AFE S.A. SICAV-RAIF (formerly Anacap Financial Europe S.A. SICAV-RAIF)

Unaudited Interim Condensed Consolidated Financial Statements
For the Nine Months Ended 30 September 2022

Table of Contents

General Information

Fund

AFE S.A. SICAV-RAIF
Since 28 March 2022:
26-30, Avenue du Dix Septembre
L-2550 Luxembourg
Grand Duchy of Luxembourg
R.C.S. Luxembourg: B216080

Until 28 March 2022:
412F, route d' Esch
L-1471 Luxembourg
Grand Duchy of Luxembourg

Board of Directors

- Edward Green;
- Audrey Lewis;
- Graham Parry-Dew;
- Christopher Ross-Roberts;
- Eric Verret

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

- Anouk Agnes (appointed 15 September 2022);
- John Alldis;
- William Blackwell;
- Veronica Buffoni;
- Martin Dobbins (resigned 11 January 2022);
- John Donohue;
- David McGowan (resigned 28 April 2022);
- Jacequeline O'Connor (appointed 15 September 2022).

Portfolio Manager

Since 30 September 2022:
Carne Global Fund Managers (Luxembourg) S.A.
3, rue Jean Piret
L-2350 Luxembourg
Grand Duchy of Luxembourg

Until 30 September 2022:
AnaCap Investment Manager Limited
2nd Floor, Windsor House, Lower Pollet
St Peter Port
Guernsey GY1 1WF

Board of Directors of the Portfolio Manager

- Anouk Agnes;
- John Alldis;
- William Blackwell;
- Veronica Buffoni;
- John Donohue;
- Jacequeline O'Connor.

Administrative Agent

Since 28 March 2022:
Belasko Luxembourg S.a.r.l
26-30, Avenue du Dix Septembre
L-2550 Luxembourg
Grand Duchy of Luxembourg

Until 28 March 2022:
IQ EQ Fund Services (Luxembourg) S.A.
412F, Route d'Esch
L-1471 Luxembourg
Grand Duchy of 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

Since 30 September 2022:
Veld Capital Limited Limited
1 Stephen Street
London
W1T 1AL

Until 30 September 2022:
AnaCap Financial Partners Limited
1 Stephen Street
London
W1T 1AL

Directors' Report

The Directors of AFE S.A. SICAV-RAIF ("AFE") are pleased to present the Directors' Report and Unaudited Interim Condensed Consolidated Annual Report (the "Financial Statements") on the activities and financial performance of AFE and its subsidiaries (together, the "Group") for the period from 1 January 2022 to 30 September 2022. The Financial Statements incorporate the assets, liabilities, revenue and expenses of the Group.

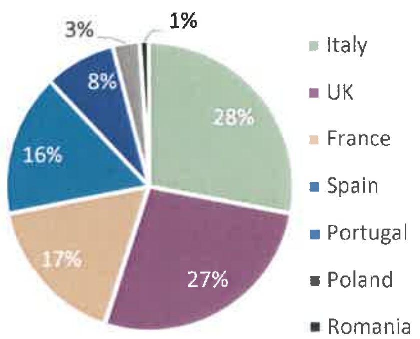
Business Overview

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 the first nine months of 2022, AFE continued to source and originate new opportunities in the direct real estate and non-performing loan market having successfully executed c.€92.8m transactions in the UK, France and Italy.

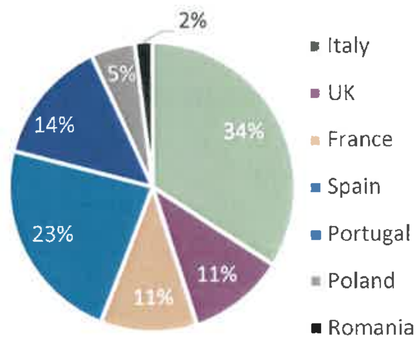
In its debt investment portfolio, AFE has a diverse portfolio of seasoned and granular consumer, SME, mortgage debt and real estate backed debt which is differentiated among debt purchasers in the level of diversification across borrowers, asset types and geographies, as well as with its significant 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 30 September 2022. Geographic and asset diversity provides resilience throughout the cycle in different countries.

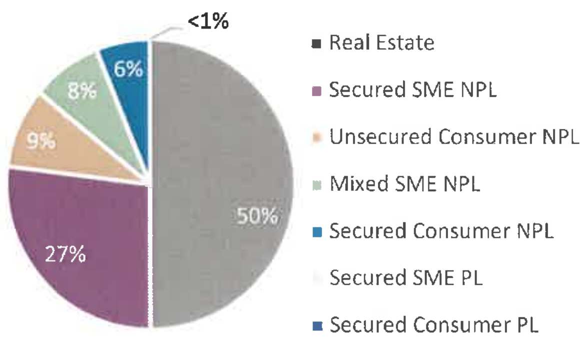
€588.3 million 84-month ERC by geography
30 September 2022



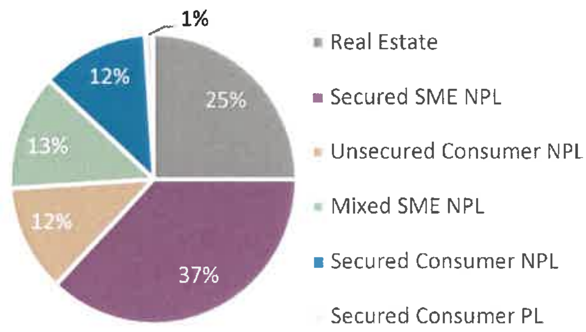
€502.3 million 84-month ERC by geography
30 September 2021



€588.3 million 84-month ERC by asset type
30 September 2022



€502.3 million 84-month ERC by asset type
30 September 2021



* AFE invests in real estate assets through joint venture arrangements, the invested capital 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 nine-months periods ended 30 September 2022 and 30 September 2021. 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 period.

