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

Audited Consolidated Annual Report
For the Year Ended 31 December 2022

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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 (resigned 28 February 2023);
- 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 Donohoe;
- David McGowan (resigned 28 April 2022);
- Jacqueline 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

Since 30 September 2022:
- Anouk Agnes;
- John Alldis;
- William Blackwell;
- Veronica Buffoni;
- John Donohoe;
- Jacqueline O'Connor.

Until 30 September 2022:
- David Copperwaite;
- Gregory McKenzie;
- Peter Niven;
- Nigel Ward.

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
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 Consolidated Annual Report (the "Financial Statements") on the activities and financial performance of AFE and its subsidiaries (together, the "Group") for the year ended 31 December 2022. The Financial Statements incorporate the assets, liabilities, revenue and expenses of the Group.

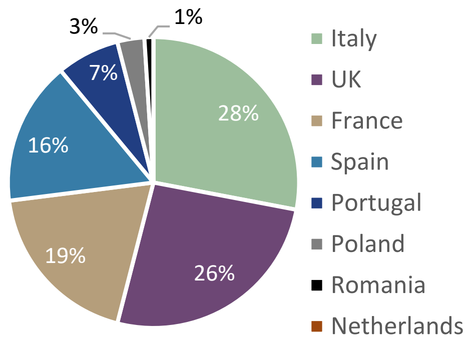
Business Overview

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 2022, AFE continued to source and originate new opportunities, mostly in the direct real estate, performing and non-performing loan market having successfully executed c.€94.8m transactions in the UK, France and Italy.

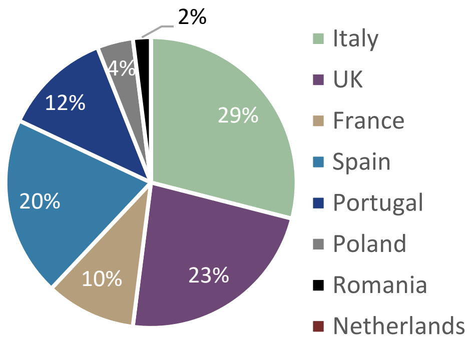
In its debt investment portfolio, AFE has a diverse portfolio of seasoned and granular consumer, SME, mortgage debt and real estate backed debt which is differentiated among debt purchasers with its significant collateral backing as well as the level of borrower diversification, asset types and geographies.

The following charts illustrate the diversification of AFE's 84-month estimated remaining collections ("ERC") from existing purchased loan portfolios, purchased loan notes, investments in joint ventures and inventory (together, the "Group's Assets") by asset type and geography as of 31 December 2022. Geographic and asset diversity provides resilience throughout the cycle in different countries.

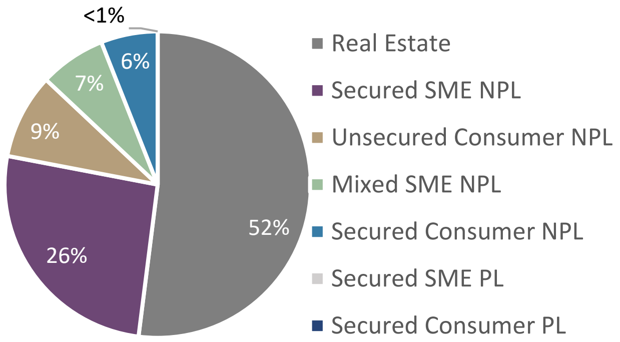
€552.5 million 84-month ERC by geography
31 December 2022



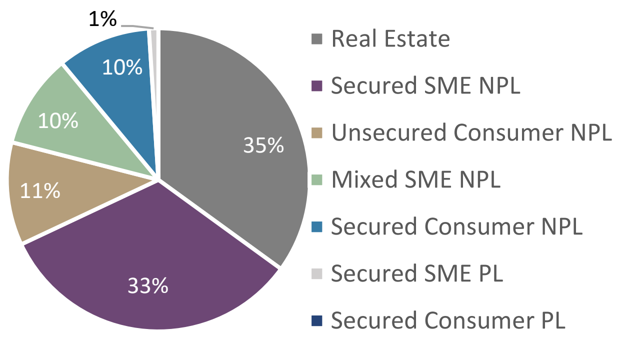
€531.1 million 84-month ERC by geography
31 December 2021



€552.5 million 84-month ERC by asset type
31 December 2022



€531.1 million 84-month ERC by asset type
31 December 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 years ended 31 December 2022 and 31 December 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 year.

		Year ended 31 December 2022	Year ended 31 December 2021	% change
84-month ERC (€'000s)	1	552,548	531,098	4.0%
84-month Gross ERC (€'000s)	2	573,690	556,167	3.2%
Cumulative purchases of loan portfolios and loan notes (€'000s)	3	711,132	697,600	1.9%
Number of investments	4	67	52	28.8%
Number of accounts	5	207,996	209,445	-0.7%
Total attributable collections (€'000s)	6	156,895	131,484	19.3%
Total gross collections (€'000s)	7	150,201	129,010	16.4%
Core collections (€'000s)	8	130,388	122,554	6.4%
Operating expenses (€'000s)	9	35,367	31,998	10.5%
Core collection cost ratio	10	27.1%	26.1%	3.9%
Adjusted EBITDA (€'000s)	11	116,773	99,071	17.9%
Normalised Adjusted EBITDA (€'000s)	12	96,960	92,615	4.7%

(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 €864 million has been deployed through acquisitions of 78 investments with an aggregate face value of €13.5 billion. Since 2012, 11 portfolios have been fully sold. As of 31 December 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 €3.6 billion, with an 84-month ERC of €552.5 million.

