.8% economic interest in the joint venture.

AFE acquired a 50% interest in a joint venture acquisition of two office properties in the UK in December 2021. The first asset was a c.14,700 sqm office on the South Coast, the investment completed on 3rd December with invested capital of c.€8.5m. The second investment of c.€4.7m completed on 17th December for a c.6,300 sqm office in South London.

During December 2021 a further three NPL portfolios were acquired for a total of c.€2.8m. The acquisitions were successfully completed with AFE's economic interest in the portfolios amounting to 33.3%.

Signed transactions

On 4 August 2021, the Group paid a c.€0.4m deposit to acquire a residential development plot in Milan. Further deposits were made on 11th November 2021 and 17th February 2022 of c. €0.3m and c. €0.2m respectively. Subject to all conditions precedent being met the Group expects to close and acquire the asset during 2022 with AFE's economic interest amounting to 40%.

On 10th November 2021 and 17th February 2022 deposits were funded of c. 0.8m and €0.5m respectively, this was in relation to the acquisition of a c. 5,700 sqm residential development in Rome. Subject to all conditions precedent being met the group expects to close the transaction and acquire the asset during 2022, AFEs economic interest is 40%.

In December 2021, the group had signed a c.€2.0m Italian SME secured NPL portfolio, the transaction completed on 7th January 2022.

On 12th January 2022, AFE funded a deposit of c.€1.2m and signed a sale promise agreement for the purchase of a c. 15,800 sqm office south of Paris, France. AFEs economic interest in this transaction is 40%.

On 8th February 2022, AFE completed the acquisition of an office building south west of London in a c.€3.1m transaction for a 50% economic interest in the transaction.

On 11th February 2022, AFE funded a deposit of c.€0.9m and signed a sale promise agreement for the purchase of a c. 8,200 sqm mixed use development opportunity in Paris, AFEs economic interest in this transaction is 40%.

On 16th February 2022, AFE funded a deposit of c.€0.9m and signed a sale promise agreement for the purchase of a c. 19,500 sqm shopping complex in the south of France, AFEs economic interest in this transaction is 40%.

On 22nd February 2022, AFE funded c.€1.4m to acquire 100% of the share capital of a real estate investment trust in India, the manager will be a wholly owned subsidiary of AFE Asset Solutions.

Directors' Report (continued)

On 25th February 2022 AFE funded a c.€0.4m deposit for the acquisition of a c.9,000 sqm office building in the north of England, AFEs economic interest in this transaction is 50%.

Under the business plan of the signed and acquired real estate assets, the Group is expected to fund an additional c.€17.7m for its share of acquisition cost and capital expenditure over the next three years.

Disposals

During June 2021 a successful sale of a pool of low recovery assets within a legacy portfolio realised c.€4m in collection proceeds. In December 2021 a residual portfolio of assets was sold releasing sales proceeds of c.€2.5m.

Changes to administration and governance

Eric Verret, Anacap Financial Partners Limited ("AFPL") Managing Director for Risk & Liability Management, joined AFE's management team as Chief Financial Officer and a member of Board of Directors and AFPL Investment Recommendation Committee, both with effect from 1 January 2021.

On 24 November 2021 Yazid Oudina resigned from the Board of Directors.

On 7 December 2021 Graham Parry-Dew was appointed on the Board of Directors.

Environmental, Social and Governance:

AFE falls within the scope of Article 6 of SFDR, as it does not promote environmental or social characteristics, nor does it have sustainable investment as its primary objective. The AIFM is required to make certain disclosures under SFDR in respect of its approach to the integration of sustainability risks in the investment decision-making process, as well as an explanation of the likely impacts of sustainability risks on our returns. The AIFM relies upon the Investment Adviser's approach to sustainability risks to satisfy these requirements.

Sustainable investing is integral to the Investment Advisors business and culture. The Investment Advisor seeks to invest responsibly, taking relevant sustainability risks and factors into account throughout our investment process. The Investment Adviser's environmental, social and governance ("ESG") policy is compliant with SFDR. In 2021, the Investment Adviser was awarded a top-10 ranking in Orbis Advisory's ESG Transparency: Private Equity Index 2021 and also obtained a Silver medal from Ecovadis (an external ESG consultant) for its assessment in 2020. The Investment Adviser's approach to the integration of sustainability risks thought the investment process is integral to the way in which the Investment Adviser operates and is relevant to AFE assets.

Going Concern

The Group continues to actively monitor its liquidity and covenant adherence. The Group's liquidity position remains strong, with available cash as of the date of signing of the Financial Statements of c.€42.1m. The group has assessed its expected operating performance and liquidity requirements for 2022 considering the impact of COVID-19. Despite ongoing uncertainty surrounding the market amidst COVID-19, the Board of Directors remain confident that AFE can continue to trade for a period of at least 12 months from the date of signing the Financial Statements and will have sufficient liquidity to manage its operations during that time. Cash management and asset management will be critical throughout the year to help drive performance. AFEs Revolving Credit Facility ("RCF") matures on 7th July 2022, AFE has commitments from lenders to extend the RCF beyond the current maturity date. In the event that the RCF is not extended AFE will have sufficient liquidity to repay the RCF before its maturity.

Outlook

The collection outperformance compared to 2020 continues to reduce the net debt to adjusted EBITDA leverage ratio, this trend is set to continue into 2022. AFE has a locally embedded platform with 21 FTE equivalents across 5 local geographies, a resilient and low fixed cost operating model which is expected to drive strong performance into 2022. The development of AFEs master servicing model will provide an opportunity generate incremental capital-light income from the credit portfolio. AFE will continue to co-invest in mid-market investments (€10M-€50M) focusing on hard asset backing (real estate secured NPLs, performing real estate backed debt and direct real estate) with a focus on continued diversification across a broader range of asset types and geographies.

Eric Verret

Director
21 March 2022

Statement of Directors' Responsibilities

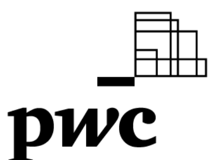
The Board of Directors of AnaCap Financial Europe S.A. SICAV-RAIF submits its report and the audited consolidated financial statements (the "Financial Statements") for the Group for the year ended 31 December 2021.

The Financial Statements have been prepared in accordance with the accounting policies stated in Note 3 to these Financial Statements.

In preparing the Financial Statements the Board of Directors is required to:

- select suitable accounting policies and apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- prepare the Financial Statements in compliance with the Issuing Document; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Board of Directors is responsible for keeping accounting records, which disclose with reasonable accuracy at any time, the financial position of the Group, to enable it to comply with the Issuing Document. The Board of Directors also has general responsibility for taking reasonable steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities. The Board of Directors is required to act in the best interest of the Group and to perform its obligations as detailed under the Issuing Document.



Audit report

To the Shareholder of
Anacap Financial Europe S.A. SICAV-RAIF

Our opinion

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of Anacap Financial Europe S.A. SICAV-RAIF and its subsidiaries (the "Fund") as at 31 December 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

What we have audited

The Fund's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2021;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- the consolidated statement of changes in equity for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with the Law of 23 July 2016 on the audit profession (Law of 23 July 2016) and with International Standards on Auditing (ISAs) as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier" (CSSF). Our responsibilities under the Law of 23 July 2016 and ISAs as adopted for Luxembourg by the CSSF are further described in the "Responsibilities of the "Réviseur d'entreprises agréé" for the audit of the consolidated financial statements" section of our report.

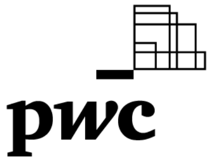
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Fund in accordance with the International Code of Ethics for Professional Accountants, including International Independence Standards, issued by the International Ethics Standards Board for Accountants (IESBA Code) as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the consolidated financial statements. We have fulfilled our other ethical responsibilities under those ethical requirements.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information stated in the consolidated annual report but does not include the consolidated financial statements and our audit report thereon.

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



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

Responsibilities of the Board of Directors for the consolidated financial statements

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs as adopted by the European Union, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Fund'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 Board of Directors either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Responsibilities of the "Réviseur d'entreprises agréé" for the audit of the consolidated financial statements

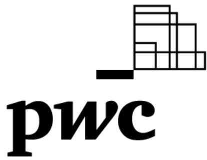
The objectives of our audit are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an audit report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF 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 consolidated financial statements.

As part of an audit in accordance with the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control;

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors;



- conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our audit report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our audit report. However, future events or conditions may cause the Fund to cease to continue as a going concern;

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

- obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Fund to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Fund audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers, Société coopérative
Represented by

Luxembourg, 21 March 2022

Thierry Salagnac

Consolidated Statement of Comprehensive Income for the Year Ended 31 December 2021

	Notes	Year ended 31 December 2021 €000	Year Ended 31 December 2020 €000
Revenue			
Interest income from purchased loan portfolios	12	47,194	53,043
Interest income from purchased loan notes	12	1,293	1,667
Interest income on loans to joint ventures at amortised cost	12	9,367	7,971
Other income		4,125	2,047
Total revenue	5	**61,979**	**64,728**
Operating expenses			
Collection activity costs		(17,988)	(18,913)
Impairment gains/(losses)		151	(37,230)
Net foreign currency loss	7	(335)	(1,537)
Other operating expenses	7	(14,010)	(12,471)
Total operating expenses		**(32,182)**	**(70,151)**
Operating profit/(loss)		**29,797**	**(5,423)**
Finance income		-	51
Finance costs	8	(22,105)	(19,595)
Share of profit in joint venture accounted for using equity method	13	6,816	42
Profit from discontinued operation	11	913	874
Profit/(loss) before tax		**15,421**	**(24,051)**
Tax charge	9	(167)	(1,336)
Comprehensive income/(loss) for the year		**15,254**	**(25,387)**

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Consolidated Statement of Financial Position as at 31 December 2021

	Notes	As at 31 December 2021 €000	As at 31 December 2020 €000
Assets			
Non-current assets			
Property, plant and equipment		88	177
Investments in joint ventures at amortised cost	12	27,875	2,282
Investments in joint ventures at FVPL	12	69,126	7,656
Participation in joint ventures	13	11,956	297
Goodwill	10	1,836	1,836
Total non-current assets		**110,881**	**20,025**
Current assets			
Cash and cash equivalents		21,438	17,233
Trade and other receivables	15	21,275	12,423
Other assets	15	7,126	4,569
Purchased loan portfolios	12	157,432	193,916
Purchased loan notes	12	9,272	13,231
Investments in joint ventures at amortised cost	12	45,912	62,904
Investment in associate classified as held for sale	11	8,309	7,777
Loans to investment in associate at FVPL	12	-	1,666
Inventory	14	22,707	26,027
Total current assets		**293,471**	**331,969**
Total assets		**404,352**	**351,994**
Liabilities			
Non-current liabilities			
Borrowings	23	310,821	323,310
Other liabilities	16	1,005	948
Total non-current liabilities		**311,826**	**324,258**
Current liabilities			
Borrowings	23	78,921	27,336
Secured loan notes	23	13,002	13,617
Trade and other payables	16	8,228	9,046
Other liabilities	16	-	297
Tax payable		1,013	426
Tax provisions	24	5,057	5,963
Total current liabilities		**106,221**	**56,685**
Total liabilities		**418,047**	**380,943**
Equity			
Share capital	17	1,250	1,250
Retained earnings		(14,945)	(30,199)
Total equity		**(13,695)**	**(28,949)**
Total equity and liabilities		**404,352**	**351,994**
Net Asset Value as per Offering Memorandum	19	**301,624**	**277,409**
Net Asset Value per share	17	**(10.96)**	**(23.16)**

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

The Consolidated Financial Statements for the year ended 31 December 2021 were approved by the Board of Directors and authorised for issue on its behalf by:

Eric Verret

Director

Eric Verret

21 March 2022

Consolidated Statement of Cash Flows for the Year Ended 31 December 2021

	Notes	Year ended 31 December 2021	Year Ended 31 December 2020
		€000	€000
Cash flows from operating activities			
Profit/(Loss) before tax		**15,421**	**(24,051)**
Adjustments for:			
Interest income from purchased loan portfolios	12	(47,194)	(53,043)
Interest income from purchased loan notes	12	(1,293)	(1,667)
Interest income from joint ventures	12	(9,367)	(7,971)
Finance income		-	(51)
Impairment (gains)/losses		(151)	37,230
Finance costs	8	22,105	19,286
Unrealised foreign currency (gains)/losses	7	(900)	1,846
Share of profit in joint venture accounted for using equity method		(6,816)	(42)
Share of profit in associate	11	(913)	(874)
Operating cash flows before movements in working capital		**(29,108)**	**(29,337)**
Change in trade and other receivables*		(10,056)	3,539
Change in trade and other payables*		(818)	1,365
Cash used in operating activities before collections and purchases		**(39,982)**	**(24,433)**
Taxes paid		(486)	(131)
Collections in the year - sale of inventory	12	9,861	8,543
Collections in the year - loans	12	88,555	66,764
Collections in the year - joint ventures	12	30,593	9,260
Acquisition of joint ventures	12	(100,112)	(19,212)
Investments into associates	11,12	-	(2,047)
Net cash generated from operating activities		**(11,571)**	**38,744**
Cash flows from investing activities			
Consideration paid for the acquisition of Galata		(300)	(200)
Deferred consideration		-	(2,012)
Net cash used in investing activities		**(300)**	**(2,212)**
Cash flows from financing activities			
Proceeds from re-financing acquisition of purchased loan notes		-	462
Proceeds from borrowings		96,219	60,083
Repayment of borrowings		(59,863)	(85,346)
Revolving Credit Facility transaction and other fees paid		-	(104)
Repayment of secured loan notes		(1,621)	(1,989)
Finance costs paid		(18,659)	(18,879)
Net cash used in financing activities		**16,076**	**(45,773)**
Net movements in cash and cash equivalents		4,205	(9,241)
Cash and cash equivalents at the beginning of the year		17,233	26,474
Cash and cash equivalents at the end of the year		**21,438**	**17,233**

*Movement in working capital is net of accruals and prepayments related to the Notes and the Revolving Credit Facility.
The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity for the Year Ended 31 December 2021

	Share capital	Retained earnings	Total equity
	€000	€000	€000
Balance as at 1 January 2021	**1,250**	(30,199)	(28,949)
Comprehensive income for the year	-	15,254	15,254
Balance as at 31 December 2021	**1,250**	**(14,945)**	**(13,695)**

Comparative figures from 1 January 2020 to 31 December 2020:

	Share capital	Retained earnings	Total equity
	€000	€000	€000
Balance as at 1 January 2020	**1,250**	**(4,812)**	**(3,562)**
Comprehensive loss for the year	-	(25,387)	(25,387)
Balance as at 31 December 2020	**1,250**	**(30,199)**	**(28,949)**

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Notes to the Consolidated Financial Statements (continued)

1. General information

AnaCap Financial Europe S.A. SICAV–RAIF ("AFE", "Fund"), a public limited liability company (société anonyme), was incorporated on 28 June 2017 under the laws of Luxembourg as a reserved alternative investment fund (*fonds d'investissement alternatif réservé)* in the form of an investment company with variable capital (*société d'investissement à capital variable*).