		Nine months ended 30 September 2022	Nine months ended 30 September 2021	% change
84-month ERC (€'000s)	1	588,344	502,259	17.1%
84-month Gross ERC (€'000s)	2	610,374	528,637	15.5%
Cumulative purchases of loan portfolios and loan notes (€'000s)	3	757,543	669,212	13.2%
Number of investments	4	65	45	44.4%
Number of accounts	5	208,104	209,783	-0.8%
Total attributable collections (€'000s)	6	108,416	74,072	46.4%
Total gross collections (€'000s)	7	102,665	74,322	38.1%
Core collections (€'000s)	8	99,362	70,321	41.3%
Operating expenses (€'000s)	9	23,781	21,372	11.3%
Core collection cost ratio	10	23.9%	30.4%	-21.2%
Adjusted EBITDA (€'000s)	11	80,027	54,921	45.7%
Normalised Adjusted EBITDA (€'000s)	12	76,724	50,920	50.7%

(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 €869 million has been deployed through acquisitions of 74 investments with an aggregate face value of €13.5 billion. Since 2012, 9 portfolios have been fully sold. As of 30 September 2022, the portfolios held by AFE had an aggregate face value of €11.0 billion following the historical sale of deals with a face value of €2.7 billion, with an 84-month ERC of €588.3 million.

Portfolios purchased in the year ended:	Purchase price (13)	Actual collections to 30 September 2022	84-month ERC	Total estimated collections (14)	Gross money multiple (15)
	€000	€000	€000	€000	
Year ended 31 December 2012	75,084	173,265	14,695	187,960	2.5x
Year ended 31 December 2013	77,386	154,638	15,658	170,296	2.2x
Year ended 31 December 2014	59,025	126,705	13,315	140,020	2.4x
Year ended 31 December 2015	47,806	59,104	15,913	75,017	1.6x
Year ended 31 December 2016	125,617	196,204	62,737	258,941	2.1x
Year ended 31 December 2017	65,017	93,041	19,906	112,947	1.7x
Year ended 31 December 2018	161,652	145,719	91,166	236,885	1.5x
Year ended 31 December 2019	36,119	21,108	37,888	58,996	1.6x
Year ended 31 December 2020	21,696	24,892	24,044	48,936	2.3x
Year ended 31 December 2021	103,949	52,415	130,902	183,317	1.8x
Period ended 30 September 2022	88,273	1,063	162,120	163,183	1.8x
Total	**861,624**	**1,048,154**	**588,344**	**1,636,498**	**1.9x**

For real estate investments AFE will be required to fund its share of capital expenditure and other working capital needs. Additional invested capital for real estate investments is recognised in the year that the investment was completed rather than the year it was funded. 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 30 September 2022 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.

		Nine months ended 30 September 2022
		€000
Borrowings:	The Notes	307,500
	Revolving Credit Facility	88,460
	Term Facility	9,789
Less:	Cash at bank	(16,978)
	Cash held on AFE's account at servicers'	(3,899)
	Less cash deposits paid	(2,494)
Add back:	Cash collected on behalf of secured loan note holders	897
Net debt		**383,275**

LTV ratio at period end	16	65.1%
Adjusted EBITDA leverage ratio	17	3.09
LTM Adjusted EBITDA	18	124,177
Net interest expense	19	19,139
Fixed charge cover ratio ("FCCR")	20	6.49

(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 30 September 2022. 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. A further sale of two portfolio tails completed in May 2022 with proceeds of c.€1.1m compared to an ERC of c.€1.2m. In August 2022 a real estate asset was disposed of realising proceeds of c.€2.2m against ERC of c.€2.2m. Excluding these sales brings Normalised Adjusted EBITDA leverage ratio to 3.17.

(18) LTM Adjusted EBITDA means Adjusted EBITDA for the 12 months ended 30 September 2022.

(19) Net interest expense means interest expense on total debt for the 12 months ended 30 September 2022.

(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:

		Nine months ended 30 September 2022
		€000
Borrowings:	The Notes	307,500
	Unamortised discount on issuance of the Notes	(521)
	Unamortised transaction fees	(2,330)
	Per Financial Statements (non-current liability)	304,649
	Interest payable at 30 September 2022 (current liability)	2,699
	Revolving credit facility - amount drawn	88,460
	Term Facility - current liability	9,789
	Unamortised transaction fees on Term Facility	(63)
Total borrowings		**405,534**

Directors' Report (continued)

Significant recent developments

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.

2022 Performance

In 2022, AFE continues to successfully execute on its strategy, demonstrating the resilience of its business model and strong cash generation, with strong financial performance and leverage below its long term target. Deployment returned to normalised levels, €92.8m was deployed during the first nine months of 2022. AFE continued its 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 €108.4m against a target of €108.5m, set in December 2021, this represents a €0.1m or 0.1% underperformance.

New investments

During the first nine months of 2022, the Group successfully deployed c.€92.8m of capital across Non-Performing Loans ("NPL") and real estate backed debt investments, c.€88.7m relates to new acquisitions in the period and c.€4.3m as follow-on funding to existing real estate backed debt deals. Additionally, the group funded c.€1.4m into a real estate investment trust manager.

On 7th January 2022 AFE invested c.€2.1m to acquire an Italian secured NPL portfolio. AFE's economic interest in the transaction is 33.3%.

On 8th February 2022, AFE completed a c.€3.2m acquisition of a c.6,000 sqm office building south west of London. AFE has a 50% economic interest in the transaction.

On 22nd February 2022, AFE funded c.€1.4m or c.99% of the preference shares of a real estate investment trust manager in India, the manager is a subsidiary of AFE Asset Solutions. AFE's shareholding will change as the business plan develops but AFE will remain a majority shareholder. The investment will contribute to the continued development of AFE asset servicing business with more capital-light income expected to be generated.

On 25th March 2022 AFE completed a c.€2.5m acquisition of a c.9,000 sqm office building in the north of England, AFE acquired a plot of land for c.€0.6m utilised as a car park adjacent to this site on 20th April 2022. AFE's economic interest in this transaction is 50%.

AFE acquired a c.15,800 sqm office complex south of Paris, France on 20th April 2022, in a c.€8.3m transaction, AFE's economic interest in the transaction is 38%.

AFE completed a c.€5.1m acquisition of a c.5,700 sqm residential development in Rome on 13th May 2022. AFE's economic interest is 38%.

On 13th May 2022 AFE completed the acquisition of a c.7,000sqm office building north east of London, UK in a c.€3.7m, AFE's economic interest in this transaction is 50%.

On 1st June 2022 AFE entered into a facility to purchase mortgages in the Netherlands, deployment was initiated in August 2022 with a total investment to date of c.€1.7m, AFE's economic interest in the transaction is 33.3%.

On 30th June 2022, AFE completed the acquisition of a c.19,500 sqm shopping complex in the south of France, in a c.€4.4m transaction, AFE's economic interest in this transaction is 38%.