Portfolios purchased in the year ended:	Purchase price (13)	Actual collections to 31 December 2022	84-month ERC	Total estimated collections (14)	Gross money multiple (15)
	€000	€000	€000	€000	
Year ended 31 December 2012	75,084	174,282	13,966	188,248	2.5x
Year ended 31 December 2013	77,386	159,468	10,660	170,128	2.2x
Year ended 31 December 2014	59,025	127,908	11,557	139,465	2.4x
Year ended 31 December 2015	47,806	61,385	12,409	73,794	1.5x
Year ended 31 December 2016	125,617	200,317	57,616	257,933	2.1x
Year ended 31 December 2017	65,017	94,920	19,041	113,961	1.8x
Year ended 31 December 2018	161,652	155,914	80,881	236,795	1.5x
Year ended 31 December 2019	36,119	23,096	34,900	57,996	1.6x
Year ended 31 December 2020	21,875	23,300	23,270	46,570	2.1x
Year ended 31 December 2021	105,830	54,576	128,735	183,311	1.7x
Year ended 31 December 2022	88,232	9,167	159,513	168,680	1.9x
Total	**863,643**	**1,084,333**	**552,548**	**1,636,881**	**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 31 December 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.

			Year ended 31 December 2022 €000
Borrowings:	The Notes		307,500
	Revolving Credit Facility		88,518
	Term Facility		6,529
Less:	Cash at bank		(18,806)
	Cash held on AFE's account at servicers'		(27,338)
	Less cash deposits paid		(506)
Add back:	Cash collected on behalf of secured loan note holders		1,142
Net debt			**357,039**
LTV ratio at period end		16	64.6%
Adjusted EBITDA leverage ratio		17	3.06
LTM Adjusted EBITDA		18	116,773
Net interest expense		19	20,280
Fixed charge cover ratio ("FCCR")		20	5.76

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

(17) Adjusted EBITDA leverage ratio means net debt divided by the Adjusted EBITDA for the 12 months ended 31 December 2022. 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. In December 2022 AFE's 30% holding in Phoenix Asset Management ("PAM") was sold with proceeds of €12.3m, in addition two portfolio tails were disposed of for €4.2m against ERC of €4.8m. Excluding these sales brings Normalised Adjusted EBITDA leverage ratio to 3.68.

(18) LTM Adjusted EBITDA means Adjusted EBITDA for the 12 months ended 31 December 2022.

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

		Year ended 31 December 2022 €000
Borrowings:	The Notes	307,500
	Unamortised discount on issuance of the Notes	(449)
	Unamortised transaction fees	(2,012)
	Per Financial Statements (non-current liability)	305,039
	Interest payable at 31 December 2022 (current liability)	3,436
	Revolving credit facility - amount drawn	88,518
	Term Facility - current liability	6,529
	Unamortised transaction fees on Term Facility	(24)
Total borrowings		**403,498**

Directors' Report (continued)

Key risks and uncertainties

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

Risk	Definition	Impact	Mitigation
Market/economic risk	Changes in the economic environment in the markets in which the Group operates may negatively impact the Group's performance.	The current inflationary environment could lead to further rate rises which could impact the Group's debt service costs.	The Group reviews and revises as necessary business plans for underlying portfolios on a periodic basis and also monitors closely economic growth and the economic and inflationary environment across Europe.
Credit/liquidity risk	The value of the Group's investments may deteriorate, or the Group may not be able to meet its day to day working capital requirements if collections performance fall.	This could lead to reduced recoveries from debtors, as well as the risk that the Group may not be able to finance its debt or remain competitive due to a lack of capital to deploy and potentially putting pressure on the Group's ability to meet financial covenants.	The Group closely and regularly monitors actual collections performance against forecasted targets in order to quickly assess whether any portfolio is underperforming. The Group also works closely with its engaged servicers in order to quickly establish recovery strategies for any underperforming portfolios. The Group also monitors its cash position on a regular basis to ensure that there is sufficient cash available to manage the day to day operations of the Group.
Compliance/regulatory/ tax risk	Failure to comply with applicable legislation/regulatory requirements within the geographies and markets the Group operates within. The Group also operates in an environment where tax legislation is continually evolving.	Potential breach of compliance acts/regulatory provisions or non-compliance or misinterpretation of local tax legislations may result in potential reputational damage in the industry, potential large fines, impairments etc. which may impact the Groups ability to remain competitive in the market.	The Group maintains strong operational compliance controls and has various legal advisors in different jurisdictions in order to keep up to date with any changes to any regulatory environment which could adversely impact the Group. The Group continually monitors its corporate and structural set up and tax reporting requirements to ensure full compliance with local tax legislation.

Directors' Report (continued)

Key risks and uncertainties (continued)

Risk	Definition	Impact	Mitigation
Third party/operational risk	Risk of loss of relationship/underperformance/ over reliance of servicers/third parties that the Group engages with.	Any failure by third parties/servicers that the Group engages with could materially impact cash flows, income, and profitability of the portfolios, and therefore adversely impact the Groups results.	The Group constantly assesses the capabilities and value that is delivered by third parties in order to determine whether there is any underperformance. Regular audits are carried out of servicers to ensure that they are compliant with necessary regulations and that they are performing as expected.