On 28 June 2017, AFE entered into an alternative investment fund management agreement with Carne Global Fund Managers (Luxembourg) S.A. ("Carne") to appoint Carne to be its alternative investment fund manager ("AIFM"). In its capacity as AIFM Carne will perform functions in accordance with AIFM law and reserved alternative investment fund law ("RAIF law"). On 28 June 2017, the AIFM entered into a portfolio management agreement with AnaCap Investment Manager Limited (the "Portfolio Manager") to delegate portfolio management functions in accordance with AIFM law and RAIF law. AnaCap Financial Partners Limited ("AFPL") acts as investment advisor to the Portfolio Manager.

The principal activity of AFE and its subsidiaries as listed in note 20 (together, the "Group") is to seek risk adjusted investment returns by acquiring, holding, servicing, and disposing of portfolio investments comprising of loans, leases, or other credit-related obligations, including primarily diversified portfolios of unsecured and secured consumer debts, SME debt, and mortgages, as well as seek opportunities in the direct real estate market.

Significant changes in the current reporting year

On 1 January 2021 Eric Verret was appointed on the Board of Directors.

On 24 November 2021 Yazid Oudina resigned from the Board of Directors.

On 7 December 2021 Graham Parry-Dew was appointed on the Board of Directors.

New Investments

During the year ended 31 December 2021, the Group successfully deployed €100.1m of capital across Non-Performing Loans ("NPL") and real estate backed debt investments.

On 7 January 2021 the Group financed its share of a joint venture acquisition to facilitate the purchase of an office complex in the U.K for a total amount of c.€1.9m. Further follow on investments of €0.6m were made in the year taking total invested capital to €2.5m, AFE's economic interest in the transaction is 50%.

On 12 February 2021 AFE completed the acquisition of an Italian SME secured NPL portfolio for c.€1.3m, the Groups economic interest is 33.3%.

Following the 'sale promise' agreement that the Group entered into on 15 December 2020 for the opportunity to acquire a Grade A listed office complex in Paris, the Group successfully signed and entered into a VEFA contract on 10 March 2021, c.€0.5m was paid on closing as consideration, securing a 50% economic interest in the transaction. AFE made an additional funding of c.€0.6m on 21st January 2022.

On 11 May 2021, the Group entered a 'sale promise' agreement in connection with joint venture opportunity to acquire a c.10,000 sqm office property in Paris. On signing of the 'sale promise' agreement the Group paid c.€1.3m as a deposit. The investment completed in July 2021 with a further deployment of c.€5.6m with AFE'S economic interest amounting to 40%.

On 21 May and 29 June 2021 AFE completed acquisitions of two further Italian SME predominantly secured NPL portfolios for c.€0.6m and c.€1.7m respectively, the Groups economic interest is 33.3%.

On 17 December 2020, the Group entered a 'sale promise' agreement in a joint venture with a 40% economic interest, to acquire a partly occupied office complex in Paris. The transaction completed in May 2021, the total invested capital in this asset is €16.4m at year end. On 3rd February 2022 and 18th March 2022, the group made additional fundings of c.€0.5m and c.€1.4m to the joint venture.

On 23 August 2021, the Group completed the acquisition of a shopping center in central Liverpool, UK. AFE paid c.€19.0m on closing, retaining a 40% economic interest in the joint venture.

The group completed the acquisition of an office and hotel development opportunity in London on 8th October 2021, total invested capital at year end was c.€34.5m, retaining a 38.8% economic interest in the joint venture.

AFE acquired a 50% interest in a joint venture acquisition of two office properties in the UK in December 2021. The first asset was a c.14,700 sqm office on the South Coast, the investment completed on 3rd December with invested capital of c.€8.5m. The second investment of c.€4.7m completed on 17th December for a c.6,300 sqm office in South London.

During December 2021 a further three NPL portfolios were acquired for a total of c.€2.8m. The acquisitions were successfully completed with AFE's economic interest in the portfolios amounting to 33.3%.

Signed Transactions:

On 4 August 2021, the Group paid a c.€0.4m deposit to acquire a residential development plot in Milan. Further deposits were made on 11th November 2021 and 17th February 2022 of c. €0.3m and c. €0.2m respectively. Subject to all conditions precedent being met the Group expects to close and acquire the asset during 2022 with AFE's economic interest amounting to 40%.

On 10th November 2021 and 17th February 2022 deposits were funded of c. 0.8m and €0.5m respectively, this was in relation to the acquisition of a c. 5,700 sqm residential development in Rome. Subject to all condition's precedent being met the group expects to close the transaction and acquire the asset during 2022, AFEs economic interest is 40%.

Disposals

During June 2021 a successful sale of a pool of low recovery assets within a legacy portfolio realised c.€4m in collection proceeds. In December 2021 a residual portfolio of assets was sold releasing sales proceeds of c.€2.5m.

2. Adoption of new and amended International Financial Reporting Standards and changes in accounting policies

Interest rate benchmark reform Phase 2 is effective beginning on 1 January 2021. Amendments to IFRS 7, IFRS 4, IFRS 9, IFRS 16 and IAS 39 require that, for financial instruments under amortised cost, changes to the basis of determining the contractual cash flows required by the reform are reflected by adjusting their effective interest rate. No immediate gain or loss is recognised in the income statement.

On 6 August 2021 the super senior revolving facility agreement dated 7 July 2017 was amended to replace the reference rate from LIBOR to SONIA for GBP utilisations. The transition has not had a material impact on the income statement, the GBP short term draw as at 31 December 2021 was GBP 51.9m (c.€61.8m).

A number of other new and amended standards became applicable for the current reporting period but did not have any impact on the Group's accounting policies and did not require retrospective adjustments.

Amendments to IAS 1, Presentation of financial statements', on classification of liabilities (effective on annual periods on or after 1 January 2024) clarify that liabilities are classified as either current or noncurrent, 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 (for example, the receipt of a waiver or a breach of covenant). The amendment also clarifies what IAS 1 means when it refers to the 'settlement' of a liability. Other new standards and amendments have been published from IASB but are not yet applicable. The Group do not expect there to be material impact on the Financial Statements due to the adoption of these standards and amendments.

3. Summary of significant accounting

Basis of preparation

The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. The principal accounting policies that have been applied to these Consolidated Financial Statements are set out below.

The preparation of the Financial Statements in conformity with IFRS as adopted by the European Union requires the use of certain critical accounting estimates. It also requires the Board of Directors to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Financial Statements are disclosed in note 4.

The Financial Statements are presented in thousands of Euro (€'000s) and are prepared on a historical cost and going concern basis except for financial instruments which have been measured at fair value, and on a going concern basis.

Going concern

The group has assessed its expected operating performance and liquidity requirements for 2022 considering the impact of COVID-19. Despite ongoing uncertainty surrounding the market amidst COVID-19, the Board of Directors remain confident that AFE can continue to trade for a period of at least 12 months from the date of signing these Financial Statements and will have sufficient liquidity to manage its operations during that time. Cash management and asset management will be critical throughout the year to help drive performance.

Investment entity

As AFE does not manage its investments on a fair value basis, it does not meet the definition of an investment entity and therefore is required to consolidate the entities that it controls.

Consolidation and accounting for subsidiary entities within the Group

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity.

Notes to the Consolidated Financial Statements (continued)

Consolidation and accounting for subsidiary entities within the Group (continued)

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between the Group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

AFE has control over and therefore has consolidated the entities listed in note 20 in these Financial Statements.

Investments in associates

Investments in which AFE has significant influence are considered as investments in associates and are accounted under the equity method of accounting. Significant influence is defined as having between 20% and 50% of the voting power of the investee, or, when the investor holds less than 20% of the voting power of the investee, it is presumed that the investor does not have significant influence, unless such influence can be clearly demonstrated. The existence of significant influence by an investor is usually evidenced by such activities as representation on the board of directors, participation in policy-making processes, including participation in decisions about dividends or other distributions, material transactions between the investor and the investee, interchange of managerial personnel, or provision of essential technical information.

Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the change in net assets of the investee after the date of acquisition. AFE's share of post-acquisition profit or loss is recognised in the Consolidated Statement of Comprehensive Income, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment.

AFE determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, AFE calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises this amount in the Consolidated Statement of Comprehensive Income.

Investment in joint ventures

Joint arrangements are classified as either joint ventures or joint operations. The Group's joint arrangements are determined to be joint ventures. The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

For investment participations into equity in joint ventures the equity accounting method is applied. The investment is recognised at cost and subsequently adjusted to the Group's share of the change in the investments net assets since acquisition date. The equity method is applied from the date a significant influence arises until the time it ceases or the associated company or joint venture becomes a subsidiary. The Group's share of net assets of the joint venture is recognised in the Consolidated Statement of Comprehensive Income.

Investments in joint ventures are measured at amortised cost where cash flows comprise solely of principal and interest, with an intention to hold to collect. The contractual arrangement is directly linked to the performance of the portfolios purchased by the joint venture. All collections in the joint venture from the portfolios are split between interest income and amortisation of the portfolio in accordance with the effective interest rate method and are paid to the investors pro rata after deduction of collection and overhead costs in the joint venture. Interest income generated from investments in joint ventures at amortised cost is recognised in the Consolidated Statement of Comprehensive Income.

The Group also provide loan instruments to joint venture entities which are measured at fair value through profit or loss ("FVPL"). The Group classifies the following financial assets at FVPL:

- debt investments that do not qualify for measurement at amortised cost
- equity investments that are held for trading, and
- equity investments for which the entity has not elected to recognise fair value gains and losses through OCI.

For assets measured at fair value, gains and losses will be recorded in the Consolidated Statement of Comprehensive Income.

Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of an entity comprises:

- fair value of the assets transferred,
- liabilities incurred to the former owner of the acquired business,
- equity interest issued by the Group,
- fair value of any assets or liabilities resulting from a contingent consideration agreement, and
- fair value of any pre-existing equity interest in the subsidiary.

Notes to the Consolidated Financial Statements (continued)

Business combinations (continued)

Identifiable assets acquired and liabilities and contingent liabilities assumed in the business combination are measured initially at fair value at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date and is subject to a maximum of one year from the date of acquisition.

The excess of the consideration transferred, combined with any non-controlling interest in the entity being acquired, over the fair value of net identifiable assets is recorded as goodwill. If those amounts are less than the fair value of net identifiable assets of the entity being acquired, the difference is recognised directly in the Consolidated Statement of Comprehensive Income as a gain on bargain purchase.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing goodwill is allocated to Group's cash-generating units (CGU), that are expected to benefit from the synergies of the combination. In accordance with IAS 36, goodwill is tested at least on an annual basis for impairment, by comparing the carrying amount of the CGU with the recoverable amount of the CGU. The Group calculates the recoverable amount of the CGU by determining the higher of the fair value less cost to sell and its value in use.

Financial assets

Financial assets are classified, at initial recognition, as financial assets measured at amortised cost or fair value through profit and loss on the basis of both:

- The Group's business model for managing the financial assets
- The contractual cash flow characteristics of the financial asset

Financial assets consist primarily of purchased loan portfolios, purchased loan notes and investments in debts instruments of joint ventures. The Group's business model for managing these financial assets is to hold for the collection of the contractual cash flows that consist solely from payment of principal and interest, which meet the condition for classification of financial assets at amortized cost under IFRS 9. The Group only recognises financial instruments as an equity instrument when they do not include a contractual obligation to deliver a financial asset or exchange a financial asset or liability to another entity and when the financial instrument can be settled in the entity's own equity instruments. Any equity instruments would be recognised at fair value through profit and loss.

Financial liabilities

Debt and equity are classified as either financial liabilities, such as secured loan notes, or as equity in accordance with the substance of the contractual arrangement and in conjunction with the application of IFRS as adopted by EU. In accordance with IAS 32 Financial Instruments: Presentation, the Group only recognises financial instruments as equity when they do not include a contractual obligation to deliver a financial asset or exchange a financial asset or liability to another entity and when the financial instrument can be settled in the Groups' own equity instruments. Financial liabilities are held at amortised cost using the effective interest rate ("EIR") method. The EIR is calculated by estimating the cash flows arising from the contractual terms of the instrument over its expected life. Transaction costs are included within the EIR and deducted from the initial carrying value of the debt instrument. Transaction costs related to revolving credit facilities are not included within the EIR but recognised as a separate asset and amortized over the term of the facility.

Initial recognition of financial instruments

The Group recognises a financial asset or a financial liability at the time it becomes a party to a contract because that is the point at which it has contractual rights or obligations. Financial assets and liabilities are initially recognised in the Consolidated Statement of Financial Position at fair value in accordance with IFRS, being the purchase price plus transaction costs directly attributable to the acquisition.

Purchase price of portfolio

The purchase price of a portfolio is the sale price by the vendor less any cash received between the cut-off date for pricing an asset and the completion date of the purchase (pre-determination cash), and warranty or put back claims plus any external deal costs in purchasing the portfolio. The purchase price of a portfolio is equal to its fair value on the date of purchase.

Purchased loan notes

The Group invests in portfolios held by entities which are not under the control of the Group via loan notes, which gives the Group proportionate rights to the cash flows from the underlying portfolios. These non-derivative purchased loan notes have been classified as loans and receivables within the Financial Statements. Under IFRS 12 Disclosure of Interests in Other Entities these represent "structured entities".