On 30th June 2022 AFE completed the acquisition of a secured NPL portfolio in Italy in a c.€1.9m transaction, AFE's economic interest is 33.3%

On 7th July 2022 AFE completed a c.€6.1m office building comprised of c12,000 sqm located in the Southwest of England. AFE's economic interest is 50% in the transaction.

On 26th July 2022 AFE acquired a c.8,200 sqm mixed use development opportunity in Paris in a c.€16.7m transaction. AFE's economic interest in this transaction is 38%.

On 1st August 2022 AFE completed the acquisition of a secured NPL portfolio in Italy in a c.€5.8m transaction, AFE's economic interest is 33.3%

AFE completed the acquisition of a residential property development in Milan on 4th August 2021, in a c.€5.3m transaction with AFE's economic interest amounting to 40%.

Directors' Report (continued)

New investments (continued)

On 19th August 2022 AFE completed a c.€2.1m acquisition of a c.6,000 sqm office building in the north of England, AFE's economic interest in the transaction is 50%.

On 7th September 2022 AFE acquired a c.7,500sqm office in the South West of England in a c.€4.4m transaction. AFE's economic interest is 50%.

On 30th September 2022 AFE acquired a c.€15.9m portfolio of three properties in the South East of England with a combined c.14,300sqm of office space. AFE's economic interest in the transaction is 50%.

In the period ended 30th September 2022 AFE made follow on investments of c.€4.3m in three existing real estate backed debt investments in France.

Signed transactions

In addition to the completed transactions there is one further deal that has been signed.

On 21st September 2022 AFE paid a c.€0.8m deposit and signed a commitment to acquire a c.11,400sqm residential development opportunity in Italy. AFE's economic interest in the transaction is 40%.

On 3rd November 2022 AFE completed the acquisition of a c.4,000 sqm office building in the South East of England in a c.€3.0m transaction. AFE's economic interest in the transaction is 50%.

Under the business plan of the signed and acquired real estate assets, the Group is expected to fund an additional c.€17.0m for its share of acquisition cost and capital expenditure over the next three years.

Changes to administration and governance

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

On 28th March 2022 Belasko Luxembourg S.a.r.l was appointed as Administrative Agent replacing IQ EQ Fund Services (Luxembourg) S.A.

On 30th September 2022 the Credit investment arm of AnaCap Financial Partners Limited was carved out to form a new standalone investment advisory business, Veld Capital Limited ("Veld"). Justin Sulger, who has been leading the Credit business since inception in 2009, will serve as Managing Partner and be joined by the same dedicated Investment, Asset Solutions and Operations teams. Veld will advise AFE with continuity in the investment advisory team.

On 30th September 2022 AFE's portfolio manager changed to Carne Global Fund Managers (Luxembourg) S.A. ("Carne") replacing AnaCap Investment Manager Limited ("AIML").

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 Advisor's business and culture. The Investment Advisor seeks to invest responsibly, taking relevant sustainability risks and factors into account throughout its investment process. The Investment Adviser's environmental, social and governance ("ESG") policy is compliant with SFDR. In 2022, the Investment Adviser (as part of the AnaCap group at the time of assessment) was awarded a Gold medal from Ecovadis (an external ESG consultant) for its assessment. 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.€21.2m. The group has assessed its expected operating performance and liquidity requirements for 2022 considering the impact of the ongoing Russian invasion of Ukraine and macroeconomic uncertainty. Despite the deteriorating macroeconomic outlook 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.

Directors' Report (continued)

Outlook

Net debt to adjusted EBITDA is below target range with stable cash collections, deployment of capital is set to slow for the remainder of 2022 as deployment reaches target and to preserve liquidity. AFE has a locally embedded platform with 26 FTE equivalents across 4 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 to 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
11 November 2022

Report on Review of Interim Condensed Consolidated Financial Statements

To the Board of Directors of AFE S.A. SICAV-RAIF (formerly Anacap Financial Europe S.A. SICAV-RAIF)

We have reviewed the accompanying interim condensed consolidated financial statements of AFE S.A. SICAV-RAIF (formerly Anacap Financial Europe S.A. SICAV-RAIF) (the "Company"), which comprise the interim condensed consolidated statement of financial position as at 30 September 2022, and the interim condensed consolidated statement of comprehensive income, the interim condensed consolidated statement of cash flows and the interim condensed consolidated statement of changes in equity for the nine-month period then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the financial statements

The Board of Directors is responsible for the preparation and fair presentation of these interim condensed consolidated financial statements in accordance with IAS34, "Interim Financial Reporting" as adopted by the European Union, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Responsibility of the "Réviseur d'entreprises agréé"

Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review. We conducted our review in accordance with International Standard on Review Engagements (ISRE 2410) as adopted for Luxembourg by the "Institut des Réviseurs d'Entreprises". This standard requires us to comply with relevant ethical requirements and conclude whether anything has come to our attention that causes us to believe that the interim condensed consolidated financial statements, taken as a whole, are not prepared in all material respects in accordance with the applicable financial reporting framework.

A review of interim condensed consolidated financial statements in accordance with ISRE 2410 is a limited assurance engagement. The "Réviseur d'entreprises agréé" performs procedures, primarily consisting of making inquiries of management and others within the Company, as appropriate, and applying analytical procedures, and evaluates the evidence obtained.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing. Accordingly, we do not express an audit opinion on these interim condensed consolidated financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34, "Interim Financial Reporting" as adopted by the European Union.

PricewaterhouseCoopers, Société coopérative
Represented by

Luxembourg, 11 November 2022

Electronically signed by:
Thierry Salagnac

Thierry Salagnac

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Cabinet de révision agréé. Expert-comptable (autorisation gouvernementale n°10028256)
R.C.S. Luxembourg B 65 477 - TVA LU25482518

Interim Condensed Consolidated Statement of Comprehensive Income for the Nine Months Ended 30 September 2022