Significant recent developments

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 year end no material impacts of the ongoing conflict have been identified.

2022 Performance

In 2022, AFE continued 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. Strong deployment continued with a total €94.8m throughout 2022. AFE continued its expansion into direct real estate increasing portfolio diversification and predictability of collections by eliminating the volatility of court proceedings. The group reported total attributable collections of €141.9m against a target of €140.9m, set in December 2021 (excluding PAM), this represents a €1.0m or 0.7% overperformance.

New investments

During the year ended 31 December 2022, the Group successfully deployed c.€94.8m of capital across Non-Performing Loans ("NPL") and real estate backed debt investments, c.€88.2m relates to new acquisitions in the year and c.€6.6m 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 transaction. AFE's economic interest in this transaction is 50%.

Directors' Report (continued)

New investments (continued)

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.€1.1m. 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 c.12,000 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%.

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.€8.7m portfolio of three commercial 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%.

On 3rd November 2022 AFE completed the acquisition of a c.4,000 sqm office building in the South East on England in a c.€1.7m transaction. AFE's economic interest in the transaction is 50%.

On 15th December 2022 AFE completed the acquisition of a c.11,400sqm residential development opportunity in Italy in a c.€3.5m transaction. AFE's economic interest in the transaction is 40%.

During the year ended 31st December 2022 AFE made follow on investments of c.€6.6m in six existing real estate backed debt investments in France and the United Kingdom.

Signed transactions

Under the business plan of the signed and acquired real estate assets, the Group is expected to fund an additional c.€39.5m for its share of capital expenditure over the next three years.

Disposals

In May 2022 two portfolio tail sales completed with proceeds of c.€1.1m. In August 2022 an existing real estate asset in the United Kingdom was disposed of realising proceeds of c.€2.2m. An additional two portfolio tail sales were completed in December 2022 releasing proceeds of €4.2m.

On 28th December 2022 AFE entered into an agreement to sell its 30% share of Phoenix Asset Management SpA ("PAM") for €12.3m.

In December 2022 AFE syndicated a 10% share of an existing joint venture with investments in real estate backed debt investments in the United Kingdom. Collection proceeds of €3.7m were realised from the syndication.

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 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").

Directors' Report (continued)

Environmental, Social and Governance:

As AFE is deemed to fall within the scope of Article 6 of SFDR, the investments underlying this financial product do not take into account the EU criteria for environmentally sustainable economic activities. 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 returns. The AIFM relies upon the Investment Adviser's approach to sustainability risks to satisfy these requirements.
Sustainable investing is integral to the Investment Adviser'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.
As part of its ongoing commitment to ESG, the Investment Adviser recently became a signatory to the United Nations Principles for Responsible Investment ("UNPRI"), demonstrating its commitment to responsible investing by incorporating ESG factors into investment decision-making.

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.€27.9m. The group has assessed its expected operating performance and liquidity requirements for 2023 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. AFE's Revolving Credit Facility ("RCF") matures on 30th June 2023; the company has ongoing discussions with lenders to extend the RCF beyond the current maturity date.

Outlook

Net debt to adjusted EBITDA is below target range with stable cash collections, deployment of capital is set to slow during 2023 to preserve liquidity. AFE has a locally embedded platform with 26 FTE equivalents across 5 local geographies, a resilient and low fixed cost operating model which is expected to drive strong performance into 2023. 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 and performing real estate backed debt) with a focus on continued diversification across a broader range of asset types and geographies.

Eric Verret

Director
24 March 2023

Statement of Directors' Responsibilities

The Board of Directors of AFE S.A. SICAV-RAIF submits its report and the audited consolidated financial statements (the "Financial Statements") for the Group for the year ended 31 December 2022.

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

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

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

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

Audit report

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

Our opinion

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of AFE S.A. SICAV-RAIF (formerly Anacap Financial Europe S.A. SICAV-RAIF) and its subsidiaries (the "Fund") as at 31 December 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

What we have audited

The Fund's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2022;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- the consolidated statement of changes in equity for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

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

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

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

Other information

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors for the consolidated financial statements

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

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Fund’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Responsibilities of the “Réviseur d’entreprises agréé” for the audit of the consolidated financial statements

The objectives of our audit are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an audit report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

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

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

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

PricewaterhouseCoopers, Société coopérative
Represented by

Luxembourg, 24 March 2023

Electronically signed by:
Thierry Salagnac

Thierry Salagnac

Consolidated Statement of Comprehensive Income for the Year Ended 31 December 2022

	Notes	Year Ended 31 December 2022 €000	Year Ended 31 December 2021 €000
Revenue			
Interest income from purchased loan portfolios	12	38,169	47,194
Interest income from purchased loan notes	12	851	1,293
Interest income on loans to joint ventures at amortised cost	12	10,805	9,367
Fair value gain on investments in joint ventures at FVPL	12	22,844	-
Other income		5,064	4,125
Total revenue	5	**77,733**	**61,979**
Operating expenses			
Collection activity costs		(16,982)	(17,988)
Impairment (losses)/gains		(3,789)	151
Net foreign currency loss	7	(1,744)	(335)
Other operating expenses	7	(18,385)	(14,010)
Total operating expenses		**(40,900)**	**(32,182)**
Operating profit		**36,833**	**29,797**
Finance costs	8	(24,805)	(22,105)
Share of profit in joint venture accounted for using equity method	13	8,348	6,816
Profit from discontinued operation	11	3,991	913
Profit before tax		**24,367**	**15,421**
Tax credit/(charge)	9	227	(167)
Comprehensive income for the year		**24,594**	**15,254**