Notes to the Consolidated Financial Statements (continued)

Purchased loan portfolios

The Group's purchased loan portfolios are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Each portfolio asset is a group of homogenous items and as such is treated as single asset. Such assets are classified as loans and receivables and are measured at amortised cost using the EIR method less any impairment. Purchased loan portfolios are acquired at a deep discount to their principal outstanding and as a result the carrying values at initial recognition reflect incurred credit losses within each portfolio. The portfolio investments are initially recorded at their fair value, being their purchase price, and are subsequently measured at amortised cost using the EIR method. As part of the Group's litigation strategy to recover customer balances the Group incurs legal costs; these costs are expensed as they are incurred. Expected recoveries are included within the estimated forecasts of future cash flows within the purchased loan portfolios balance.

Purchased loan notes, purchased loan portfolios, investments in joint ventures and inventory (together, the "Group's Assets") are categorised as current in the Consolidated Statement of Financial Position because 1) the underlying loans and receivables within each of the portfolios are, for most part, "past due" on their contractual payment obligations; and
2) as part of the Group's normal operating cycle (84 months), each of the portfolios is evaluated every 3-6 months, and where necessary, the strategy to recover the maximum value from each portfolio is re-visited.

Derivative financial instruments

All derivative financial instruments are initially recognised at the fair value on the date a derivative contract is entered into and are subsequently re-measured at each reporting date at their fair value. The Group does not currently use derivative financial instruments to manage risks arising from the Group's underlying business operations and no transactions of a speculative nature are undertaken.

Secured loan notes

External parties invest in portfolios held by entities which are under the control of the Group via secured loan notes and shares issued by entities within the Group, which give the respective investors proportionate rights to the cash flows from the underlying portfolios.

Secured loan notes issued by the Group are non-derivative financial liabilities and are measured at amortised cost using the EIR method. Amounts due to co-investors are classified as liabilities within secured loan notes in accordance with IAS 32 and are measured at amortised cost using the EIR method.

The secured loan note liabilities are categorised as current in the Consolidated Statement of Financial Position as part of the Group's normal operating cycle.

Expected credit losses ("ECLs")

The Group applies the Expected credit loss model to all its financial debt instruments not measured at FVPL. They consist mainly in purchased loan portfolios, purchased loan notes and debt investments in joint ventures measured at amortised cost. Purchased loan portfolios mainly comprise non-performing loans which are classified as POCI (Purchased or Originated Credit-Impaired) as they are purchased at a deep discount and therefore ECLs are already inherent in the purchase price.

When the Group performs its bi-annual POCI portfolio level review any deviations in lifetime expected credit loss to those anticipated at initial purchase price are reflected and accounted for in the impairment gain or loss line in the Consolidated Statement of Comprehensive Income.

Financial instruments that are not classified as POCI are classified into stages (see note 21 for staging):

Stage 1 - No significant increase in credit risk since acquisition

Stage 2 - Existence of a significant increase in credit risk compared to original expectations but no losses yet incurred

Stage 3 - Expected losses to be recognised due to asset being credit impaired.

For financial instruments classified into stage 1, the expected credit loss is measured over the next twelve months and interest income is still computed on the gross carrying amount. For financial instruments classified into stage 2 or stage 3, the expected credit loss is computed over the remaining lifetime of the instrument and interest income is computed on the net carrying amount after deduction of the expected credit loss.

Significant financial difficulties of the borrower, probability that the borrower will enter bankruptcy or financial reorganisation, and default in payments are all considered indicators that a loss allowance may be required. The Group considers a financial instrument to be in default or credit impaired, when:

i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to action such as realising security (if any is held); or
ii) the financial asset is more than 90 days past due.

A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Expected credit losses ("ECLs") (continued)

For each stage, the Group compute expected credit loss in a way that reflects both the time value of money and reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions. The Group assesses on a forward-looking basis the ECLs associated with its financial instruments. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Expected credit loss allowance is recognised in the Consolidated Statement of Comprehensive Income.

Interest income and expense, the effective interest rate and impairment

EIR is the rate that exactly discounts estimated future cash receipts of the acquired portfolio asset to the net carrying amount at initial recognition (i.e. the price paid to acquire the asset, plus the related transaction fees less any pre- determination cash). These estimated future cash receipts are reflective of the conditions within the markets which the Group operates and range for a period of up to 84 months. An initial EIR is determined at the acquisition of the portfolio investment. All portfolios acquired in a year are grouped into a single group of assets as long as they are non-performing loans, euro-denominated and held as purchased loan portfolios. Performing loans, non-euro held assets, assets held through purchased loan notes and assets held as joint ventures are held in separate groups, as they are deemed to have different credit risk. At the end of the year, a weighted average EIR is calculated and applied to groups of portfolios acquired during the year.

The calculation of the EIR includes all fees integral to the EIR (such as transaction costs) and contractual terms of the financial instrument (for example, prepayment options). In most cases, financial assets are acquired at a deep discount that reflects incurred credit losses. Such incurred credit losses are included in the estimated cash flows when computing the EIR as this is consistent with the expected loss method of impairment under IFRS 9. The credit-adjusted EIR is the interest rate that, at initial recognition, discounts the estimated future cash flows (including credit losses) to the amortised cost of the financial asset. EIR is calculated, and revenue recognised, on a grouped portfolio level.

When there is a change to the expected amount or timing of cash flows for financial assets and liabilities held at amortised cost, the Group recalculates the carrying amount of the financial instrument by computing the present value of estimated future cash flows at the financial instrument's original EIR. Corresponding gains are recognised in the Consolidated Statement of Comprehensive Income within Revenue, with any subsequent reversals to increases in carrying value also recorded in this line. If these reversals of increases in carrying value exceed the previously recognised cumulative increases in carrying value, then impairment is recognised as a separate line in the Consolidated Statement of Comprehensive Income.

Derecognition of financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of:

i) the consideration received (including any new asset obtained less any new liability assumed) and
ii) any cumulative gain or loss that had been recognised in other comprehensive income

is recognised in the Consolidated Statement of Comprehensive Income. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

Derecognition of financial liabilities

Financial liabilities are derecognised when the Group obligation is discharged, cancelled, or expires. A financial liability (or part of it) is extinguished when the Group either:

i) discharges the liability (or part of it) by paying the creditor; or
ii) is legally released from primary responsibility for the liability (or part of it) either by process of law or by the creditor.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that the Group will be required to settle that obligation. Provisions are measured at the Group's best estimate of the consideration required to settle that obligation at the date of the Financial Statements and are discounted to present value where the effect is material.

Operating expenses

Operating expenses relate to administration, staff costs and costs associated with collection activities.

Collection activity costs

Fees for managing the servicing of the portfolio are incurred as the services are provided to the Group and are expensed as incurred in the Consolidated Statement of Comprehensive Income.

Notes to the Consolidated Financial Statements (continued)

Collection activity costs (continued)

The Group enters into incentive arrangements (promote fees) with portfolio servicing providers. These arrangements provide the service providers with an incentive fee in addition to their servicing fee if specific collections targets are met.

These fees are charged as the incentive targets are met and are expensed as incurred in the Consolidated Statement of Comprehensive Income.

Other operating expenses

Other operating expenses include administration fees, audit, legal and professional fees, management fees and other expenses.

Functional currency

The Directors consider the Euro to be the currency that most faithfully represents the economic effect of the underlying transactions, events, and conditions. The Euro is the currency in which the Group measures its performance and reports its results, as well as the currency in which it receives capital funding from its investors.

The Financial Statements are presented in Euro, being the primary economic currency in which the Group operates and are rounded to the nearest thousand Euro (€'000).

Foreign currency translation

Transactions in currencies other than the Group's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At each Consolidated Statement of Financial Position date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences are recognised in comprehensive income in the year in which they arise.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, and deposits held at call with banks. Cash is not subject to change in value.

Deal specific transaction fees

Legal transaction fees associated with the purchase of the portfolios are allocated to the purchase price of the portfolio and included within the EIR applied against the asset value. Any costs incurred on investment opportunities that do not complete are expensed to the Consolidated Statement of Comprehensive Income as an abort deal fee within other operating expenses.

Finance income and finance costs

Finance income in the Consolidated Statement of Comprehensive Income represents the unwinding of the computed interest calculated on any deferred consideration receivable on the disposal of the Group's Assets.

Finance costs include charges for secured loan notes, facility fees on bank loans, interest on Senior Secured Notes and similar charges and unwinding of the computed interest calculated on any deferred consideration payable resulting from business combinations.

Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost.

Senior Secured Floating Rate Notes

Senior Secured Floating Rate Notes ("the Notes") issued by the Fund are non-derivative financial liabilities. The Notes are recognised at the time the Fund becomes party to the contracts as this is the point at which it assumes contractual obligation. The financial liabilities are initially recognised in the Consolidated Statement of Financial Position at fair value plus transaction cost that are directly attributable to the issue of the Notes. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the Consolidated Statement of Comprehensive Income over the period of the borrowings using the EIR.

Notes to the Consolidated Financial Statements (continued)

Borrowings (continued)

Super Senior Revolving Credit Facility

Super Senior Revolving Credit Facility ("the Facility") is recognised at the time of drawdown because that is the point at which AFE assumes the contractual provision of repayment. The Facility is initially recognised at fair value and subsequently measured at amortised cost using the straight-line method. Any fees paid on establishment of the Facility are recognised as transaction cost of the loan to the extent that it is probable that some or all of the Facility will be drawn down. In this case, the fee is deferred until the draw down occurs. Where it is not probable that the Facility will be drawn upon, the fees are capitalised as a prepayment for services and amortised over the period of the Facility to which it relates using the straight-line method.

Term Facility

A Term Facility is recognised at the time of drawdown because that is the point at which the Group assumes the contractual provision of repayment.

The loan is initially recognised at fair value and consequently measured at amortised cost using the straight-line method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer the settlement of the liability for the last 12 months after the reporting period.

Taxation

Tax charges or credits in the Consolidated Financial Statements have been determined based on the tax charges or credits recorded in the legal entities comprising the Group. Taxable profit differs from the 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. Current taxation is charged or credited in the Consolidated Statement of Comprehensive Income, except when it relates to items charged or credited to equity, in which case the corporation taxation is also dealt with in equity.

Inventory

Inventory represents property assets where the Group holds legal title to the assets as a result of repossessing properties as part of the management of certain portfolios. Inventory is initially recognised at cost and subsequently valued at the lower of cost and net realisable value.

Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets classified as held for sale are presented separately from the other assets in the balance sheet.

Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Board of Directors and the Portfolio Manager. The Board of Directors assesses the financial performance and position of the Group. The Portfolio Manager is responsible for portfolio management decisions and related strategic decisions, the Portfolio Manager has been identified as the chief operating decision maker for the group and the segments have been identified on the basis of the aggregated reporting to the portfolio manager. Portfolios are managed and reviewed on a portfolio by portfolio basis. The group identifies two reportable segments, the first is performing and non-performing loans and the second is real estate backed debt investments. The two segments are regularly reviewed by the Portfolio Manager and there is discrete financial information available, revenues and expenses are recognised from each segment. Portfolios are grouped in the year of acquisition into a single portfolio as long as they meet common criteria.

Offsetting financial instruments

Financial instruments are offset and the net amount reported in the Consolidated Statement of Financial Position only when there is currently a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability instantaneously.

Related party transactions

Related parties include parties which have the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions, parent entities, and entities under common control.

Notes to the Consolidated Financial Statements (continued)

4. Critical accounting judgments and estimates

In the application of the Group's accounting policies, the Board of Directors is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. These estimates and assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised.

Critical judgments in applying accounting policies

The following are the critical judgments that have been made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the Financial Statements.

The carrying values of non-derivative financial assets and financial liabilities are derived using the forecasted cash flows over the expected life of the underlying instruments. Due to the nature of the business, the expected cash flows are measured using an 84-month rolling expected life from the date of the Consolidated Statement of Financial Position. An expected life of 84 months has been used as this most appropriately reflects the period over which cash flows are expected to be received based on management experience.

In relation to non-paying accounts, judgments will be made as to which operational strategy is the most appropriate to move the account to paying status, which may include placing these accounts into litigation. Operational factors, that may impact future estimated cash flows, are also considered such as improved collections processes and systems. The Board of Directors also reviews the model on a portfolio basis to take into account external factors, which have impacted historical or will impact future performance and, where necessary, the carrying amount is adjusted to take into account these known factors.

Critical estimates

The following are the key sources of assumption and estimation uncertainty that have been made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the Financial Statements.

Due to the nature of the business, the expected cash flows on financial assets are measured using an 84-month rolling expected life from the date of the Consolidated Statement of Financial Position. 84-month cash flow forecasts are prepared for each portfolio. For larger balances, these forecasts are manually evaluated and underwritten based on the expected cash flows from reviews of underlying detailed loan documentation and the availability of security against the balance. For smaller balances, these forecasts are generated using statistical models incorporating a number of factors, including predictions of payments, which are informed by customer and account level data, credit agency data and historic experience with accounts which have similar key attributes. Valuations are performed for each individual portfolio in order to assess potential changes in forecasted cash-flows compared to current targets based on underlying macro- economic, credit, behavioural, legal, collateral, and operational cost assumptions driving liquidation performance and ultimate exit value if applicable. Macro-economic assumptions that are incorporated into the forecasts include factors such as GDP growth rates, unemployment rates and inflation. A further key model input is previous payments made by a customer. The assumptions and estimates made are specific to the characteristics of each portfolio.

Given the distressed nature of some of the assets acquired, NPL assets are acquired significantly below the gross book value of the portfolio and are priced at a level that meets the Group's risk-adjusted return targets, with the Group being able to leverage off of both internal expertise within the Group's asset management platform and trusted and established relationships with third parties to support pricing assumptions to ensure that expected credit losses and the full distressed nature of the NPL portfolio are fully baked into pricing at acquisition.

AFE has deployed capital into real estate investments, the fair value of these investments is determined using discounted cashflow ("DCF") methodology. Valuations are based on analysis of the underlying investments guided by the investment advisor's valuation principles and observable market evidence. Assumptions and estimations are made regarding the discount rate and the timing of cashflows. AFE reassess the assumptions in the DCF methodology on a bi-annual basis.

The portfolio cash flow projections are assessed on at least a bi-annual basis where credit loss is assessed at loan level, with adjustments made to future cash flows to reflect any changes to management assumptions on anticipated credit loss for a portfolio.