	Notes	Three months ended 30 September 2022 €000	Nine months ended 30 September 2022 €000	Three months ended 30 September 2021 €000	Nine months ended 30 September 2021 €000
Revenue					
Interest income from purchased loan portfolios	11	9,273	29,072	11,807	35,953
Interest income from purchased loan notes	11	188	662	318	1,002
Interest income on loans to joint ventures at amortised cost	11	3,004	8,008	2,605	6,955
Fair value gain on investments in joint ventures at FVPL	11	(903)	19,683	-	-
Other income		1,112	3,301	873	2,522
Total revenue	5	**12,674**	**60,726**	**15,603**	**46,432**
Operating expenses					
Collection activity costs		(2,917)	(11,259)	(3,300)	(11,787)
Impairment (losses)/gains		-	(1,643)	-	164
Net foreign currency loss	6	(853)	(1,135)	(524)	(444)
Other operating expenses	6	(4,467)	(12,522)	(3,290)	(9,585)
Total operating expenses		**(8,237)**	**(26,559)**	**(7,114)**	**(21,652)**
Operating profit		**4,437**	**34,167**	**8,489**	**24,780**
Finance costs	7	(6,087)	(18,732)	(5,850)	(16,720)
Share of profit in joint venture accounted for using equity method	12	456	1,489	-	-
Profit from discontinued operation	10	9	821	117	578
Profit before tax		**(1,185)**	**17,745**	**2,756**	**8,638**
Tax (charge)/credit	8	(95)	261	(26)	(63)
Comprehensive income for the period		**(1,280)**	**18,006**	**2,730**	**8,575**

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

Interim Condensed Consolidated Statement of Financial Position as at 30 September 2022

	Notes	As at 30 September 2022 €000	As at 31 December 2021 €000
Assets			
Non-current assets			
Property, plant and equipment		223	88
Investments in joint ventures at amortised cost	11	43,496	27,875
Investments in joint ventures at FVPL	11	85,162	69,126
Participation in joint ventures	12	38,171	11,956
Goodwill	9	1,836	1,836
Total non-current assets		**168,888**	**110,881**
Current assets			
Cash and cash equivalents		16,978	21,438
Trade and other receivables	14	20,750	21,275
Other assets	14	2,852	7,126
Purchased loan portfolios	11	142,236	157,432
Purchased loan notes	11	6,043	9,272
Investments in joint ventures at amortised cost	11	53,983	45,912
Investment in associate classified as held for sale	10	9,130	8,309
Inventory	13	21,684	22,707
Total current assets		**273,656**	**293,471**
Total assets		**442,544**	**404,352**
Liabilities			
Non-current liabilities			
Borrowings	21	304,649	310,821
Other liabilities	15	1,050	1,005
Total non-current liabilities		**305,699**	**311,826**
Current liabilities			
Borrowings	21	100,885	78,921
Secured loan notes	21	13,268	13,002
Trade and other payables	15	13,244	8,228
Tax payable		260	1,013
Tax provisions	22	4,877	5,057
Total current liabilities		**132,534**	**106,221**
Total liabilities		**438,233**	**418,047**
Equity			
Share capital	16	1,250	1,250
Retained earnings		3,061	(14,945)
Total equity		**4,311**	**(13,695)**
Total equity and liabilities		**442,544**	**404,352**

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

The Unaudited Interim Condensed Consolidated Financial Statements for the period ended 30 September 2022 were approved by the Board of Directors and authorised for issue on its behalf by:

Eric Verret

Director

11 November 2022

Interim Condensed Consolidated Statement of Cash Flows for the Nine Months Ended 30 September 2022

	Notes	Nine months ended 30 September 2022	Nine months ended 30 September 2021
		€000	**€000**
Cash flows from operating activities			
Profit before tax		**17,745**	**8,638**
Adjustments for:			
Interest income from purchased loan portfolios	11	(29,072)	(35,953)
Interest income from purchased loan notes	11	(662)	(1,002)
Interest income from joint ventures	11	(8,008)	(6,955)
Fair value movement of investment in joint ventures at FVPL	11	(19,683)	-
Impairment losses/(gains)		1,643	(164)
Finance costs	7	18,732	16,720
Unrealised foreign currency losses	6	1,945	50
Share of profit in joint venture accounted for using equity method	12	(1,489)	-
Share of profit in associate classified as held for sale	10	(821)	(578)
Operating cash flows before movements in working capital		**(19,670)**	**(19,244)**
Change in trade and other receivables*		292	354
Change in trade and other payables*		5,016	(1,142)
Cash used in operating activities before collections and purchases		**(14,362)**	**(20,032)**
Taxes paid		(672)	(522)
Collections in the period - sale of inventory	11	8,733	4,045
Collections in the period - loans	11	73,215	46,726
Collections in the period - joint ventures	11	20,717	23,551
Acquisition of joint ventures	11	(92,785)	(53,720)
Net cash (used in)/generated from operating activities		**(5,154)**	**48**
Cash flows from investing activities			
Consideration paid for the acquisition of Galata		-	(300)
Net cash used in investing activities		**-**	**(300)**
Cash flows from financing activities			
Proceeds from borrowings		52,439	53,547
Repayment of borrowings		(35,228)	(30,862)
Repayment of secured loan notes		(2,369)	(1,200)
Finance costs paid		(14,148)	(13,824)
Net cash used in financing activities		**694**	**7,661**
Net movements in cash and cash equivalents		(4,460)	7,409
Cash and cash equivalents at the beginning of the period		21,438	17,233
Cash and cash equivalents at the end of the period		**16,978**	**24,642**

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

Interim Condensed Consolidated Statement of Changes in Equity for the Nine Months Ended 30 September 2022

	Share capital	Retained earnings	Total equity
	€000	**€000**	**€000**
Balance as at 1 January 2022	**1,250**	**(14,945)**	**(13,695)**
Comprehensive income for the period	-	18,006	18,006
Balance as at 30 September 2022	**1,250**	**3,061**	**4,311**

Comparative figures from 1 January to 30 September 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 period	-	8,575	8,575
Balance as at 30 September 2021	**1,250**	**(21,624)**	**(20,374)**

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

Notes to the Consolidated Financial Statements

1. General information

AFE 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 30th September 2022 the fund changed registered name from AnaCap Financial Europe S.A. SICAV-RAIF to AFE S.A. SICAV-RAIF.

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 30 September 2022 the AIFM became the portfolio manager and Veld Capital Limited ("Veld") acts as investment advisor to the Portfolio Manager.

The principal activity of AFE and its subsidiaries as listed in note 18 (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.

The Interim Condensed Consolidated Financial Statements (hereafter the "Financial Statements") are prepared in accordance with IAS34 "Interim Financial Reporting" and do not contain all disclosures required for annual consolidated financial statements and should therefore be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2021. The principal accounting policies that have been applied to the Financial Statements have been applied consistently throughout the period unless otherwise stated.