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

Consolidated Statement of Financial Position as at 31 December 2022

	Notes	As at 31 December 2022 €000	As at 31 December 2021 €000
Assets			
Non-current assets			
Property, plant and equipment		221	88
Investments in joint ventures at amortised cost	12	45,420	27,875
Investments in joint ventures at FVPL	12	80,061	69,126
Participation in joint ventures	13	47,926	11,956
Goodwill	10	1,836	1,836
Total non-current assets		**175,464**	**110,881**
Current assets			
Cash and cash equivalents		18,806	21,438
Trade and other receivables	15	42,296	21,275
Tax receivable		68	-
Other assets	15	2,984	7,126
Purchased loan portfolios	12	127,392	157,432
Purchased loan notes	12	7,683	9,272
Investments in joint ventures at amortised cost	12	50,773	45,912
Investment in associate classified as held for sale	11	-	8,309
Inventory	14	18,856	22,707
Total current assets		**268,858**	**293,471**
Total assets		**444,322**	**404,352**
Liabilities			
Non-current liabilities			
Borrowings	23	305,039	310,821
Other liabilities	16	-	1,005
Total non-current liabilities		**305,039**	**311,826**
Current liabilities			
Borrowings	23	98,504	78,921
Secured loan notes	23	12,145	13,002
Trade and other payables	16	11,792	8,228
Other liabilities	16	1,066	-
Tax payable		-	1,013
Tax provisions	24	4,877	5,057
Total current liabilities		**128,384**	**106,221**
Total liabilities		**433,423**	**418,047**
Equity			
Share capital	17	1,250	1,250
Retained earnings		9,649	(14,945)
Total equity		**10,899**	**(13,695)**
Total equity and liabilities		**444,322**	**404,352**
Net Asset Value as per Offering Memorandum	19	**338,155**	**301,624**
Net Asset Value per share	17	**8.72**	**(10.96)**

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

The Consolidated Financial Statements for the year ended 31 December 2022 were approved by the Board of Directors and authorised for issue on its behalf by:

Eric Verret

Director

24 March 2023

Consolidated Statement of Cash Flows for the Year Ended 31 December 2022

	Notes	Year Ended 31 December 2022	Year Ended 31 December 2021
		€000	€000
Cash flows from operating activities			
Profit before tax		**24,367**	**15,421**
Adjustments for:			
Interest income from purchased loan portfolios	12	(38,169)	(47,194)
Interest income from purchased loan notes	12	(851)	(1,293)
Interest income from joint ventures	12	(10,805)	(9,367)
Fair value movement of investment in joint ventures at FVPL	12	(22,844)	-
Impairment losses/(gains)		3,789	(151)
Finance costs	8	24,805	22,105
Unrealised foreign currency losses/(gains)	7	2,404	(900)
Share of profit in joint venture accounted for using equity method	13	(8,348)	(6,816)
Share of profit in associate classified as held for sale	11	(3,991)	(913)
Operating cash flows before movements in working capital		**(29,643)**	**(29,108)**
Change in trade and other receivables*		(11,316)	(10,056)
Change in trade and other payables*		3,564	(818)
Cash used in operating activities before collections and purchases		**(37,395)**	**(39,982)**
Taxes paid		(1,034)	(486)
Collections in the year - sale of inventory	12	12,912	9,861
Collections in the year - loans	12	97,409	88,555
Collections in the year - joint ventures	12	27,580	30,593
Acquisition of purchased loan notes	12	(1,110)	-
Acquisition of joint ventures	12	(93,694)	(100,112)
Net cash generated from/(used in) operating activities		**4,668**	**(11,571)**
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		52,938	96,219
Repayment of borrowings		(38,627)	(59,863)
Repayment of secured loan notes		(2,369)	(1,621)
Finance costs paid		(19,242)	(18,659)
Net cash (used in)/generated from financing activities		**(7,300)**	**16,076**
Net movements in cash and cash equivalents		(2,632)	4,205
Cash and cash equivalents at the beginning of the year		21,438	17,233
Cash and cash equivalents at the end of the year		**18,806**	**21,438**

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

Consolidated Statement of Changes in Equity for the Year Ended 31 December 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 year	-	24,594	24,594
Balance as at 31 December 2022	**1,250**	**9,649**	**10,899**

Comparative figures from 1 January to 31 December 2021:

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

The above 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 30 September 2022 the fund changed its 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 20 (together, the "Group") is to seek risk adjusted investment returns by acquiring, holding, servicing, and disposing of portfolio investments comprising of loans, leases, or other credit-related obligations, including primarily diversified portfolios of unsecured and secured consumer debts, SME debt, and mortgages, as well as seek opportunities in the direct real estate backed debt market.