Changes in estimates

The expected cash flows created from the forecasting models are regularly benchmarked at a portfolio level against actual performance; this informs the decision as to whether a change in carrying value of the portfolio may be required. The estimated future cash flows generated by the above process are the key estimate and judgment in the Financial Statements. When assessing the future cash flows at portfolio level there are many macro level indicators that are considered when building expectations and assumptions. Two of the main drivers behind estimating cash flow forecasts include:

1) time to collect on certain positions. Asset management strategies are tailored to segments or certain positions across the portfolio in order to optimise recoveries. However due to the nature of the majority of the Group's portfolio (non-performing loans) estimating timing of recoveries include various assumptions, including timing to push through judicial cases, timing of foreclosures and other legal processes.

Notes to the Consolidated Financial Statements (continued)

4. Critical accounting judgments and estimates (continued)

2) collateral values. On acquisition of secured debt portfolios, the underlying collateral securing the debt is valued by an independent 3rd party valuer. The asset valuations are reviewed on at least an annual basis and updated as necessary to ensure that the asset price used in the cash flow forecasts fairly reflects the price at which the asset will be sold for based on the Group's best estimates.

A change in the expected future cash flows by +10% would increase the carrying value of financial assets as at 31 December 2021 by €24.5m. A change in the expected future cash flows by -10% would reduce the carrying value of financial assets as at 31 December 2021 by €24.5m.

Following completion of an investment the cash flow forecast is reviewed each quarter for a rolling 84-month period for material movements and a formal full reforecast is undertaken on a loan by loan basis for larger secured positions and a statistical model used for smaller positions every June and December. If any material indicators are identified for any portfolio group, AFE adjusts the corresponding cash flow and a possible impairment charge or revaluation gain may be applied.

Impact of COVID-19

The Group continues to actively monitor its liquidity and covenant adherence. The Group's liquidity position remains strong, with available cash as of the date of signing of the Financial Statements of c.€42.1m. The group has assessed its expected operating performance and liquidity requirements for 2022 considering the impact of COVID-19. Despite ongoing uncertainty surrounding the market amidst COVID-19, the Board of Directors remain confident that AFE can continue to trade for a period of at least 12 months from the date of signing the Financial Statements and will have sufficient liquidity to manage its operations during that time. Cash management and asset management will be critical throughout the year to help drive performance.

Notes to the Consolidated Financial Statements (continued)

5. Segmental reporting

The Group represents two reportable segments. The first segment is performing and non-performing loans, the second is real estate backed debt investments. The Group entities are all managed through Luxembourg with subsidiaries and portfolio investments across Europe. The below tables summarise the information in line with the internal reporting.

	As at 31 December 2021	As at 31 December 2020
	€000	€000
Investment in associate classified as held for sale	8,309	7,777
Purchased loan portfolios	157,432	193,916
Purchased loan notes	9,272	13,231
Investments in joint ventures	154,869	73,139
Loans to associate at FVPL	-	1,666
Inventory	22,707	26,027
Consolidated Statement of Financial Position		
Total segment assets	404,352	351,994
Total segment liabilities	(418,047)	(380,943)
Segment net liabilities	**(13,695)**	**(28,949)**

The table below represents the total revenue of the Group by geography, excluding revenue derived from real estate:

	Year ended 31 December 2021	Year ended 31 December 2020
	€000	€000
- United Kingdom	540	775
- Romania	1,035	1,350
- Poland	2,845	3,171
- Italy, Spain, Portugal	55,992	59,432
Total revenue	**60,412**	**64,728**

The table below represents the total revenue of the Group by geography from real estate:

	Year ended 31 December 2021	Year ended 31 December 2020
	€000	€000
- France	1,306	-
- Italy	261	-
Total revenue	**1,567**	**-**

The table below represents the carrying value of the purchased loan portfolios, purchased loan notes, investments in joint ventures, investments in associates held for sale and inventory by geography, excluding real estate:

	As at 31 December 2021	As at 31 December 2020
	€000	€000
- Romania	7,315	10,744
- Poland	15,210	18,602
- Italy, Spain, Portugal	223,615	269,963
Total	**246,140**	**299,309**

Notes to the Consolidated Financial Statements (continued)

5. Segmental reporting (continued)

The table below represents the carrying value of real estate by geography:

	As at 31 December 2021	As at 31 December 2020
	€000	€000
- United Kingdom	68,413	4,166
- France	32,075	2,579
- Italy	5,961	9,702
Total	**106,449**	**16,447**

The table below represents the 84-month Gross ERC and the 84-month ERC of the Group's Assets by geography, excluding real estate:

	Gross ERC 31 December 2021	ERC 31 December 2021	Effect of discounting 31 December 2021	Adjusted NAV 31 December 2021
	€000	€000	€000	€000
- Romania	10,262	10,262	(3,559)	6,703
- Italy	142,549	142,549	(52,447)	90,102
- Spain	131,585	109,912	(56,262)	53,650
- Portugal	65,093	61,697	(30,984)	30,713
- Poland	21,378	21,378	(6,606)	14,772
Adjusted NAV	**370,867**	**345,798**	**(149,858)**	**195,940**

The table below represents the 84-month Gross ERC and the 84-month ERC of the Group's real estate Assets by geography:

	Gross ERC 31 December 2021	ERC 31 December 2021	Effect of discounting 31 December 2021	Adjusted NAV 31 December 2021
	€000	€000	€000	€000
- United Kingdom	122,081	122,081	(54,433)	67,648
- Italy	11,504	11,504	(5,543)	5,961
- France	51,715	51,715	(19,640)	32,075
Adjusted NAV	**185,300**	**185,300**	**(79,616)**	**105,684**

Estimated remaining collections ("ERC") represents AFE's estimated remaining collections on the Group's Assets over an 84-month period on an undiscounted basis, excluding any proportionate share of remaining cash collections that may be payable to a co-investor holding secured loan notes (Gross ERC includes this proportionate share). ERC can be attributed to the Group's financial instruments and reconciled as such:

1) Purchased loan portfolios - purchased loan portfolios comprise of different groups of homogenous assets. The carrying value of each purchased loan portfolio group is calculated by discounting future cash flows (Gross ERC) using the EIR method.

2) Purchased loan notes - the Group invests in portfolios held by entities which are not under the control of the Group via loan notes, which gives the Group proportionate rights to the cash flows from the underlying portfolios. The carrying value of each purchased loan note group is calculated by discounting the Groups forecast share of cash flows (ERC less the Group's proportionate share of costs) using the EIR method.

3) Investments in joint ventures measured at amortised cost - Investment in joint ventures are measured at amortised cost where cash flows comprise solely of principal and interest, with an intention to hold to collect and where the Group has joint control over the arrangement. The Group are entitled to its share of the collections of the underlying investment after deduction of collection and overhead costs in the joint venture. The carrying value of each investment in joint venture is calculated by discounting the net collections attributable to the Group using the EIR method.

For financial instruments measured at FVPL, the carrying values are calculated by discounting the Groups share of future cash flows using a prevailing market rate, whereas ERC represents the Groups share of estimated remaining collections undiscounted.

Notes to the Consolidated Financial Statements (continued)

6. Auditors' remuneration

The auditors' remuneration disclosed in the Financial Statements within other operating expenses represents the auditors' remuneration for the work carried out at each entity level that comprises the Group.

The table below shows the summary of audit fees incurred during the reporting year and the balances payable at the end of the year.

	As at 31 December 2021	As at 31 December 2020
	€000	€000
Fees charged		
Audit fees	547	411
Total fees charged during the year	**547**	**411**
Fees payable		
Audit fees payable	379	315
Audit fees payable at the end of the year	**379**	**315**

7. Other operating expenses and foreign exchange of the Group's Assets

Other operating expenses and foreign exchange losses of the Group's Assets are as follows:

	Year ended 31 December 2021	Year ended 31 December 2020
	€000	€000
Management fees	4,673	4,509
Directors' fees	236	232
Legal and professional fees	955	781
Administration fees	1,117	1,429
Audit fees	547	411
Abort deal fees	11	393
Depositary charges	58	60
Subscription tax	1	6
Staff costs	3,572	2,781
Other expenses	2,840	1,869
Other operating expenses	**14,010**	**12,471**
Realised foreign currency losses/(gains)	1,235	(309)
Unrealised foreign currency (gains)/losses	(900)	1,846
Net foreign currency losses	**335**	**1,537**

Staff costs include the total remuneration cost of all employees within the Group during the year. As at 31 December 2021, the Group had 21 employees (31 December 2020: 19). Other expenses include additional cost of €2.4m (year ended 31 December 2020 €1.2m) borne by the Group from AFPL in accordance with the Support Services agreement (see note 18 related party transactions).

8. Finance costs

	Year ended 31 December 2021	Year ended 31 December 2020
	€000	€000
Fees on Revolving Credit Facility	612	696
Interest on borrowings	3,191	2,472
Interest on Senior Secured Notes and related Charges	17,112	17,235
Interest expense - secured loan notes	2,007	2,131
Revaluation gain on secured loan notes	(817)	(2,939)
Total finance costs - borrowings	**22,105**	**19,595**

9. Taxation

Tax charges or credits in the Financial Statements have been determined based on the tax charges or credits recorded in the legal entities comprising the Group in the relevant geographies.

	Notes	Year ended 31 December 2021	Year ended 31 December 2020
		€000	€000
Profit / (Loss) before tax		15,421	(24,051)
Standard income tax rate applicable in Luxembourg		24.94%	24.94%
Theoretical taxation charge / (benefit)		3,846	(5,998)
Effect of profit not subject to income tax		(5,030)	5,803
Taxation (benefit) / charge on ordinary activities before other taxes		**(1,184)**	**(195)**
Other taxes (Net Wealth Tax etc.)		90	60
Provisions	24	1,261	1,471
Taxation charge		167	1,336

The Group's activities are subject to local income taxes, which are mainly incurred in jurisdictions such as Luxembourg, Spain, Portugal, Romania and UK.

AFE is subject to the Luxembourg subscription tax which is imposed at the rate of 0.01% per annum based on the aggregate Net Asset Value ("NAV") of the Fund at the end of the relevant quarter, calculated and paid quarterly, subject to certain exceptions (e.g. to the extent that the NAV of the Fund is represented by investments made by the Fund in other undertakings for collective investments, which have already borne the Luxembourg subscription tax).

For the year ended 31 December 2021, the Group's tax charge of €0.2m (2020: €1.3m) comprised Portuguese and other local tax charges. Further information on the Portuguese tax charges can be found in note 24 'Commitments and contingencies'.

Tax charges or credits in the Financial Statements have been determined based on tax charges or credits recorded in the legal entities comprising the Group in the relevant geographies.

10. Goodwill

As at 30 December 2021, the Group's goodwill amounts to €1.84m (as at 31 December 2020: €1.84m). Goodwill arose in 2018 on the acquisition of 100% of the share capital in a Spanish asset manager, Galata Asset Management S.L.

The Group has reviewed the carrying value of the goodwill in the Financial Statements to determine whether any impairment ought to be recognised. Following an assessment on the current financial performance and position of Galata Asset Management S.L. and a review of its business plan and outlook the Group is comfortable that no impairment is required.

Notes to the Consolidated Financial Statements (continued)

11. Investment in associate classified as held for sale

The Group owns 30% of the issued share capital of Phoenix Asset Management SpA ("PAM").

The terms of the holding mean that the Group exercises significant influence over PAM, which is achieved through the power to participate in the financial policy decisions of PAM and being involved in key strategic decision-making processes.

PAM specialises in offering management services, valuation, acquisition, and evaluation of NPL Portfolios which is strategic and key to the Group's operations in Italy.

The associate is accounted for using the equity method. As at 31st December 2021 PAM is held as held for sale, as the investment in being actively marketed and is available for immediate sale in its current condition. The sale is expected within 12 months.

Below is a reconciliation of the movements in the carrying value of the Group's interest in PAM as at 31 December 2021:

Name	Place of incorporation	Registered office	Economic interest
Phoenix Asset Management SpA	Italy	Corso Vittorio Emanuele II 154 Roma RM	30% ownership of issued share capital

	As at 31 December 2021	As at 31 December 2020
	€000	€000
Interest in net assets at beginning of year	7,396	6,522
Share of profit in associate	913	874
Interest in net assets of associate at the end of the year	**8,309**	**7,396**

The tables below provide summarised financial information of PAM for the year ended 31 December 2021

Statement of Financial Position of PAM as at 31 December 2021 (unaudited)

	As at 31 December 2021	As at 31 December 2020
	€000	€000
Assets		
Non-current assets	13,808	12,777
Current assets		
Cash and cash equivalents	8,157	5,127
Trade and other receivables	2,255	2,598
Total current assets	**10,412**	**7,725**
Total assets	**24,220**	**20,502**
Liabilities		
Current liabilities	10,768	11,275
Equity		
Share capital	71	71
Retained earnings	13,381	9,156
Total equity	**13,452**	**9,227**
Total equity and liabilities	**24,220**	**20,502**

Notes to the Consolidated Financial Statements (continued)

11. Investment in associate classified as held for sale (continued)

Statement of Comprehensive Income of PAM for the year ended 31 December 2021 (unaudited)

	Year ended 31 December 2021	Year ended 31 December 2020
	€000	€000
Revenue	9,494	7,607
Depreciation	(294)	(56)
Other expenses	(4,893)	(3,691)
Operating profit	**4,307**	**3,860**
Finance cost and tax charge	(1,220)	(1,105)
Comprehensive income for the year	**3,087**	**2,755**

12. Financial assets

The maturity profile for the Group's financial assets (excluding cash and trade receivables) is as follows:

	As at 31 December 2021	As at 31 December 2020
	€000	€000
Expected falling due after one year:		
Purchased loan portfolios	124,854	157,354
Purchased loan notes	3,285	9,372
Investments in joint ventures at amortised cost	54,374	56,312
Investments in joint ventures at FVPL	37,155	7,656
Total	**219,668**	**230,694**
Expected falling due within one year:		
Purchased loan portfolios	32,578	36,562
Purchased loan notes	5,987	3,859
Investments in joint ventures at amortised cost	19,413	8,874
Investments in joint ventures at FVPL	31,971	-
Loans to associate at FVPL	-	1,666
Total	**89,949**	**50,961**

The movements in purchased loan portfolios in the year were as follows:

	As at 31 December 2021	As at 31 December 2020
	€000	€000
Purchased loan portfolios as at beginning of year	193,916	241,665
Interest income from purchased loan portfolios	47,194	53,043
Collections in the year - sale of inventory	(9,861)	(8,543)
Collections in the year - loans *	(69,079)	(61,841)
Collections in the year - derecognition on sale**	(6,456)	-
Impairment	(518)	(31,035)
Add: movement in inventory and other receivables	2,236	627
Purchased loan portfolios at the end of the year	**157,432**	**193,916**

12. Financial assets (continued)

* includes c. €17.0m of collections accelerated by the local financing of an aggregated NPL portfolio.
** includes €6.5m proceeds from sales of a pool of low recovery assets within legacy portfolios in June 2021 (€4.0m) and December 2021 (€2.5m). The proceeds from these sales were recognised as collections in the year – derecognition on sale.