Significant changes in the current reporting period

Changes to the Fund

On 28th March 2022 the Fund changed its address to 26-30, Avenue du Dix Septembre, L-2550 Luxembourg.

On 30th September 2022 the fund changed registered name from AnaCap Financial Europe S.A. SICAV-RAIF to AFE S.A. SICAV-RAIF.

Changes to the Board of Directors of the AIFM

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

On 28th April 2022 David McGowan resigned from the Board of Directors.

On 15th September 2022 Anouk Ages and Jacequeline O'Connor were appointed to the Board of Directors.

Changes to the Administrative Agent

On 28th March 2022 Belasko Luxembourg S.a.r.l was appointed as Administrative Agent replacing IQ-EQ Fund Services (Luxembourg) S.A.

New Investments

During the first nine months of 2022, the Group successfully deployed c.€92.8m of capital across Non-Performing Loans ("NPL") and real estate backed debt investments, c.€88.7m relates to new acquisitions in the period and c.€4.3m as follow-on funding to existing real estate backed debt deals. Additionally, the group funded c.€1.4m into a real estate investment trust manager.

On 7th January 2022 AFE invested c.€2.1m to acquire an Italian secured NPL portfolio. AFE's economic interest in the transaction is 33.3%.

On 8th February 2022, AFE completed a c.€3.2m acquisition of a c.6,000 sqm office building south west of London. AFE has a 50% economic interest in the transaction.

On 22nd February 2022, AFE funded c.€1.4m or c.99% of the preference shares of a real estate investment trust manager in India, the manager is a subsidiary of AFE Asset Solutions. AFE's shareholding will change as the business plan develops but AFE will remain a majority shareholder. The investment will contribute to the continued development of AFE asset servicing business with more capital-light income expected to be generated.

On 25th March 2022 AFE completed a c.€2.5m acquisition of a c.9,000 sqm office building in the north of England, AFE acquired a plot of land for c.€0.6m utilised as a car park adjacent to this site on 20th April 2022. AFE's economic interest in this transaction is 50%.

AFE acquired a c.15,800 sqm office complex south of Paris, France on 20th April 2022, in a c.€8.3m transaction, AFE's economic interest in the transaction is 38%.

AFE completed a c.€5.1m acquisition of a c.5,700 sqm residential development in Rome on 13th May 2022. AFE's economic interest is 38%.

Notes to the Consolidated Financial Statements (continued)

New Investments (continued):

On 13th May 2022 AFE completed the acquisition of a c.7,000sqm office building north east of London, UK in a c.€3.7m, AFE's economic interest in this transaction is 50%.

On 1st June 2022 AFE entered into a facility to purchase mortgages loans in the Netherlands, deployment was initiated in August 2022 with a total investment to date of c.€1.7m, AFE's economic interest in the transaction is 33.3%.

On 1st August 2022 AFE completed the acquisition of a secured NPL portfolio in Italy in a c.€5.8m transaction, AFE's economic interest is 33.3%

On 30th June 2022, AFE completed the acquisition of a c.19,500 sqm shopping complex in the south of France, in a c.€4.4m transaction, AFE's economic interest in this transaction is 38%.

On 30th June 2022 AFE completed the acquisition of a secured NPL portfolio in Italy in a c.€1.9m transaction, AFE's economic interest is 33.3%

On 7th July 2022 AFE completed a c.€6.1m office building comprised of c12,000 sqm located in the Southwest of England. AFE's economic interest is 50% in the transaction.

On 26th July 2022 AFE acquired a c.8,200 sqm mixed use development opportunity in Paris in a c.€16.7m transaction. AFE's economic interest in this transaction is 38%.

AFE completed the acquisition of a residential property development in Milan on 4th August 2021, in a c.€5.3m transaction with AFE's economic interest amounting to 40%.

On 19th August 2022 AFE completed a c.€2.1m acquisition of a c.6,000 sqm office building in the north of England, AFE's economic interest in the transaction is 50%.

On 7th September 2022 AFE acquired a c.7,500sqm office in the South West of England in a c.€4.4m transaction. AFE's economic interest is 50%.

On 30th September 2022 AFE acquired a c.€15.9m portfolio of three properties in the South East of England with a combined c.14,300sqm of office space. AFE's economic interest in the transaction is 50%.

In the period ended 30th September 2022 AFE made follow on investments of c.€4.3m in three existing real estate backed debt investments in France.

Signed Transactions

In addition to the completed transactions there is one further deal that has been signed.

On 21st September 2022 AFE paid a c.€0.8m deposit and signed a commitment to acquire a c.11,400sqm residential development opportunity in Italy. AFE's economic interest in the transaction is 40%.

On 3rd November 2022 AFE completed the acquisition of a c.4,000 sqm office building in the South East of England in a c.€3.0m transaction. AFE's economic interest in the transaction is 50%.

Under the business plan of the signed and acquired real estate assets, the Group is expected to fund an additional c.€17.0m for its share of acquisition cost and capital expenditure over the next three years.

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

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. Significant accounting policies adopted in the period

There are no new accounting policy adoption or amendments during the period impacting the financial statements.

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 Interim 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.

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.

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 Interim 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.

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)

Changes in 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 30 September 2022 by €29.3m. A change in the expected future cash flows by -10% would reduce the carrying value of financial assets as at 30 September 2022 by €17.4m.

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.

Going concern

The group has assessed its expected operating performance and liquidity requirements for 2022 considering the impact of COVID-19, the Russian invasion of Ukraine and macroeconomic uncertainty. Despite the ongoing market uncertainty the Board of Directors remains 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.