Significant changes in the current reporting year

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 its 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 Jacqueline 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 year ended 31 December 2022, the Group successfully deployed c.€94.8m of capital across Non-Performing Loans ("NPL") and real estate backed debt investments, c.€88.2m relates to new acquisitions in the year and c.€6.6m 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 transaction. 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.€1.1m. AFE's economic interest in the transaction is 33.3%.

Notes to the Consolidated Financial Statements (continued)

New Investments (continued):

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 c.12,000 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.€8.7m portfolio of three commercial 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%.

On 3rd November 2022 AFE completed the acquisition of a c.4,000 sqm office building in the South East on England in a c.€1.7m transaction. AFE's economic interest in the transaction is 50%.

On 15th December 2022 AFE completed the acquisition of a c.11,400sqm residential development opportunity in Italy in a c.€3.5m transaction. AFE's economic interest in the transaction is 40%.

During the year ended 31st December 2022 AFE made follow on investments of c.€6.6m in six existing real estate backed debt investments in France and the United Kingdom.

Signed Transactions

Under the business plan of the signed and acquired real estate assets, the Group is expected to fund an additional c.€39.5m for its share of capital expenditure over the next three years.

Disposals

In May 2022 two portfolio tail sales completed with proceeds of c.€1.1m. In August 2022 an existing real estate asset in the United Kingdom was disposed of realising proceeds of c.€2.2m. An additional two portfolio tail sales were completed in December 2022 releasing proceeds of €4.2m.

On 28th December 2022 AFE entered into an agreement to sell its 30% share of Phoenix Asset Management SpA ("PAM") for €12.3m.

In December 2022 AFE syndicated a 10% share of an existing joint venture with investments in real estate backed debt investments in the United Kingdom. Collection proceeds of €3.7m were realised from the syndication.

Market developments

An increasingly challenging economic backdrop relating to persistent inflationary pressures and rising interest rates has developed over 2022. The group closely monitors market developments and mitigates risks through regular monitoring of the groups liquidity position and business plan. Whilst the group acknowledges there are increasing macro risks arising from climate change, no material impact has been assessed on AFE's operations at the reporting date. Additionally, no material impact has been identified resulting from the ongoing war in Ukraine or related sanctions.

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.

Notes to the Consolidated Financial Statements (continued)

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

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

3. Summary of significant accounting policies

Basis of preparation

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

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

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

Going concern

The group has assessed its expected operating performance and liquidity requirements for 2023 considering the impact of 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.

Investment entity

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

Consolidation and accounting for subsidiary entities within the Group

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

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

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

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

Investments in associates

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

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

Notes to the Consolidated Financial Statements (continued)

Investments in associates (continued)

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

Investment in joint ventures

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

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

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

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

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

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

Business combinations

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

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

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

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

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

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

Financial assets

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

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

Financial assets (continued)

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

Financial liabilities

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

Initial recognition of financial instruments

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

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

Purchased loan notes

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

Purchased loan portfolios

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

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

Derivative financial instruments

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

Secured loan notes

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

Notes to the Consolidated Financial Statements (continued)

Secured loan notes (continued)

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

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

Expected credit losses ("ECLs")

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

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

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

Stage 1 - No significant increase in credit risk since acquisition

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

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

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

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

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

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

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

Interest income and expense, the effective interest rate and impairment

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

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

Notes to the Consolidated Financial Statements (continued)

Interest income and expense, the effective interest rate and impairment (continued)

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

Derecognition of financial assets

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

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

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

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

Derecognition of financial liabilities

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

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

Provisions

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

Operating expenses

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

Collection activity costs

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

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

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

Other operating expenses

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

Functional currency

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

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

Notes to the Consolidated Financial Statements (continued)

Foreign currency translation

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

Cash and cash equivalents

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

Deal specific transaction fees

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

Finance income and finance costs

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

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

Borrowings

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

Senior Secured Floating Rate Notes

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

Super Senior Revolving Credit Facility

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

Term Facility

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

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

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

Taxation

Tax charges or credits in the Consolidated Financial Statements have been determined based on the tax charges or credits recorded in the legal entities comprising the Group. Taxable profit differs from the net profit as reported in the Consolidated Statement of Comprehensive Income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Current taxation is charged or credited in the Consolidated Statement of Comprehensive Income, except when it relates to items charged or credited to equity, in which case the corporation taxation is also dealt with in equity.

Notes to the Consolidated Financial Statements (continued)

Inventory

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

Non-current assets held for sale

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

Segmental reporting

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

Offsetting financial instruments

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

Related party transactions

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

4. Critical accounting judgments and estimates

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

Critical judgments in applying accounting policies

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

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

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

Critical estimates

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

Notes to the Consolidated Financial Statements (continued)

Critical estimates (continued)

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

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

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.

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.

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.

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

A change in the expected future cash flows by +10% would increase the carrying value of financial assets as at 31 December 2022 by €22.0m. A change in the expected future cash flows by -10% would reduce the carrying value of financial assets as at 31 December 2022 by €19.9m.

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.

Russian invasion of Ukraine

The group has assessed its expected operating performance and liquidity requirements for 2023 considering the impact of 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.