The movements in purchased loan notes in the year were as follows:

	As at 31 December 2021	As at 31 December 2020
	€000	€000
Purchased loan notes as at beginning of year	13,231	17,903
Proceeds from re-financing acquisitions	-	(462)
Interest income from purchased loan notes	1,293	1,667
Collections in the year	(4,176)	(4,923)
Impairment	(1,076)	(954)
Purchased loan notes at the end of the year	**9,272**	**13,231**

Purchased loan notes represent the interests of the Group in investment vehicles (or compartments in these investment vehicles) where the Group does not exercise control, with each vehicle/compartment holding a single underlying loan portfolio. The Group has exposure to the underlying portfolios by way of purchasing notes issued by these entities as a mechanism to fund the original purchase of the loan portfolios and thereafter to distribute cash generated on loan collections. Purchased loan notes in the Consolidated Statement of Financial Position represent the Group's total interest in these entities measured at amortised cost, using the EIR method.

Seasonal factors, including the number of working days in a given month, the propensity of customers to take holidays at particular times of the year, annual cycles in disposable income as well as seasonal interruptions of court calendars can impact collections. Collections within portfolios tend to have high seasonal variances, resulting in high variances of collections between periods. In addition, the timing of asset acquisitions by the Group is likely to be uneven during the fiscal year which can lead to fluctuations in collections and carrying values of the Group's Assets between periods. Typically, the last quarter in the fiscal year sees strong collections and capital deployment as judicial matters are settled and selling banks prepare for year-end close.

The movements in investments in joint ventures at amortised cost were as follows:

	As at 31 December 2021	As at 31 December 2020
	€000	€000
Joint ventures at amortised cost as at beginning of year	65,186	61,743
Investments acquired in joint ventures at amortised cost	28,162	11,369
Interest income from joint ventures	9,367	7,971
Collections in the year	(30,593)	(9,260)
Impairment gain/(loss)	1,744	(5,241)
Net foreign currency loss	(79)	(1,396)
Joint ventures at the end of the year	**73,787**	**65,186**

The movements in investments in joint ventures at FVPL were as follows:

	As at 31 December 2021	As at 31 December 2020
	€000	€000
Loans to joint ventures at FVPL as at beginning of year	7,656	-
Reclassification from investments in associate	2,046	-
Investment in loans to joint ventures at FVPL	67,107	7,656
Collections in the year	(8,845)	-
Movement in fair value	261	-
Net foreign currency gain	901	-
Loans to joint ventures at FVPL at the end of the year	**69,126**	**7,656**

12. Financial assets (continued)

Where a contractual arrangement gives the Group and another party collective control of the arrangement, and where unanimous consent is required for both strategic and financial decision making, the arrangement is deemed to be jointly controlled. As such the transactions are deemed to be joint ventures and have been accounted for as such. Investments in joint ventures in the Consolidated Statement of Financial Position represent the Group's total interest in these entities.

As at 31 December 2021, the carrying value of investments in joint ventures at FVPL is €69.1m (31 December 2020: €7.7m).

The movements in loans to associate were as follows:

	As at 31 December 2021	As at 31 December 2020
	€000	€000
Loans to associate at FVPL as at beginning of the year	1,666	-
Reclassification to investments in joint ventures	(2,046)	-
Loan to associates at FVPL in the year	-	1,600
Interest income	380	66
Loans to associates at FVPL at the end of the year	**-**	**1,666**

In 2020 AFE provided a convertible shareholder loan to Green Stone cell Stone 9 with the proceeds then being applied to support the acquisition of a land plot located in Milan. On 17 December the total loan amount was converted into equity after the land plot was successfully cleared and certain other conditions were met. The loan accrued interest at 13% per annum.

13. Participation in joint ventures

	As at 31 December 2021	As at 31 December 2020
	€000	€000
Participation in joint ventures at the beginning of the year	297	-
Participation acquired during the year	4,843	255
Share of net profit of joint ventures using equity method	6,816	42
Participation in joint ventures at the end of the year	**11,956**	**297**

The table below outlines the unaudited assets and liabilities of entities where the Group exercises joint control, and the percentages indicate the Groups economic share in these Joint Venture vehicles. The contractual arrangement in place with the coinvestor in each Joint Venture gives the Group joint control of the arrangement, and unanimous consent is required between the Group and the co-investor in each joint venture for both key strategic and financial decision making. The numbers in the table have been amended to reflect adjustments made by the entity when using the equity method, including fair value adjustments and modifications for differences in accounting policy.

	33.3% Precise Credit Solutions 5 SV	50.0% Tiberius SPV S.r.l. cell 5	33.3% Tiberius SPV S.r.l. cell 6	60.0% Aneto NS FIZ	50.0% Manzoni S.r.l.	50.0% Precise Equity Solutions 1 S.a.r.l	48.0% Green Stone SICAF S.p.A cell Stone 9
	€000	€000	€000	€000	€000	€000	€000
Current assets	15,442	30,978	36,299	21,792	11,661	26	1,061
Non-current assets	17,262	-	-	-	12,546	1,258	4,420
Current liabilities	(2,141)	(30,978)	(36,590)	(12,387)	(744)	(4)	-
Non-current liabilities	(29,740)	-	-	-	(16,741)	-	-
Equity	823	-	(291)	9,405	2,294	32	5,031
Profit in the year	-	-	-	-	4,428	1,248	450

Notes to the Consolidated Financial Statements (continued)

13. Participation in joint ventures (continued)

In 2020 AFE subscribed to 34% of the share capital in and provided a convertible shareholder loan to Green Stone SICAF S.p.A cell Stone 9 (“Green Stone cell Stone 9”), which is a cell of an Italian closed ended real estate alternative investment fund, with the proceeds then being applied to support the acquisition of a land plot located in Milan. The convertible shareholder loan was structured such that the loan would automatically be converted into equity if the land is successfully cleared and certain other conditions are met, however if these conditions were not met then the Group would exit the transaction and both its loan and equity commitments would be fully repaid. The total amount of €1.7m provided as a convertible shareholder loan was converted to equity on 17th December 2021, with €2.1m provided by way of equity financing (31 December 2020: €0.4m). Following the conversion of the shareholder loan on 17th December 2021 AFE is subscribed to 48% of the share capital of Greenstone Cell 9 (31 December 2020: 34%). AFEs participation in Green Stone cell Stone 9 is considered a joint venture post the conversion of the shareholder loan, the co-investors are bound by a contractual agreement which gives joint control to all of the co-investors.

	50.0% Precise Credit Solutions 10 S.a.r.l	50.0% Precise Credit Solutions 12 S.a.r.l	50.0% Precise Credit Solutions 13 S.a.r.l	39.0% Precise Credit Solutions 14 S.a.r.l	40.0% St Johns JV LP	38.8% 160 BFR Holdco Limited	Total as at 31 December 2021
	€000	€000	€000	€000	€000	€000	€000
Current assets	16	39	46	9,027		-	126,387
Non-current assets	4,966	6,486	22,794	5,841	50,109	87,127	212,809
Current liabilities	(2)	-	-	(81)	-	-	(82,927)
Non-current liabilities	(3,449)	(27)	(17,241)	(13,889)	(50,109)	-	(131,196)
Equity	421	12	5,225	1,468	-	87,127	111,547
Profit in the year	1,110	6,486	374	(570)	-	-	13,526

14. Inventory

Inventory comprises collateral assets, mainly real estate, repossessed as part of the management of secured non-performing loan portfolios. All inventory within the Group is held through real estate owned companies ("REOCOs") in the jurisdiction in which the asset resides.

The following table shows the movements in inventory during the year:

	As at 31 December 2021	As at 31 December 2020
	€000	€000
Opening inventory	26,027	26,025
Re-possessions	13,484	7,182
Disposals	(16,804)	(7,180)
Closing balance at the end of the year	**22,707**	**26,027**

15. Trade and other receivables

	As at 31 December 2021	As at 31 December 2020
	€000	€000
Collections receivable	12,486	6,073
Other receivables	8,789	6,350
Other assets	7,126	4,569
Total	**28,401**	**16,992**

Collections receivable relate to amounts held by servicers which are owed to the Group.

Other receivables include prepaid expenses in relation to fees incurred on obtaining the revolving credit facility and set up costs of the master servicing platform, as well as VAT receivable, prepayments. Other assets include advances made by REOCOs for properties which are held as a receivable until all legal documentation is in place confirming the asset title has transferred to the REOCO.

Notes to the Consolidated Financial Statements (continued)

16. Trade and other payables

	Notes	As at 31 December 2021 €000	As at 31 December 2020 €000
Trade payables		1,474	1,262
Deferred consideration		-	297
Amounts due to related parties	18	1,742	1,410
Accrued expenses		5,012	6,374
Trade and other payables - current		8,228	9,343
Deferred and contingent consideration - non-current		1,005	948
Total trade and other payables		**9,233**	**10,291**

17. Share capital

	As at 31 December 2021 €000	As at 31 December 2020 €000
Share capital at 1 January 2021	1,250	1,250
Total share capital at 31 December 2021	**1,250**	**1,250**

There are 1,250k Class A shares in issue, which were fully issued for a total amount of €1,250k. These shares were fully subscribed to by AnaCap Financial Europe Holding SCSp SICAV-RAIF, its sole shareholder.

Net Asset Value per share

The NAV per Class A share results from dividing the total net assets of the Fund attributable to such Class of shares on any valuation day by the number of shares of such class then outstanding.

	As at 31 December 2021 €000	As at 31 December 2020 €000
NAV attributable to Class A shares	(13,695)	(28,949)
No. of remaining Class A shares	1,250	1,250
NAV per Class A shares	**(10.96)**	**(23.16)**

18. Related party transactions

	As at 31 December 2021 €000	As at 31 December 2020 €000
Due to related parties		
Carne Global Fund Managers (Luxembourg) S.A.	31	32
AnaCap Investment Manager Limited	-	9
AnaCap Luxembourg S.à r.l.	-	56
AnaCap Financial Partners Limited	711	1,188
Equipped A.I. Limited	993	-
Belasko UK Limited	7	125
Total	**1,742**	**1,410**

Management fees

The AIFM is entitled to receive a management fee on a quarterly basis, based on 1.75% of AFE's NAV (as defined in the Offering Memorandum, pro-rated for the number of days in each period), which includes fees payable to AnaCap Investment Management Limited, acting as Portfolio Manager. The management fee for the year was €4,467k all of which has been fully paid (2020: €4,509k).

18. Related party transactions (continued)

Management fees (continued)

During the year the Group incurred charges of €206k to Carne Global Fund Managers S.A. in relation to management company services (2020: €125k).

Master servicing income

During the year the Group recognised €1.1m, €2.0m and €0.2m of income from the AnaCap Credit Opportunities III L.P, ACOF IV and AnaCap Real Estate Co-Invest L.P. fund structures respectively in relation to master servicing activities provided by the Group to each fund structure (2020: €0.6m, €1.0m and €nil respectively)

Fees payable to AnaCap Luxembourg S.à r.l.

During the year, the Group incurred charges of €130k (2020: €226k) to AnaCap Luxembourg S.à r.l. in relation to support functions and services provided to the master servicing platform.

Fees payable to AnaCap Financial Partners Limited

During the year, the Group incurred charges of €2.4m (2020: €1.2m) to AFPL in relation to support functions and services provided to the Group. This includes central functions, HR, office rent and staff costs.

Fees payable to Equipped Analytical Intelligence Limited

During the year, the Group incurred charges of €1.3m (2020: €nil) to Equipped A.I. Limited in relation to data analytics, data operations and software licence services provided to the Group.

Fees payable to Belasko UK Limited

During the year, the Group recognised fees payable to Belasko UK Limited of €680k in respect of accountancy services provided to the Group (2020: €125k since 1 October 2020).

Directors' fees

The Group entities each have a Board of Directors who receives Directors' fees on a fixed basis. The table below shows the payment to the Directors during the year and the balances due to them at the end of the year.

	Year ended 31 December 2021	Year ended 31 December 2020
	€000	€000
Fees charged		
Directors' fees	236	122
Total fees charged during the year	**236**	**122**

	As at 31 December 2021	As at 31 December 2020
	€000	€000
Fees payable		
Directors' fees payable	71	44
Directors' fees payable at the end of the year	**71**	**44**

Notes to the Consolidated Financial Statements (continued)

19. Reconciliation of Net Asset Value as per Offering Memorandum

The NAV of the Group is the value of the Group's assets, less any borrowings and other liabilities of the Group and therefore corresponds to total equity as shown in the Consolidated Statement of Financial Position.

NAV as per the Offering Memorandum for the Notes ("Adjusted NAV") is defined as the fair value of the purchased loan portfolios and purchased loan notes (net of servicing fees), less fair value of the secured loan notes (net of servicing fees), plus the fair value of investments in associates. NAV also includes the carrying value of inventory which is acquired as a result of re-possession of real estate assets securing loan positions within purchased loan portfolios.

To factor into the NAV calculation investment activity that has occurred since the Offering Memorandum was prepared, the Adjusted NAV calculation now also includes the fair value of investments in joint ventures (net of servicing fees), the fair value of Galata and the tax provision (see note 24 Commitment and contingencies). For the purposes of the Adjusted NAV calculation, the carrying value of the investments in associates and the purchase price paid for the acquisition of Galata (discounted) have been used. The Adjusted NAV forms the basis of the management fee calculation paid each quarter.