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 30 September 2022	As at 31 December 2021
	€000	**€000**
Investment in associate classified as held for sale	9,130	8,309
Purchased loan portfolios	142,236	157,432
Purchased loan notes	6,043	9,272
Investments in joint ventures	220,812	154,869
Inventory	21,684	22,707
Consolidated Statement of Financial Position		
Total segment assets	442,544	404,352
Total segment liabilities	(438,233)	(418,047)
Segment net liabilities	**4,311**	**(13,695)**

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

	Three months ended 30 September 2022	Nine months ended 30 September 2022	Three months ended 30 September 2021	Nine months ended 30 September 2021
		€000		**€000**
- United Kingdom	-	-	278	601
- Romania	134	506	253	808
- Poland	553	1,776	694	2,184
- Italy, Spain, Portugal	10,928	35,456	13,948	42,186
Total revenue	**11,615**	**37,738**	**15,173**	**45,779**

Notes to the Consolidated Financial Statements (continued)

5. Segmental reporting (continued)

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

	Three months ended 30 September 2022	Nine months ended 30 September 2022	Three months ended 30 September 2021	Nine months ended 30 September 2021
		€000		€000
- United Kingdom	-	20,586	-	-
- France	745	2,088	431	654
- Italy	314	314	-	-
Total revenue	**1,059**	**22,988**	**431**	**654**

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 30 September 2022	As at 31 December 2021
	€000	€000
- Romania	4,079	7,315
- Poland	12,909	15,210
- Italy, Spain, Portugal	216,088	223,615
Total	**233,076**	**246,140**

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

	As at 30 September 2022	As at 31 December 2021
	€000	€000
- United Kingdom	91,962	68,413
- France	58,013	32,075
- Italy	16,854	5,961
Total	**166,829**	**106,449**

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 30 September 2022	ERC 30 September 2022
	€000	€000
- Romania	5,265	5,265
- Italy	129,197	129,197
- Spain	113,696	94,740
- Portugal	51,397	48,323
- Poland	17,032	17,032
Total	**316,587**	**294,557**

Notes to the Consolidated Financial Statements (continued)

5. Segmental reporting (continued)

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 30 September 2022	ERC 30 September 2022
	€000	€000
- United Kingdom	155,752	155,752
- Italy	35,236	35,236
- France	102,799	102,799
Total	**293,787**	**293,787**

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 is 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.

6. 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:

	Three months ended 30 September 2022	Nine months ended 30 September 2022	Three months ended 30 September 2021	Nine months ended 30 September 2021
	€000	€000	€000	€000
Management fees	1,400	4,153	1,202	3,366
Directors' fees	47	135	58	181
Legal and professional fees	254	503	242	663
Administration fees	251	777	340	879
Audit fees	283	612	120	451
Abort deal fees	9	45	4	6
Depositary charges	17	46	101	134
Subscription tax	-	-	-	1
Staff costs	1,031	2,960	817	2,500
Other expenses	1,175	3,291	406	1,404
Other operating expenses	**4,467**	**12,522**	**3,290**	**9,585**
Realised foreign currency (gains)/losses	(241)	(810)	25	230
Unrealised foreign currency losses	1,094	1,945	499	214
Net foreign currency losses	**853**	**1,135**	**524**	**444**

Notes to the Consolidated Financial Statements (continued)

6. Other operating expenses and foreign exchange of the Group's Assets (continued)

Staff costs include the total remuneration cost of all employees within the Group during the period. As at 30 September 2022, the Group had 26 employees (30 September 2021: 21). Other expenses include €1.4m (Nine months ended 30 September 2021 €1.1m) borne by the Group from AFPL in accordance with the Support Services agreement (see note 17 related party transactions).

7. Finance costs

	Three months ended 30 September 2022	Nine months ended 30 September 2022	Three months ended 30 September 2021	Nine months ended 30 September 2021
	€000	**€000**	**€000**	**€000**
Fees on Revolving Credit Facility	25	154	136	565
Interest on borrowings	1,266	3,330	837	2,105
Interest on Senior Secured Notes and related Charges	4,313	12,782	4,371	12,815
Interest expense - secured loan notes	483	1,433	506	1,501
Revaluation loss/(gain) on secured loan notes	-	1,033	-	(266)
Total finance costs - borrowings	**6,087**	**18,732**	**5,850**	**16,720**

8. Taxation

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 nine months ended 30 September 2022, the Group's tax credit of €0.3m (30 September 2021: €0.1 charge) comprised Portuguese and other local tax credits/charges. Further information on the Portuguese tax charges or credits can be found in note 22 '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.

9. Goodwill

As at 30 September 2022, the Group's goodwill amounts to €1.84m (as at 31 December 2021: €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.

10. 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 30 September 2022 PAM is held for sale, a non-binding offer has been received for the asset. Classification as held for sale took place in December 2021. The sale is expected within 12 months.

Notes to the Consolidated Financial Statements (continued)

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

Below is a reconciliation of the movements in the carrying value of the Group's interest in PAM as at 30 September 2022:

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 30 September 2022	As at 31 December 2021
	€000	**€000**
Interest in net assets at beginning of the period	8,309	7,396
Share of profit in associate classified as held for sale	821	913
Interest in net assets of associate at the end of the period	**9,130**	**8,309**

11. Financial assets

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

	As at 30 September 2022	As at 31 December 2021
	€000	**€000**
Expected falling due after one year:		
Purchased loan portfolios	81,094	124,854
Purchased loan notes	1,632	3,285
Investments in joint ventures at amortised cost	78,822	54,374
Investments in joint ventures at FVPL	72,795	37,155
Total	**234,343**	**219,668**
Expected falling due within one year:		
Purchased loan portfolios	61,142	32,578
Purchased loan notes	4,411	5,987
Investments in joint ventures at amortised cost	18,657	19,413
Investments in joint ventures at FVPL	12,367	31,971
Total	**96,577**	**89,949**

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

	As at 30 September 2022
	€000
Purchased loan portfolios as at beginning of period	157,432
Interest income from purchased loan portfolios	29,072
Collections in the period - sale of inventory	(8,733)
Collections in the period - loans *	(35,735)
Collections in the period - derecognition on sale	(3,303)
Impairment	(985)
Add: movement in inventory and other receivables	4,488
Purchased loan portfolios at the end of the period	**142,236**

* includes c.€3.3m of collections accelerated by the local financing of an aggregated NPL portfolio.

Notes to the Consolidated Financial Statements (continued)

11. Financial assets (continued)

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

	As at 30 September 2022
	€000
Purchased loan notes as at beginning of period	9,272
Interest income from purchased loan notes	662
Collections in the period	(3,371)
Impairment	(520)
Purchased loan notes at the end of the period	**6,043**

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 Unaudited Condensed 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 30 September 2022
	€000
Joint ventures at amortised cost as at beginning of period	73,787
Investments acquired in joint ventures at amortised cost	35,429
Interest income from joint ventures	8,008
Collections in the period *	(20,717)
Impairment	(138)
Reclassification	1,972
Net foreign currency loss	(862)
Joint ventures at the end of the period	**97,479**

* Includes c.€11.7m of collections accelerated by the local financing of a direct real estate investment.