Notes to the Consolidated Financial Statements (continued)

5. Segmental reporting (continued)

	As at 31 December 2022	As at 31 December 2021
	€000	€000
Investment in associate classified as held for sale	-	8,309
Purchased loan portfolios	127,392	157,432
Purchased loan notes	7,683	9,272
Investments in joint ventures	224,180	154,869
Inventory	18,856	22,707
Consolidated Statement of Financial Position		
Total segment assets	444,322	404,352
Total segment liabilities	(433,423)	(418,047)
Segment net assets/(liabilities)	**10,899**	**(13,695)**

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

	Year ended 31 December 2022	Year ended 31 December 2021
	€000	€000
- United Kingdom	-	540
- Romania	619	1,035
- Poland	2,341	2,845
- Netherlands	22	-
- Italy, Spain, Portugal	43,511	55,992
Total revenue	**46,493**	**60,412**

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

	Year ended 31 December 2022	Year ended 31 December 2021
	€000	€000
- United Kingdom	22,414	-
- France	3,331	1,306
- Italy	431	261
Total revenue	**26,176**	**1,567**

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

	As at 31 December 2022	As at 31 December 2021
	€000	€000
- Romania	3,980	7,315
- Poland	13,539	15,210
- Netherlands	1,089	-
- Italy, Spain, Portugal	196,034	223,615
Total	**214,642**	**246,140**

Notes to the Consolidated Financial Statements (continued)

5. Segmental reporting (continued)

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

	As at 31 December 2022	As at 31 December 2021
	€000	€000
- United Kingdom	83,000	68,413
- France	60,137	32,075
- Italy	20,332	5,961
Total	**163,469**	**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 31 December 2022	ERC 31 December 2022	Effect of discounting 31 December 2022	Adjusted NAV 31 December 2022
	€000	€000	€000	€000
- Romania	5,145	5,145	(1,542)	3,603
- Italy	113,874	113,874	(42,939)	70,935
- Spain	105,083	86,825	(33,638)	53,187
- Portugal	43,380	40,496	(16,850)	23,646
- Poland	16,449	16,449	(4,182)	12,267
- Netherlands	1,695	1,695	(585)	1,110
Total	**285,626**	**264,484**	**(99,736)**	**164,748**

Comparative figures for the year ended 31 December 2021:

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

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

	Gross ERC 31 December 2022	ERC 31 December 2022	Effect of discounting 31 December 2022	Adjusted NAV 31 December 2022
	€000	€000	€000	€000
- United Kingdom	141,870	141,870	(55,818)	86,052
- Italy	43,430	43,430	(21,376)	22,054
- France	102,764	102,764	(37,463)	65,301
Total	**288,064**	**288,064**	**(114,657)**	**173,407**

Notes to the Consolidated Financial Statements (continued)

5. Segmental reporting (continued)

Comparative figures for the year ended 31 December 2021:

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

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

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

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

3) Investments in joint ventures measured at amortised cost - Investment in joint ventures are measured at amortised cost where cash flows comprise solely of principal and interest, with an intention to hold to collect and where the Group has joint control over the arrangement. The Group 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.

4) 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. Auditors' remuneration

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

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

	As at 31 December 2022	As at 31 December 2021
	€000	€000
Fees charged		
Audit fees	728	547
Total fees charged during the year	**728**	**547**
Fees payable		
Audit fees payable	712	379
Audit fees payable at the end of the year	**712**	**379**

Notes to the Consolidated Financial Statements (continued)

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

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

	Year ended 31 December 2022	Year ended 31 December 2021
	€000	€000
Management fees	5,724	4,673
Directors' fees	182	236
Legal and professional fees	825	955
Administration fees	1,070	1,117
Audit fees	728	547
Abort deal fees	45	11
Depositary charges	66	58
Subscription tax	-	1
Staff costs	4,309	3,572
Other expenses	5,436	2,840
Other operating expenses	**18,385**	**14,010**
Realised foreign currency (gains)/losses	(660)	1,235
Unrealised foreign currency losses/(gains)	2,404	(900)
Net foreign currency losses	**1,744**	**335**

Staff costs include the total remuneration cost of all employees within the Group during the year. As at 31 December 2022, the Group had 26 employees (31 December 2021: 21). Other expenses include €1.8m (year ended 31 December 2021 €2.4m) borne by the Group from AFPL in accordance with the Support Services agreement (see note 18 related party transactions).

8. Finance costs

	Year ended 31 December 2022	Year ended 31 December 2021
	€000	€000
Fees on Revolving Credit Facility	157	612
Interest on borrowings	4,238	3,191
Interest on Senior Secured Notes and related Charges	18,143	17,112
Interest expense - secured loan notes	1,915	2,007
Revaluation loss/(gain) on secured loan notes	352	(817)
Total finance costs - borrowings	**24,805**	**22,105**

Notes to the Consolidated Financial Statements (continued)

9. Taxation

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

	Notes	Year ended 31 December 2022 €000	Year ended 31 December 2021 €000
Profit before tax		24,367	15,421
Standard income tax rate applicable in Luxembourg		24.94%	24.94%
Theoretical taxation charge		6,077	3,846
Effect of profit not subject to income tax		(7,606)	(5,030)
Taxation benefit on ordinary activities before other taxes		**(1,529)**	**(1,184)**
Other taxes (Net Wealth Tax etc.)		86	90
Provisions	24	1,216	1,261
Taxation (credit)/charge		(227)	167

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

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

For the year ended 31 December 2022, the Group's tax credit of €0.2m (31 December 2021: €0.2m charge) comprised Portuguese and other local tax credits/charges. Further information on the Portuguese tax charges or credits can be found in note 24 'Commitments and contingencies'.