The table below shows the reconciliation from total net assets value of the Group to the Adjusted NAV:

	As at 31 December 2021	As at 31 December 2020
	€000	**€000**
NAV according to the Consolidated Statement of Financial Position	(13,695)	(28,949)
Adjustments:		
Cash and cash equivalents	(21,438)	(17,233)
Trade and other receivables	(28,401)	(16,992)
Trade and other payables (current and non-current)	10,246	10,717
Borrowings (current and non-current)	389,742	350,646
Fair value movement	(34,830)	(20,780)
Adjusted NAV	**301,624**	**277,409**

Notes to the Consolidated Financial Statements (continued)

20. Investments in subsidiaries and controlled entities

Details of the Group's subsidiaries and controlled entities are as follows:

	Place of incorporation	Ownership % as at 31 December 2021	Ownership % as at 31 December 2020	Current status
ACOF II Portugal Limited	Guernsey	100%**	100%**	Active
AFE Spain Limited	Guernsey	100%	100%	Active
AFE Asset Solutions S.à r.l. ***	Luxembourg	100%	100%	Active
Alpha Credit Holdings S.à r.l.	Luxembourg	100%	100%	Active
Alpha Credit Holdings 3 S.à r.l.	Luxembourg	100%	100%	Active
Alpha Credit Holdings 7 S.à r.l.	Luxembourg	100%	100%	Active
Alpha Credit Solutions 1 S.à r.l.	Luxembourg	100%	100%	Active
Alpha Credit Solutions 2 S.à r.l.	Luxembourg	100%	100%	Active
Alpha Credit Solutions 4 S.à r.l.	Luxembourg	100%	100%	Active
Alpha Credit Solutions 5 S.à r.l.	Luxembourg	100%	100%	Active
Alpha Credit Solutions 6 S.à r.l.	Luxembourg	100%	100%	Active
Anacap UK Asset Management Limited	United Kingdom	100%	100%	Active
Aurora Reo S.r.l.	Italy	100%	100%	Active
Aurora SPV S.r.l.*	Italy	0%	0%	Active
Augustus SPV S.r.l.*	Italy	0%	0%	Active
AFE Italy S.r.l.	Italy	100%	100%	Active
Mountrock S.L.U.	Spain	100%	100%	Active
Prime Credit 3 S.à r.l.	Luxembourg	100%	100%	Active
Prime Credit 6 S.à r.l.	Luxembourg	100%	100%	Active
Prime Credit 7 S.à r.l.	Luxembourg	100%	100%	Active
Sagres Holdings Limited*	Malta	0%	0%	Active
Silview S.L.U.	Spain	100%	100%	Active
Tiberius SPV S.r.l.* (Compartments 1-4)	Italy	0%	0%	Active
Tiberius III REOCO S.R.L	Italy	100%	100%	Active
Thor SPV S.r.l.*	Italy	0%	0%	Active
Belice ITG, S.L.U.	Spain	100%	100%	Active
Silonea Investments, S.L.U.	Spain	100%	100%	Active
Galata Asset Management, S.L.	Spain	100%	100%	Active
Episódio Válido - S.A.	Portugal	100%	100%	Active
Atticus STC, S.A.	Portugal	100%	100%	Active
Átila, Unipessoal LDA	Portugal	100%	100%	Active
APM 2 sp. Z.o.o.	Poland	60%	60%	Active

As of 31 December 2021 the Group had 21 employees spread across 5 different subsidiaries:

- AnaCap UK Asset Management Limited: 2 (2020: 4)
- AFE Asset Solutions S.a r.l.***: 2 (2020: 2)
- Galata Asset Management, S.L: 10 (2020: 8)
- Atila, Unipessoal LDA: 6 (2020: 4)
- AFE Italy S.r.l.: 1 (2020: 1)

* In accordance with IFRS 10 these entities have been deemed to be under the control of the Group and have therefore been consolidated in the Financial Statements. IFRS 10 determines there to be control when the Group is exposed to the majority of the variable returns and has the ability to affect those returns through power over an investee.

** Represents 100% ownership and 100% of the voting and controlling rights of the A shares. A co-investor owns the B shares in ACOF II Portugal Limited, but the B shares have no voting or controlling rights. Both the A shares and the B shares track the Portuguese Group Assets, through inter-company funding loan notes and equity.

*** AFE Asset Solutions S.à r.l. was renamed from AFE Asset Management S.à r.l. on 10 October 2021.

21. Financial risk management

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a loss for the other party by failing to pay for its obligations.

The Group's principal activity is the acquisition and monetisation of pools of non-performing loan portfolios and is therefore subject to significant counterparty risk. Most of the loan portfolios are purchased at a deep discount and hence are impaired by nature at acquisition and classified as POCI (Purchased or Originated Credit-Impaired) financial assets. Subsequent to acquisition the expected cash flows are regularly benchmarked against actual performance and market and proprietary data which in turn leads to a revision up or down to the estimated remaining collections that forms the basis for the carrying value estimation at the reporting date. The carrying value estimation also takes into account collaterals, whenever applicable. Further details of the forecasting process are given in note 4.

The below table shows how the Group's financial assets can be classified into different stages and a reconciliation from the opening balance to the closing balance of the loss allowance:

Financial instrument	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI	Total
	€'000	€'000	€'000	€'000	€'000
Purchased loan portfolios	-	-	-	232,948	232,948
Purchased loan notes*	9,839	-	-	-	9,839
Investments in joint ventures at amortised cost*	78,253	-	-	-	78,253
Gross carrying amount	88,092	-	-	232,948	321,040
Loss allowance	(5,033)	-	-	(75,516)	(80,549)
Carrying amount	**83,059**	**-**	**-**	**157,432**	**240,491**

* Purchased loan notes and investments in joint ventures were reclassified from POCI to Stage 1. The loans provided by the Group to the vehicles holding credit-impaired assets are not POCI, despite the underlying asset portfolios meeting POCI criteria, except for real estate investments. The comparative table below was updated to conform with the period end classification.

Stage 1 12-month ECL PLP has reduced to zero following the sale of a residual portfolio of assets in December 2021.

Comparative figures for the year ended 31 December 2020:

Financial instrument	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI	Total
	€'000	€'000	€'000	€'000	€'000
Purchased loan portfolios	4,166	-	-	264,748	268,914
Purchased loan notes	12,722	-	-	-	12,722
Investments in joint ventures at amortised cost	71,397	-	-	-	71,397
Gross carrying amount	88,285	-	-	264,748	353,033
Loss allowance	(5,702)	-	-	(74,998)	(80,700)
Carrying amount	**82,583**	**-**	**-**	**189,750**	**272,333**

21. Financial risk management (continued)

Credit risk (continued)

For financial instruments classified as POCI the below table shows the percentage of the portfolios which are secured by real estate collateral:

Financial instrument	Carrying amount	% secured
	€'000	
Purchased loan portfolios	232,948	69%
Purchased loan notes	9,839	84%
Gross carrying amount	242,787	70%
Loss allowance	(76,083)	-
Carrying amount	166,704	70%

The Group reviews its underlying portfolio and the collateral underpinning loan positions on at least a bi-annual basis. For positions that are secured, the Group will analyse asset management strategies available in order to optimise recoveries, which may include the re-possession of the collateral secured on loan positions in order to mitigate credit risk. The Group's portfolio contains a broad range of asset types which secure portfolio loan positions, including residential, commercial, industrial and land assets.

For both unsecured and secured positions within financial instruments classified as POCI, any changes to ECLs is reflected as an impairment loss or gain in the Statement of Comprehensive Income.

The ongoing risk is managed via a formal portfolio reforecast and review process that is undertaken by the Group. The Group also reviews and analyses all loan portfolio acquisitions including reputational and regulatory risk, as well as the assumptions underpinning any maximum bid price to minimise future credit risk resulting from loan portfolio acquisitions.

The carrying value of purchased loan portfolios, purchased loan notes and investments in joint ventures in the Consolidated Statement of Financial Position represent the Group's maximum exposure to credit risk. The tables in note 12 set out the maximum risk at each reporting period end.

The Group monitors its exposure to the geographic concentration risk of its assets, a breakdown of which is shown in note 5.

The below table shows how the impairment charge recognised for the year ended 31 December 2021 can be attributed by geography, taking into consideration the Group's Assets including advances made by REOCOs for property acquisitions (see note 15):

Country	Carrying value as at 31 December 2021	Impairment gain for the year	Carrying value as at 31 December 2021
	€000	€000	€000
- Italy	94,426	13,228	107,654
- Spain	83,634	(7,281)	76,353
- Portugal	48,072	(2,503)	45,569
- Romania	8,152	(837)	7,315
- United Kingdom	69,153	(740)	68,413
- Poland	16,926	(1,716)	15,210
- France	32,075	-	32,075
Total	**352,438**	**151**	**352,589**

Notes to the Consolidated Financial Statements (continued)

21. Financial risk management (continued)

Credit risk (continued)

Comparative figures for the year ended 31 December 2020:

Country	Carrying value as at 31 December 2020	Impairment charge for the year	Carrying value at at 31 December 2020
	€000	€000	€000
- Italy	139,993	(14,691)	125,302
- Spain	101,692	(13,658)	88,034
- Portugal	71,411	(8,172)	63,239
- Romania	10,792	(48)	10,744
- United Kingdom	4,574	(408)	4,166
- Poland	18,855	(253)	18,602
- France	2,579	-	2,579
Total	**349,896**	**(37,230)**	**312,666**

Liquidity risk

Liquidity risk is the risk that the Group will have difficulties meeting obligations associated with its financial liabilities that are settled by cash or another financial asset when they become due.

The Group is subject to the risk that it will not have sufficient borrowing facilities and working capital to fund its existing and future growth of the business. The policy adopted by the Group is to reduce its risk by ensuring that there are sufficient committed debt facilities to cover forecast borrowings plus the operating headroom. Further, the aim is to ensure that there is a balanced refinancing profile, diversification of debt funding sources and no over-reliance on a single or small group of lenders. The total undrawn amount on the Facility as at 31 December 2021 were €22.2m (31 December 2020: €69.7m).

The Group monitors cash through daily reporting, monthly management accounts and period review meetings. The Group has well established models used to predict collectability of cash receipts and this represents a key performance indicator of the business. The Group has a low fixed cost base, is highly cash generative with monthly cash receipts and portfolio purchases are discretionary, which helps to mitigate the liquidity risk.

The table below sets out the cash flows payable, including both principal and interest, over the contractual life of the financial liabilities.

	Within 1 year	1-3 years	3-5 years	Over 5 years	Total
	€000	€000	€000	€000	€000
Borrowings	91,691	341,703	-	-	433,394
Secured loan notes	2,488	12,427	7,420	106	22,441
Trade and other payables	8,228	1,005	-	-	9,233
Total	**102,407**	**355,135**	**7,420**	**106**	**465,068**

Notes to the Consolidated Financial Statements (continued)

21. Financial risk management (continued)

Liquidity risk (continued)

Comparative figures for the year ended 31 December 2020:

	Within 1 year	1-3 years	3-5 years	Over 5 years	Total
	€000	€000	€000	€000	€000
Borrowings	40,106	51,966	319,031	-	411,103
Secured loan notes	2,098	14,233	4,243	146	20,720
Trade and other payables	9,343	948	-	-	10,291
Total	**51,547**	**67,147**	**323,274**	**146**	**442,114**

Secured loan notes shown in the tables above represent expected repayments based on expected collections; all other balances represent contractual repayment dates.

The value of purchased loan portfolios, purchased loan notes and investments in joint ventures are shown in these Financial Statements discounted back to net present value. The tables below set out the undiscounted estimated remaining collections of the Group's Assets ("Gross ERC") and net of any amounts attributable to the secured loan note holders ("ERC").

	As at 31 December 2021	As at 31 December 2020
Gross ERC	556,167	500,910
ERC	531,098	472,494

A maturity analysis of the Group's Assets (excluding inventory), borrowings and facilities as at 31 December 2021 is presented below:

	Notes	Financial assets	% of total	Borrowings and facilities	% of total
		€000		€000	
Within one year	12 / 23	89,949	29.1%	79,403	19.7%
After one year		219,668	70.9%	323,341	80.3%
Total		**309,617**	**100%**	**402,744**	**100%**

Comparative figures for the year ended 31 December 2020:

	Notes	Financial assets	% of total	Borrowings and facilities	% of total
		€000		€000	
Within one year	12 / 23	50,961	18.1%	28,046	7.7%
After one year		230,694	81.9%	336,217	92.3%
Total		**281,655**	**100%**	**364,263**	**100%**

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk predominately comprises interest rate risk and currency risk.

21. Financial risk management (continued)

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in interest rates.

The Group is exposed to interest rate risk on its borrowings, principally on the Notes that incur annual interest at a rate equal to the sum of i) three-month Euro Interbank Offered Rate ("EURIBOR") (subject to a 0% floor) plus ii) 5.00%. During the reporting period EURIBOR was less than 0% and so interest at a rate of 5.00% has been incurred on the Notes.

Interest payable on loans under the Facility agreement is charged at an annual marginal rate of 3.5% plus IBOR (being EURIBOR for loans denominated in euro, otherwise LIBOR). On 6 August 2021 the super senior revolving facility agreement dated 7 July 2017 was amended to replace the reference rate from LIBOR to SONIA for GBP utilisations. In any case that IBOR is less than 0% in respect of any loans drawn, IBOR in respect of that loan shall be deemed to be 0%. As at 31 December 2021, €68.5m of the Facility was drawn. Commitment fees payable under the Facility agreement are accrued at the rate of 35% of the then applicable margin, being 1.225% p.a. in the reporting period.

Interest payable on draws made under the Term Facility agreement is charged at an annual rate of 3.0% plus IBOR, and this rate decreases at various intervals over the term of the agreement. As at 31 December 2021, €15.4m of the facility was drawn. No commitment fee is payable under the Term Facility agreement.

The following table shows the impact on finance costs if the EURIBOR had increased by 100 basis points. Given that EURIBOR was negative during 2020, a decrease in EURIBOR would not have had a material impact on finance costs, as the Notes accrue interest at 5% + EURIBOR, with EURIBOR being subject to a 0% floor.