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

	As at 30 September 2022
	€000
Loans to joint ventures at FVPL as at beginning of period	69,126
Investment in loans to joint ventures at FVPL	32,661
Collections in the period *	(30,806)
Movement in fair value	19,683
Reclassification	(1,972)
Net foreign currency loss	(3,530)
Loans to joint ventures at FVPL at the end of the period	**85,162**

* Includes c.€22.1m of collections accelerated by the local financing of a direct real estate investment.

The reclassification of c.€1.9m from investment in joint ventures at FVPL to investment in joint ventures at amortised cost relates to a reclassification relating to a prior period.

Notes to the Consolidated Financial Statements (continued)

11. 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 Unaudited Condensed Consolidated Statement of Financial Position represent the Group's total interest in these entities.

As at 30 September 2022, the carrying value of investments in joint ventures at FVPL is €85.2m (31 December 2021: €69.1m).

12. Participation in joint ventures

	As at 30 September 2022	As at 31 December 2021
	€000	**€000**
Participation in joint ventures at the beginning of the period	11,956	297
Participation acquired during the period	24,726	4,843
Share of net profit of joint ventures using equity method	1,489	6,816
Participation in joint ventures at the end of the period	**38,171**	**11,956**

The share of net profit is the fair value gain attributable to AFE's economic interest in the equity participation in joint ventures of the group.

13. 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 period:

	As at 30 September 2022	As at 31 December 2021
	€000	**€000**
Opening inventory	22,707	26,027
Re-possessions	6,915	13,484
Disposals	(7,938)	(16,804)
Closing balance at the end of the period	**21,684**	**22,707**

14. Trade and other receivables

	As at 30 September 2022	As at 31 December 2021
	€000	**€000**
Collections receivable	3,899	12,486
Other receivables	16,851	8,789
Other assets	2,852	7,126
Total	**23,602**	**28,401**

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, deposits on signed transactions and cash guarantees. 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)

15. Trade and other payables

	Notes	As at 30 September 2022 €000	As at 31 December 2021 €000
Trade payables		3,504	1,474
Amounts due to related parties	17	9,148	1,742
Accrued expenses		592	5,012
Trade and other payables - current		13,244	8,228
Deferred and contingent consideration - non-current		1,050	1,005
Total trade and other payables		**14,294**	**9,233**

16. Share capital

	As at 30 September 2022 €000	As at 31 December 2021 €000
Share capital at 1 January 2022	1,250	1,250
Total share capital at 30 September 2022	**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 AFE Holding SCSp SICAV-RAIF, its sole shareholder.

17. Related party transactions

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 reporting period was €4,020k all of which has been fully paid (nine months ended 30 September 2021: €3,203k).

During the period the Group incurred charges of €133k to Carne Global Fund Managers S.A. in relation to management company services (nine months ended 30 September 2021: €163k).

Master servicing income

During the period the Group recognised €0.5m, €2.0m and €0.4m of income from the Veld Credit Opportunities III L.P, Veld Credit SCSp SICAV RAIF and Veld Real Estate Co-Invest L.P. fund structures respectively in relation to master servicing activities provided by the Group to each fund structure (nine months ended 30 September 2021: €0.9m, €1.3m and €nil respectively)

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

During the period, the Group incurred charges of €105k (nine months ended 30 September 2021: €356k) to Veld 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 period, the Group incurred charges of €1.4m (nine months ended 30 September 2021: €1.1m) 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 period, the Group incurred charges of €1.2m (nine months ended 30 September 2021: €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 period, the Group incurred charges to Belasko UK Limited of €526k in respect of accountancy services provided to the Group (nine months ended 30 September 2021: €505k).

Promissory note payable to Veld Credit SCSp SICAV RAIF

During the period, Veld Credit SCSp SICAV RAIF pre funded an investment on behalf of AFE of £6.8m (€7.6m) (nine months ended 30 September 2021: €nil).

Notes to the Consolidated Financial Statements (continued)

17. Related party transactions (continued)

	As at 30 September 2022	As at 31 December 2021
	€000	€000
Due to related parties		
Carne Global Fund Managers (Luxembourg) S.A.	8	31
Veld Credit SCSp SICAV RAIF	7,599	-
AnaCap Financial Partners Limited	774	711
Equipped A.I. Limited	750	993
Prime Credit Solutions 5 S.à r.l.	17	-
Belasko UK Limited	-	7
Total	**9,148**	**1,742**

	As at 30 September 2022	As at 31 December 2021
	€000	€000
Due from related parties		
Prime Credit Solutions SV S.à r.l.	282	21
Veld Real Estate Coinvest Limited	193	172
Medifin Finance Limited	24	32
Total	**499**	**225**

Directors' fees

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

	Three months ended 30 September 2022	Nine months ended 30 September 2022	Three months ended 30 September 2021	Nine months ended 30 September 2021
	€000	€000	€000	€000
Fees charged				
Directors' fees	47	135	58	181
Total fees charged during the period	**47**	**135**	**58**	**181**

	As at 30 September 2022	As at 31 December 2021
	€000	€000
Fees payable		
Directors' fees payable	64	71
Directors' fees payable at the end of the period	**64**	**71**

Notes to the Consolidated Financial Statements (continued)

18. Investments in subsidiaries and controlled entities

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

	Place of incorporation	Ownership % as at 30 September 2022	Ownership % as at 31 December 2021	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
Veld Asset Solutions 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 30 September 2022 the Group had 26 employees spread across 5 different subsidiaries:

- Veld Asset Solutions Limited: 5 (2021: 2)
- AFE Asset Solutions S.a r.l.***: 2 (2021: 2)
- Galata Asset Management, S.L: 13 (2021: 10)
- Atila, Unipessoal LDA: 6 (2021: 6)
- AFE Italy S.r.l.: 0 (2021: 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.