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

10. Goodwill

As at 31 December 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.

11. Investment in associate classified as held for sale

On 28 December 2022 the Group entered into an agreement to sell the 30% share of Phoenix Asset Management SpA ("PAM") for €12,300,149 and recognised a gain on sale of €2,834,128 within profit from discontinued operation. The sale completed on 28 February 2023.

Prior to the sale, the terms of the holding meant that the Group exercised significant influence over PAM, which was achieved through the power to participate in the financial policy decisions of PAM and being involved in key strategic decision-making processes.

PAM specialised in offering management services, valuation, acquisition, and evaluation of NPL Portfolios to the Group's operations in Italy.

The associate was accounted for using the equity method. Classification as held for sale took place in December 2021.

Below is a reconciliation of the movements in the carrying value of the Group's interest in PAM as at 31 December 2022:

Notes to the Consolidated Financial Statements (continued)

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

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

	As at 31 December 2022	As at 31 December 2021
	€000	**€000**
Interest in net assets at beginning of the year	8,309	7,396
Share of profit in associate classified as held for sale	3,991	913
Sale of investment in associate	(12,300)	-
Interest in net assets of associate at the end of the year	**-**	**8,309**

12. Financial assets

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

	As at 31 December 2022	As at 31 December 2021
	€000	**€000**
Expected falling due after one year:		
Purchased loan portfolios	71,104	124,854
Purchased loan notes	3,187	3,285
Investments in joint ventures at amortised cost	83,806	54,374
Investments in joint ventures at FVPL	66,036	37,155
Total	**224,133**	**219,668**
Expected falling due within one year:		
Purchased loan portfolios	56,288	32,578
Purchased loan notes	4,496	5,987
Investments in joint ventures at amortised cost	12,387	19,413
Investments in joint ventures at FVPL	14,025	31,971
Total	**87,196**	**89,949**

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

	As at 31 December 2022	As at 31 December 2021
	€000	**€000**
Purchased loan portfolios as at beginning of year	157,432	193,916
Interest income from purchased loan portfolios	38,169	47,194
Collections in the year - sale of inventory	(12,912)	(9,861)
Collections in the year - loans *	(54,093)	(69,079)
Collections in the year - derecognition on sale **	(4,210)	(6,456)
Impairment	(4,595)	(518)
Add: movement in inventory and other receivables	7,601	2,236
Purchased loan portfolios at the end of the year	**127,392**	**157,432**

* includes c.€3.3m of collections accelerated by the local financing of an aggregated NPL portfolio.
** includes €4.2m proceeds from sales of two portfolio tails in December 2022, realising a loss of €0.2m. The proceeds from these sales were recognised as collections in the year – derecognition on sale.

Notes to the Consolidated Financial Statements (continued)

12. Financial assets (continued)

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

	As at 31 December 2022	As at 31 December 2021
	€000	€000
Purchased loan notes as at beginning of year	9,272	13,231
Loan notes acquired during the period	1,110	-
Interest income from purchased loan notes	851	1,293
Collections in the year	(2,537)	(4,176)
Collections in the year - derecognition on sale *	(1,111)	-
Impairment gain/(loss)	98	(1,076)
Purchased loan notes at the end of the year	**7,683**	**9,272**

* includes €1.1m proceeds from sales of two portfolio tails in May 2022, realising a loss of €0.2m. The proceeds from these sales were recognised as collections in the year – derecognition on sale.

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

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

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

	As at 31 December 2022	As at 31 December 2021
	€000	€000
Joint ventures at amortised cost as at beginning of year	73,787	65,186
Investments acquired in joint ventures at amortised cost	36,780	28,162
Interest income from joint ventures	10,805	9,367
Collections in the year *	(27,580)	(30,593)
Impairment gain	707	1,744
Reclassification	1,972	-
Net foreign currency loss	(278)	(79)
Joint ventures at amortised cost at the end of the year	**96,193**	**73,787**

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

Notes to the Consolidated Financial Statements (continued)

12. Financial assets (continued)

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

	As at 31 December 2022	As at 31 December 2021
	€000	€000
Loans to joint ventures at FVPL as at beginning of year	69,126	7,656
Investment in loans to joint ventures at FVPL	29,292	67,107
Collections in the year *	(33,266)	(8,845)
Collections in the year - derecognition on sale **	(2,192)	-
Movement in fair value	22,844	261
Reclassification	(1,972)	2,046
Net foreign currency (loss)/gain	(3,771)	901
Loans to joint ventures at FVPL at the end of the year	**80,061**	**69,126**

* Includes c.€22.1m of collections accelerated by the local financing of a direct real estate investment and €3.7m relating to the syndication of a 20% share of an existing joint venture.
** includes €2.2m proceeds from sales of a real estate asset in August 2022. The proceeds from this sale was recognised as collections in the year – derecognition on sale.

The reclassification of c.€2.0m from investment in joint ventures at FVPL to investment in joint ventures at amortised cost relates to a reclassification relating to a prior year.

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

As at 31 December 2022, the carrying value of investments in joint ventures at FVPL is €80.1m (31 December 2021: €69.1m).