	Year ended 31 December 2021	Year ended 31 December 2020
	€000	€000
Increase in finance cost	1,416	2,134
Total impact on the Statement of Comprehensive Income for the year	**1,416**	**2,134**

Foreign currency risk

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in foreign currency exchange rates. The Group has invested in a loan portfolio denominated in Polish Zloty (PLN)). The group holds five direct real estate investments that are denominated in GBP that were acquired during the year. Additionally, the Group held cash balances in foreign currencies including GBP at the reporting date. Consequently, the business is subject to three elements of foreign currency risk considered below.

- **Statement of Consolidated Comprehensive Income exposure**

Income and expenses stemming from the Groups' Assets which are denominated in Sterling are converted to Euro using the exchange rate at the prevailing date. Therefore, the risk arises that fluctuations in the foreign currency exchange rate will have an impact on the financial results for the year. A sensitivity analysis has been conducted to consider the impact of movements in the foreign currency exchange rates on the loan portfolio and is shown in thetables below.

- **Statement of Consolidated Financial Position exposure**

Group Assets denominated in foreign currency are converted to Euro using the exchange rate at the reporting date. Therefore, the risk arises that fluctuations in the foreign currency exchange rate will have an impact on the combined carrying value of the Group Assets. A sensitivity analysis has been conducted to consider the impact of movements in the foreign currency exchange rates on the foreign currency denominated loan portfolios and cash balances at reporting date and is shown in the tables below.

- **Cash flow exposure**

The Group is subjected to currency risk in respect of forecasted cash flows to be received in foreign currency. Foreign currency cash flow risk mitigation is managed by the Group by settling any liabilities in that currency due at the same date.

Notes to the Consolidated Financial Statements (continued)

21. Financial risk management (continued)

Foreign currency sensitivity analysis

The below table sets out what the impact on the net assets and net profit/loss would be, had the foreign currencies at the Statement of Financial Position date been 10% weaker in relation to the Euro.

	Year ended 31 December 2021	Year ended 31 December 2020
	€000	€000
Equity and net assets		
Polish Zloty (PLN)	(1,578)	(1,838)
Sterling (GBP)	(6,743)	(423)
Loss		
Polish Zloty (PLN)	(1,578)	(1,838)
Sterling (GBP)	(6,743)	(423)

The below table sets out what the impact on the net assets and net profit/loss would be, had the foreign currencies at the Statement of Financial Position date been 10% stronger in relation to the Euro.

	Year ended 31 December 2021	Year ended 31 December 2020
	€000	€000
Equity and net assets		
Polish Zloty (PLN)	1,578	1,838
Sterling (GBP)	6,743	423
Profit		
Polish Zloty (PLN)	1,578	1,838
Sterling (GBP)	6,743	423

The Board of Directors consider 10% to be a good indication as to the reasonable possible change that could arise from foreign currency fluctuations given the current economic environment.

Capital risk management

Capital risk is the risk that the Group's capital structure is not sufficient in order to support the growth of the business.

The Group aims to maintain appropriate capital to ensure that it has a strong Statement of Financial Position but at the same time is providing a good return on equity to the shareholders. The Group's long-term aim is to ensure that the capital structure results in the optimal ration of debt and equity finance. The Board of Directors reviews the capital structure on an ongoing basis. As part of this review, the Board of Directors consider the cost of capital and the risks associated with each class of capital.

The capital structure of the business consists of borrowings, equity and cash and cash equivalents as shown in the below table. The net capital position for the Group is set out below:

	As at 31 December 2021	As at 31 December 2020
	€000	€000
Equity	(13,695)	(28,949)
Borrowings	389,742	350,646
Less: Cash and cash equivalents	(21,438)	(17,233)
Total	**354,609**	**304,464**

Notes to the Consolidated Financial Statements (continued)

22. Valuation of financial assets, liabilities and other instruments

The fair value hierarchy, fair value and book value of financial assets and financial liabilities of the Group are set out below (the below analysis does not include inventory as this is not considered a financial asset under IFRS):

Financial assets	Fair value hierarchy	Fair Value 31 December 2021	Book value 31 December 2021
		€000	€000
Purchased loan portfolios*	Level 3	147,458	157,432
Purchased loan notes	Level 3	8,339	9,272
Investments in joint ventures at amortised cost	Level 3	83,390	85,743
Investments in joint ventures at FVPL	Level 3	69,126	69,126
Cash and cash equivalents	Level 2	21,438	21,438
Trade and other receivables	Level 2	21,275	21,275
Total		**351,026**	**364,286**

Financial liabilities	Fair value hierarchy	Fair Value 31 December 2021	Book value 31 December 2021
		€000	€000
Senior Secured Notes	Level 1	303,287	306,129
Revolving Credit Facility	Level 2	68,465	68,465
Term Facility	Level 2	15,148	15,148
Secured loan notes	Level 3	13,002	13,002
Trade and other payables	Level 2	8,228	8,228
Total		**408,130**	**410,972**

Comparative figures as at 31 December 2020:

Financial assets	Fair value hierarchy	Fair Value 31 December 2020	Book value 31 December 2020
		€000	€000
Purchased loan portfolios*	Level 3	174,026	193,916
Purchased loan notes	Level 3	11,773	13,231
Investments in joint ventures at amortised cost	Level 3	52,314	65,186
Loan to joint venture at FVPL	Level 3	7,656	7,656
Loan to associate at FVPL	Level 3	1,666	1,666
Cash and cash equivalents	Level 2	17,233	17,233
Trade and other receivables	Level 2	12,423	12,423
Total		**277,091**	**311,311**

Financial liabilities	Fair value hierarchy	Fair Value 31 December 2020	Book value 31 December 2020
		€000	€000
Senior Secured Notes	Level 1	261,034	304,699
Revolving Credit Facility	Level 2	20,269	20,269
Term Facility	Level 2	25,678	25,678
Secured loan notes	Level 3	13,617	13,617
Trade and other payables	Level 2	10,291	10,291
Total		**330,889**	**374,554**

* The fair value of purchased loan portfolios is net of amounts owing to secured loan note holders, whereas the book value of purchased loan portfolios is gross of amounts owing to secured loan note holders.

For the Group, the carrying value of financial assets and financial liabilities is considered to be the best estimate of fair value, with the exception of purchased loan portfolios, purchased loan notes, investments in joint ventures and secured loan notes.

22. Valuation of financial assets, liabilities, and other instruments (continued)

The fair values of financial assets accounted for at amortised cost are calculated using the discounted cash flow method, with discount rates applied accurately reflecting the economic environment and prevailing market conditions as at 31 December 2021. The book values of these assets are calculated using EIR accounting where the EIR remains fixed.

The three main influencing factors in calculating the fair value of purchased loan portfolios, purchased loan notes and investments in joint ventures are: (i) gross collections forecast, (ii) the cost level, and (iii) the market discount rate. On a quarterly basis, the Group assesses net collection forecasts for all portfolios and discounts the forecasts to present value, which serves as the basis for calculating the reported fair value for each portfolio.

The Group has gained considerable experience from the many portfolio transactions in which it has participated in or has knowledge providing the expertise to estimate a market discount rate. The discount rate corresponding to the market's required return is updated on a bi-annual basis (or on a quarterly basis if the change is considered material) and reflects actual return on relevant and comparable transactions in the market.

Fair value estimation

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Group determines fair values using other valuation techniques.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Valuation models

The Group measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

Level 2: inputs other than quoted market prices within level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The Group measures certain loan investments into joint venture vehicles at FVPL. Investments which are classified at FVPL are classified at level 3, with the investments valued using the discounted cash flow model technique. The valuations of these investments/assets are performed by the Investment Advisor, AFPL, on at least a bi-annual basis, with the valuations subsequently approved by AIML as Portfolio Manager.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

Valuation techniques include net present value and discounted cash flow models, using prices from observable current market transactions and dealer quotes for similar instruments and unobservable inputs such as historic performance data.

The Consolidated Statement of Financial Position value of the Group's Assets is derived from discounted cash flows generated by an 84-month ERC model. The inputs into the ERC model are historic portfolio collection performance data. This ERC is updated with the core collections experience to date on a monthly basis. The Group has an established control framework with respect to the measurement of the Group's Assets values. This includes regular monitoring of portfolio performance overseen by the Group, which considers actual versus forecast results at an individual portfolio level and re-forecasting cash flows on a 3-6 monthly basis.

Derivative financial instruments are initially recognised, and subsequently measured, at fair value. The fair values of derivative instruments are calculated using quoted prices. Borrowings are initially measured at fair value and are subsequently measured at amortised cost, there have been no movement between levels.

22. Valuation of financial assets, liabilities, and other instruments (continued)

For loans to joint ventures measured at FVPL whose value is determined by the fair value changes underlying real estate assets held by the joint venture, the following key factors are critical when assessing future cash flows and the fair value of the asset:

1) The forecast sales price of the real estate assets

2) The forecast date of sale of the real estate assets

When assessing these factors, the Investment Advisor will look at the following factors to help support its assumptions used on future cash flows:

1) Market conditions and prevailing market prices for similar properties in the same location and exit prices achieved

2) Yields achieved in the market for similar assets in the same location

3) Tenancy rates and the impact prevailing market conditions may have on this (e.g. COVID-19)

For assets whose fair value is linked to the performance of real estate investments, a 10% reduction to sales price would have a €14.1m impact to the carrying value as of 31 December 2021, and a 12 month delay in forecast exit dates would have a €16.8m impact to the carrying value as of 31 December 2021.

Reconciliation of assets measured at FVPL

	As at 31 December 2021	As at 31 December 2020
	€000	€000
Financial assets measured at FVPL as at beginning of year	9,322	-
Loans to joint venture at FVPL	67,107	7,656
Loans to associate at FVPL	-	1,666
Collections in the year	(8,845)	-
Interest income	380	-
Movement in fair value	261	-
Net foreign currency gain	901	-
Financial assets measured at FVPL at the end of the year	**69,126**	**9,322**

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

Valuation techniques include net present value and discounted cash flow models, using prices from observable current market transactions and dealer quotes for similar instruments and unobservable inputs such as historic performance data.

The purchased loan portfolios and purchased loan notes are carried at amortised cost calculated using the 84-month ERC. Derivative financial instruments are initially recognised, and subsequently measured, at fair value. The fair values of derivative instruments are calculated using quoted prices. Borrowings are initially measured at fair value and are subsequently measured at amortised cost.

The carrying values of the Term Facility, Revolving Credit Facility and Secured Loan Notes are reasonable approximation of their fair values. The fair value of the Senior Secured Notes was determined using the quoted market price at Euro MTF Market of Luxembourg Stock Exchange (Level 1) as at 31 December 2021 €303.3m (as at 31 December 2020: €261.0m).

There have been no transfers between the levels.

The Consolidated Statement of Financial Position value of the Group's Assets is derived from discounted cash flows generated by an 84-month ERC model. The inputs into the ERC model are historic portfolio collection performance data. This ERC is updated with the core collections experience to date on a monthly basis.

The Group has an established control framework with respect to the measurement of the Group's Assets values. This includes regular monitoring of portfolio performance overseen by the Group, which considers actual versus forecast results at an individual portfolio level and re-forecasting cash flows on a 3-6 monthly basis.

A reconciliation of the closing balances for the year of the purchased loan portfolios, purchased loan notes and investments in joint ventures can be seen in note 12.

The Group did not hold any other financial instruments not measured at fair value for which a fair value needs to be calculated in the year.

23. Borrowings and facilities

	As at 31 December 2021	As at 31 December 2020
	€000	**€000**
Expected falling due after one year		
Senior Secured Notes	303,524	302,094
Secured loan notes	12,520	12,907
Term Facility	7,297	21,216
Total	**323,341**	**336,217**

Expected falling due within one year		
Revolving Credit Facility	68,465	20,269
Term Facility	7,851	4,462
Senior Secured Notes	2,605	2,605
Secured loan notes	482	710
Total	**79,403**	**28,046**

Secured loan notes represent amounts owed to external parties which invest in portfolios held by entities which are under the control of the Group via subscriptions to secured loan notes and shares issued by entities within the Group. The secured loan notes in the above table are carried at amortised cost using the EIR method.

On 21 July 2017 AFE issued Senior Secured Floating Rate Notes for a value of €325.0m (the "Notes"). The Notes will mature on 1 August 2024, and at any time on or after 1 August 2019 AFE may redeem all or a portion of the Notes. Interest is charged at annual interest rate of 5.00% plus EURIBOR (subject to 0% floor). On 3 May 2019 AFE repurchased Senior Secured Notes with a nominal value of €10.0m with a carrying value per the Financial Statements of c.€9.8m for a total consideration of c.€9.0m. On 25 June 2019 AFE repurchased Senior Secured Notes with a nominal value of €7.5m with a carrying value per the Financial Statements of c.€7.4m for a total consideration of c.€6.5m. On repurchase the Senior Secured Notes were cancelled with immediate effect.

The Notes are guaranteed on a senior secured basis (the "Guarantees") by ACOF II Portugal Limited, AFE Spain Limited, Alpha Credit Holdings S.à r.l., Alpha Credit Solutions 1 S.à r.l., Alpha Credit Solutions 4 S.à r.l., Prime Credit 3 S.à r.l., Prime Credit 6 S.à r.l. and Prime Credit 7 S.à r.l. (together, the "Guarantors") and the Facility is guaranteed by the Guarantors and by AFE.

AFE's and the Guarantors' obligations are secured on a first-ranking basis, (i) the outstanding capital stock of AFE that is held by its direct parent, AnaCap Financial Europe Holdings SCSp SICAV-RAIF, (ii) all capital stock of each of the Guarantors that is owned by AFE or another Guarantor, (iii) certain bank accounts of AFE and of the Guarantors and (iv) receivables from certain inter-company loan notes and securitisation notes that are held by AFE and by one of the Guarantors and receivables from a participation agreement due to another of the Guarantors.

The assets of the Group, excluding amounts owing to secured loan note holders, have been pledged as security for the Senior Secured Notes, the Super Senior Revolving Credit Facility, and the Term Facility. For the year ended 31 December 2021 the Group remained compliant with all covenants outlined on the Senior Secured Notes and the Super Senior Revolving Credit Facility.