**** Veld Asset Solutions Limited was renamed from Anacap UK Asset Management Limited on 30 September 2022.

Notes to the Consolidated Financial Statements (continued)

19. 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	-	-	-	218,737	218,737
Purchased loan notes	7,131	-	-	-	7,131
Investments in joint ventures at amortised cost	102,083	-	-	-	102,083
Gross carrying amount	109,214	-	-	218,737	327,951
Loss allowance	(5,692)	-	-	(76,501)	(82,193)
Carrying amount	**103,522**	**-**	**-**	**142,236**	**245,758**

Comparative figures for the year ended 31 December 2021:

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**

20. 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 30 September 2022	Book value 30 September 2022
		€000	**€000**
Purchased loan portfolios*	Level 3	121,567	142,236
Purchased loan notes	Level 3	6,035	6,043
Investments in joint ventures at amortised cost	Level 3	96,562	97,479
Investments in joint ventures at FVPL	Level 3	85,162	85,162
Cash and cash equivalents	Level 2	16,978	16,978
Trade and other receivables	Level 2	20,750	20,750
Total		**347,054**	**368,648**

Notes to the Consolidated Financial Statements (continued)

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

Financial liabilities	Fair value hierarchy	Fair Value 30 September 2022	Book value 30 September 2022
		€000	€000
Senior Secured Notes	Level 1	265,797	307,348
Revolving Credit Facility	Level 2	88,460	88,460
Term Facility	Level 2	9,726	9,726
Secured loan notes	Level 3	13,268	13,268
Trade and other payables	Level 2	13,244	13,244
Total		**390,495**	**432,046**

Comparative figures as at 31 December 2021:

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
Loan to joint venture 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**

* 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.

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 30 September 2022. 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.

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

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, Veld, on at least a bi-annual basis, with the valuations subsequently approved by Carne 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 Unaudited Condensed 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.

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. inflation)

For assets whose fair value is linked to the performance of real estate investments, a 10% reduction to sales price would have a €18.9m impact to the carrying value as of 30 September 2022, and a 12 month delay in forecast exit dates would have a €30.3m impact to the carrying value as of 30 September 2022.

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 30 September 2022 €265.8m (as at 31 December 2021: €303.3m).

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 11.

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.

Notes to the Consolidated Financial Statements (continued)

21. Borrowings and facilities

	As at 30 September 2022	As at 31 December 2021
	€000	€000
Expected falling due after one year		
Senior Secured Notes	304,649	303,524
Secured loan notes	11,751	12,520
Term Facility	-	7,297
Total	**316,400**	**323,341**
Expected falling due within one year		
Revolving Credit Facility	88,460	68,465
Term Facility	9,726	7,851
Senior Secured Notes	2,699	2,605
Secured loan notes	1,517	482
Total	**102,402**	**79,403**

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, AFE 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 period ended 30 September 2022 the Group remained compliant with all covenants outlined on the Senior Secured Notes and the Super Senior Revolving Credit Facility.

As at 30 September 2022 AFE had a €90.0m (2021: €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 30 September 2022, €88.5m (31 December 2021: €68.5m) had been drawn as a loan from the Facility. The total amount available to draw upon as at 30 September 2022 is equal to €1.5m (31 December 2021: €21.5m). The Revolving Credit Facility ("RCF") initial maturity was 7th July 2022, the maturity date has been extended to 30 June 2023.

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 30 September 2022, the LTV Ratio was 65.1% and the SSRCF LTV Ratio was 0.13:1.

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 30 September 2022, €9.8m (31 December 2021: €15.4m) had been drawn. Interest accrues at a rate equal to the Margin and EURIBOR. At 30 September 2022 the applicable Margin was 3.0%. In accordance with the Term Facility agreement, ACS6 was required to ensure that leverage as at 30 September 2022 did not exceed 50.0%; as at 30 September 2022, leverage was 20.92%. The Term Facility agreement was amended in July 2021 to account for the change in collections forecast.

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.

Notes to the Consolidated Financial Statements (continued)

22. 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, €0.3m was reclassified from tax provision to tax payable in 2022 based on the notification.

The total tax provision reflected in the Financial Statements as at 30 September 2022 is €4.9m (31 December 2021: €5.1m).

Real estate investments

Under the business plan of the signed and acquired real estate assets, as at 30 September 2022, the Group is expected to fund c.€17.0m (c.€17.7m as at 31 December 2021) for its share of acquisition cost and capital expenditure over the next three years.

23. Ultimate parent entity

The ultimate parent entity of the Group is Veld Offshore LLP.

24. Subsequent events

Signed and Completed Investments

On 3rd November 2022 AFE completed the acquisition of a c.4,000 sqm office building in the South East of England in a c.€3.0m transaction. AFE's economic interest in the transaction is 50%.

During the period from 30th September 2022 to the signing of the interim financial statements AFE made follow on investments in existing real estate backed debt investments for an aggregate amount of c.€1.8m.

25. 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.

Reconciliation of profit before tax to Normalised and Adjusted EBITDA:

	Nine months ended 30 September 2022	Nine months ended 30 September 2021
	€000	€000
Profit before tax	**17,745**	**8,638**
Finance costs	18,732	16,720
Share of profit in associate and joint ventures	(2,310)	(578)
Net foreign currency movements	1,135	444
Impairment losses/(gains)	1,643	(164)
Portfolio disposals	3,303	-
Collections from portfolios	99,362	74,322
Revenue	(60,726)	(46,432)
Other income	3,301	2,215
Cash collected on behalf of secured loan noteholders	(2,158)	(244)
Adjusted EBITDA	**80,027**	**54,921**
Less assets disposals	(3,303)	(4,001)
Normalised Adjusted EBITDA	**76,724**	**50,920**

Notes to the Consolidated Financial Statements (continued)

25. djusted EBITDA and Normalised EBITDA (continued)

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

	Nine months ended 30 September 2022	Nine months ended 30 September 2022
	€000	**€000**
Net cash (used in)/generated from operating activities	**(5,154)**	**48**
Portfolio acquisitions	92,785	53,720
Taxation paid	672	522
Cash collected on behalf of secured loan noteholders	(2,158)	(244)
Working capital adjustments	(5,308)	788
Realised foreign currency (gains)/losses	(810)	87
Adjusted EBITDA	**80,027**	**54,921**
Less assets disposals	(3,303)	(4,001)
Normalised Adjusted EBITDA	**76,724**	**50,920**

Reconciliation of core collections to Normalised and Adjusted EBITDA:

	Nine months ended 30 September 2022	Nine months ended 30 September 2022
	€000	**€000**
Core Collections in the year	**99,362**	**74,322**
Other income	3,301	2,215
Operating expenses	(26,559)	(21,652)
Net foreign currency movements	1,135	444
Impairment losses/(gains)	1,643	(164)
Cash collected on behalf of secured loan noteholders	(2,158)	(244)
Adjusted EBITDA	**80,027**	**54,921**
Less assets disposals	(3,303)	(4,001)
Normalised Adjusted EBITDA	**76,724**	**50,920**