As at 31 December 2021 AFE had a €90.0m (2020: €90.0m) Super Senior Revolving Credit Facility available to use to help facilitate its working capital requirements (the "Facility"). The Facility can be increased up to an amount equal to the higher of €90.0m and 17.5% of ERC. Interest accrues on the Facility at a rate of 3.50% p.a. for amounts drawn (the "Margin"), with commitment fees being 35% of the Margin. As at 31 December 2021, €68.5m (31 December 2020: €20.3m) had been drawn as a loan from the Facility. The total amount available to draw upon as at 31 December 2021 is equal to €21.5m (31 December 2020: €69.7m).

In accordance with the Facility agreement, AFE is required to ensure that at each quarter end date i) the LTV Ratio does not exceed 0.75:1 and ii) the SSRCF LTV Ratio does not exceed 0.25:1. As at 31 December 2021, the LTV Ratio was 66.8% and the SSRCF LTV Ratio was 0.08:1.

On 17 January 2020, Alpha Credit Solutions 6 S.a r.l. ("ACS6") upsized the Term Facility by €6.3m, increasing the total Term Facility available to draw on to €31.3m, due to mature 17 January 2023. As at 31 December 2021, €15.4m (31 December 2020: €26.2m) had been drawn. The amounts payable on the Term Facility due within and greater than 1 year are dependent on the performance and cash flow timings of portfolios which are secured in favour of the Term Facility lenders. Interest accrues at a rate equal to the Margin and EURIBOR. At 31 December 2021 the applicable Margin was 3.0%. In accordance with the Term Facility agreement, ACS6 was required to ensure that leverage as at 31 December 2021 did not exceed 50.0%; as at 31 December 2021, leverage was 25.80%. The Term Facility agreement was amended in July to account for the change in collections forecast.

Notes to the Consolidated Financial Statements (continued)

23. Borrowings and facilities (continued)

The Board of Directors remain confident that all liabilities and obligations of the Group will be met for a period of at least 12 months from the date the Financial Statements are signed.

Reconciliation of changes in financial liabilities arising from financing activities

The below table sets out an analysis of the changes in financial liabilities for the year from financing activities:

	Cash and cash equivalents	Borrowings	Secured loan notes	Total
	€000	€000	€000	€000
As at 1 January 2021	**17,233**	**(350,646)**	**(13,617)**	**(347,030)**
Cash flows	4,205	(17,697)	1,621	(11,871)
Foreign exchange adjustments	-	(523)	-	(523)
Finance cost	-	(20,915)	(2,007)	(22,922)
Other non-cash movements	-	-	2,622	2,622
As at 31 December 2021	**21,438**	**(389,781)**	**(11,381)**	**(379,724)**

Comparative figures as at 31 December 2020:

	Cash and cash equivalents	Borrowings	Secured loan notes	Total
	€000	€000	€000	€000
As at 1 January 2020	**26,474**	**(374,385)**	**(16,414)**	**(364,325)**
Cash flows	(9,241)	43,992	1,989	36,740
Foreign exchange adjustments	-	150	-	150
Finance cost	-	(20,403)	(2,131)	(22,534)
Other non-cash movements	-	-	2,939	2,939
As at 31 December 2020	**17,233**	**(350,646)**	**(13,617)**	**(347,030)**

24. Commitments and contingencies

Portuguese tax liability

On 14 January 2021, the Group received a notification issued by the Portuguese Tax Authorities ("PTA") referring to tax audit proceedings in relation to the Portuguese assets held within the Group for the financial years 2016 – 2018. This notification has been expected in light of the Portuguese tax charge that was settled in 2018 relating to financial years 2013 – 2015. Discussions with the PTA on the settlement are on-going, €0.9m was reclassified from tax provision to tax payable based on the notification.

The total tax provision reflected in the Financial Statements as at 31 December 2021 is €5.1m (31 December 2020: €6.0m).

Real estate investments

Under the business plan of the signed and acquired real estate assets, as at 31 December 2021, the Group is expected to fund c.€17.7m (between €3.5m-€5.5m as at 31 December 2020) for its share of acquisition cost and capital expenditure over the next three years.

25. Ultimate parent entity

The ultimate parent entity of the Group is AnaCap Group Holdings Limited.

Notes to the Consolidated Financial Statements (continued)

26. Subsequent events

Changes to the Board of Directors of the AIFM

On 11th January 2022 Martin Dobbins resigned from the Board of Directors.

Signed and Completed Investments

In December 2021, the group had signed a c.€2.0m Italian SME secured NPL portfolio, the transaction completed on 7th January 2022.

On 12th January 2022, AFE funded a deposit of c.€1.2m and signed a sale promise agreement for the purchase of a c.15,800 sqm office south of Paris, France. AFEs economic interest in this transaction is 40%.

On 21st January 2021, AFE made an additional funding of c.€0.6m to an existing joint venture arrangement invested in a Grade A listed office complex in Paris, AFEs Economic interest in the transaction is 50%.

On 3rd February 2022 and 18th March 2022, the group made additional fundings of c.€0.5m and c.€1.4m in an existing joint ventures invested in a partly occupied office complex in Paris. The transaction completed in May 2021, AFE has a 40% economic interest.

On 8th February 2022, AFE completed the acquisition of an office building south west of London in a c.€3.1m transaction for a 50% economic interest in the transaction.

On 11th February 2022, AFE funded a deposit of c.€0.9m and signed a sale promise agreement for the purchase of a c. 8,200 sqm mixed use development opportunity in Paris, AFEs economic interest in this transaction is 40%.

On 16th February 2022, AFE funded a deposit of c.€0.9m and signed a sale promise agreement for the purchase of a c. 19,500 sqm shopping complex in the south of France, AFEs economic interest in this transaction is 40%.

On 22nd February 2022, AFE funded c.€1.4m to acquire the share capital of a real estate investment trust in India, the manager will be a wholly owned subsidiary of AFE Asset Solutions.

On 25th February 2022 AFE funded a c.€0.4m deposit for the acquisition of an office building in the north of England, AFEs economic interest in this transaction is 50%.

Russian Invasion of Ukraine

The ongoing military invasion of Ukraine and the related sanctions targeted against the Russian Federation may have impact on the European economies and globally. The Group does not have any direct exposure to Ukraine, Russia or Belarus. However, the impact on the general economic situation may require revisions of certain assumptions and estimates. This may lead to material adjustments to the carrying value of certain assets and liabilities within the next financial year. At this stage management is not able to reliably estimate the impact as events are unfolding day-by-day.

27. Adjusted EBITDA and Normalised EBITDA

Adjusted and Normalised EBITDA is the profit before interest, tax, depreciation, amortisation, non-recurring items, foreign exchange gains or losses and share of associates profit or loss. Revenue and costs on purchased loan portfolios, purchased loan notes, investments in joint ventures and secured loan notes that are calculated using the EIR method or at fair value are also replaced with actual cash collections in the year. Collections in the year represent cash received by the Group and/or the servicers engaged by the Group within that year and include deferred consideration on a received basis.

Normalised EBITDA eliminates the impact of portfolio disposals.

The Adjusted EBITDA and Normalised EBITDA reconciliations for the relevant periods are shown below.

27. Adjusted EBITDA and Normalised EBITDA (continued)

Reconciliation of profit before tax to Normalised and Adjusted EBITDA:

	Year ended 31 December 2021	Year ended 31 December 2020
	€000	€000
Profit/(loss) before tax	**15,421**	**(24,051)**
Finance costs	22,105	19,595
Share of profit in associate and joint ventures	(7,729)	(916)
Net foreign currency movements	335	1,537
Impairment (gains)/losses	(151)	37,230
Portfolio disposals	6,456	1,991
Collections from portfolios	122,553	82,576
Revenue	(61,979)	(64,728)
Other income	3,864	2,047
Cash collected on behalf of secured loan noteholders	(1,805)	(2,068)
Finance income	-	(51)
Adjusted EBITDA	**99,070**	**53,162**
Less assets disposals	(6,456)	(1,991)
Normalised Adjusted EBITDA	**92,614**	**51,171**

Reconciliation of net cash used in operating activities to Normalised and Adjusted EBITDA:

	Year ended 31 December 2021	Year ended 31 December 2020
	€000	€000
Net cash generated from operating activities	**(11,571)**	**38,744**
Portfolio acquisitions	100,112	21,259
Taxation paid	486	131
Cash collected on behalf of secured loan noteholders	(1,805)	(2,068)
Working capital adjustments	10,613	(4,595)
Realised foreign currency losses/(gains)	1,235	(309)
Adjusted EBITDA	**99,070**	**53,162**
Less assets disposals	(6,456)	(1,991)
Normalised Adjusted EBITDA	**92,614**	**51,171**

Reconciliation of core collections to Normalised and Adjusted EBITDA:

	Year ended 31 December 2021	Year ended 31 December 2020
	€000	€000
Core Collections in the year	**122,553**	**82,576**
Portfolio disposals	6,456	1,991
Other income	3,864	2,047
Operating expenses	(32,182)	(70,151)
Net foreign currency movements	335	1,537
Impairment (gains)/losses	(151)	37,230
Cash collected on behalf of secured loan noteholders	(1,805)	(2,068)
Adjusted EBITDA	**99,070**	**53,162**
Less assets disposals	(6,456)	(1,991)
Normalised Adjusted EBITDA	**92,614**	**51,171**

Disclosures under the Alternative Investment Fund Managers Directive (unaudited)

Liquidity arrangements and liquidity management

There are no assets of the Fund subject to special arrangements such as side pockets, gates or other similar arrangements. No new arrangements. No new arrangements or material changes were made to manage the liquidity of the AIF.

The AIFM confirms it has maintained appropriate capital adequacy provisions as required by the CSSF.

According to the Directive 2011/61/EU, Section 2 Article 6, AIFMs shall calculate the exposure of the AIFs managed in accordance with the gross method as set out in Article 7 and the commitment method as set out in Article 8.
The exposure of an AIF calculated in accordance with the gross and commitment methods shall be the sum of the absolute values of all positions valued in accordance with Article 19 of Directive 2011/61/EU.

The gross method shall include all cash in foreign currency, all market value of investments and derivative exposures. It should also include all borrowing greater than 12 months or that is deemed not to be short term, reuse collateral or guarantee and additional exposure from positions within repurchase or reverse repurchase agreements and securities lending. The calculation shall exclude the value of any cash and cash equivalents.

For the calculation of the exposure of an AIF in accordance with the commitment method, an AIFM shall include all the above financial figures used for the calculation of gross method by also including the value of any cash and cash equivalents.

Gross method - Article 7: 219.46%
Commitment method - Article 8: 226.41%

It has to be noted that short-term borrowing facility covered by capital commitments have not been considered as per the disposition of the AIFMD regulations these can be excluded from the calculations. The current exposure are in line with the risk profile of the fund.

Leverage

The leverage employed by the Fund as per 31 December 2021 was 219.46% of the AIF's net asset value based on the gross method and 226.41% of the Fund's net asset value based on the commitment method.

Risk management

The AIFM has established and maintains a dedicated risk management system to identify, measure, manage and monitor on an ongoing basis the risks relevant to each AIF's Investment Objective including, in particular market, credit, liquidity, counterparty, operational and other relevant risks. Both quantitative and/or qualitative risk limits have been established and were monitored by the AIFM. No material changes were made in relation to the risk management system.

Material Changes of the AIFM

From 1 January 2021 to 31 December 2021 and apart from one exception the Carne Senior Management Team remain unchanged with the following areas of responsibility

- Pascal Dufour – IT, Accounting & Finance, UCI Administration, Branch
- Ankit Jain – Valuation
- Quentin Gabriel – Portfolio Management
- Christophe Douche – Risk Management
- Cord Rodewald – Compliance, Complaints and AML/CFT

Ross Thomson, responsible for Distribution, left Carne in May 2021. Cord Rodewald took over Ross Thomson's responsibilities on an interim basis until Pierre Yves Jahan was appointed as Conducting Officer for Distribution in November 2021.

Material Changes of the Fund

Eric Verret was appointed as Director of the Fund on 01 January 2021. Yazid Oudina resigned as Director of the Fund on 24 November 2021. Graham Parry-Dew was appointed as Director of the Fund on 7 December 2021.

Remuneration

The AIFM has designed and implemented a remuneration policy (the "Remuneration Policy") in line with the provisions on remuneration as set out by the European Directive 2011/61/EU as amended and implemented into Luxembourg Law of 12 July of 2013 (the "AIFM Regulations").

The AIFM has developed and implemented remuneration policies and practices that are consistent with and promote sound and effective risk management of the AIF, do not encourage risk-taking which is inconsistent with the risk profiles/rules governing the AIF, and do not impair compliance with the AIFM's duty to act in the best interest of the AIF and ultimately its investors.

The Board of Directors of the AIFM is responsible for the design, implementation and regular review of the Remuneration Policy. In reviewing the Remuneration Policy, the Board of Directors of the AIFM will consider whether the remuneration framework operates as intended and that the risk profile, long-term objectives and goals of the AIFs it manages are adequately reflected.

Disclosures under the Alternative Investment Fund Managers Directive (unaudited)

A copy of the AIFM Remuneration Policy is available, free of charge, at the registered office of the AIFM and at the following address: www.carnegroup.com.

Proportion of the total remuneration of the staff of the AIFM attributable to AnaCap Financial Europe S.A. SICAV-RAIF, as of 31 December 2021[1]

The proportion of the total remuneration attributable to Anacap Financial Europe SA SICAV RAIF has been calculated on a pro-rata basis and on the basis of the number of AIFs managed by the AIFM.

	Number of beneficiaries	Total remuneration (EUR)[2]	Fixed remuneration in percentage of total	Variable remuneration in percentage of total	Carried Interest paid in percentage of total
Total remuneration paid to Identified Staff[3] by the AIFM during the financial year	18	€ 2,045,845	0.23%	0.08%	0.00%

Investment Manager Renumeration Disclosure

The investment manager remuneration for the year ended 31 December 2021 allocated to the Fund is £115,000 for the Identified Staff within the Investment Manager.

[1] 31 December is the financial year end of the AIFM.
[2] Total remuneration = sum of fixed remuneration and variable remuneration paid during the AIFM's financial year.
[3] Identified Staff comprises = Chief Executive Officer and Country Head of Luxembourg, Conducting Officers and Head of Legal, Head of Compliance, Directors of the Company and Members of the Investment Committee.