13. Participation in joint ventures

	As at 31 December 2022	As at 31 December 2021
	€000	€000
Participation in joint ventures at the beginning of the year	11,956	297
Participation acquired during the year	27,622	4,843
Share of net profit of joint ventures using equity method	8,348	6,816
Participation in joint ventures at the end of the year	**47,926**	**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.

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

Notes to the Consolidated Financial Statements (continued)

13. Participation in joint ventures (continued)

	33.3% Precise Credit Solutions 5 SV	50.0% Tiberius SPV S.r.l. cell 5	33.3% Tiberius SPV S.r.l. cell 6	60.0% Aneto NS FIZ	50.0% Manzoni S.r.l.	50.0% Precise Equity Solutions 1 S.a.r.l	48.0% Green Stone SICAF S.p.A cell Stone 9,12,14
	€000	€000	€000	€000	€000	€000	€000
Current assets	9,782	25,184	14,914	16,572	8,221	22	227
Non-current assets	22,406	-	-	-	4,761	1,939	59,481
Current liabilities	(1,994)	(25,184)	(7,166)	(11,055)	(431)	(81)	-
Non-current liabilities	(29,079)	-	-	-	(9,528)	(24)	(33,220)
Equity	1,115	-	7,748	5,517	3,023	(37)	22,585
Profit in the year	-	-	-	-	-	1,893	3,903

	50.0% Precise Credit Solutions 10 S.a.r.l	50.0% Precise Credit Solutions 12 S.a.r.l	50.0% Precise Credit Solutions 13 S.a.r.l	39.0% Precise Credit Solutions 14 S.a.r.l	40.0% St Johns JV LP	38.8% 160 BFR Holdco Limited	33.3% Precise Credit Solutions 19 S.a.r.l
	€000	€000	€000	€000	€000	€000	€000
Current assets	329	21	235	1,886	14,465	1,895	21,043
Non-current assets	6,102	9	49,704	18,762	44,413	72,024	74,625
Current liabilities	(114)	(104)	(62)	(1,824)	(12,330)	(343)	(21)
Non-current liabilities	(3,971)	(1,325)	(41,773)	(14,985)	(69,453)	(62,741)	(94,907)
Equity	718	(40)	8,104	1,729	(22,905)	10,835	740
Profit in the year	1,628	(1,359)	-	2,110	-	-	-

	40.0% Kervis SGR S.p.A	38.0% Precise Credit Solutions 22 S.a.r.l	30.0% Precise Credit Solutions 24 S.a.r.l	40.0% Precise Credit Solutions 25 S.a.r.l	40.0% Precise Credit Solutions 28 S.a.r.l	40.0% Precise Credit Solutions 31 S.a.r.l	Total as at 31 December 2022
	€000	€000	€000	€000	€000	€000	€000
Current assets	1,378	26	1,866	2,999	1,124	11,619	133,808
Non-current assets	14,500	1,601	2,152	26,360	9,855	42,557	451,251
Current liabilities	(205)	(8)	(5)	(210)	(4,376)	(10)	(65,523)
Non-current liabilities	(6,500)	-	(3,926)	(2,569)	(3,604)	(46,017)	(423,622)
Equity	9,173	105	87	18,532	1,060	8,149	76,238
Profit in the year	-	1,514	-	8,048	1,939	-	19,676

Notes to the Consolidated Financial Statements (continued)

14. Inventory

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

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

	As at 31 December 2022	As at 31 December 2021
	€000	€000
Opening inventory	22,707	26,027
Re-possessions	7,871	13,484
Disposals	(11,722)	(16,804)
Closing balance at the end of the year	**18,856**	**22,707**

15. Trade and other receivables

	As at 31 December 2022	As at 31 December 2021
	€000	€000
Collections receivable *	27,338	12,486
Other receivables **	14,958	8,789
Other assets	2,984	7,126
Total	**45,280**	**28,401**

*Includes €12.3m proceeds from the sale of PAM.
**Includes €8.1m provided as a cash guarantee.

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.

16. Trade and other payables

		As at 31 December 2022	As at 31 December 2021
	Notes	€000	€000
Trade payables		558	1,474
Deferred and contingent consideration		1,066	-
Amounts due to related parties	18	7,810	1,742
Accrued expenses		3,424	5,012
Trade and other payables - current		12,858	8,228
Deferred and contingent consideration - non-current		-	1,005
Total trade and other payables		**12,858**	**9,233**

17. Share capital

	As at 31 December 2022	As at 31 December 2021
	€000	€000
Share capital at 1 January 2022	1,250	1,250
Total share capital at 31 December 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.

Net Asset Value per share

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

Notes to the Consolidated Financial Statements (continued)

17. Share capital (continued)

	As at 31 December 2022	As at 31 December 2021	As at 31 December 2020
	€000	€000	€000
NAV attributable to Class A shares	10,899	(13,695)	(28,949)
No. of remaining Class A shares	1,250	1,250	1,250
NAV per Class A shares	**8.72**	**(10.96)**	**(23.16)**

18. 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 until 30 September 2022, of €4,121k all of which has been fully paid (year ended 31 December 2021: €4,467k).

Since 30 September 2022 Management fees of €1,470k have been payable to Veld Capital Limited, all of which has been fully paid.

During the year the Group incurred charges of €133k to Carne Global Fund Managers (Luxembourg) S.A. in relation to management company services (year ended 31 December 2021: €206k).

Master servicing income

During the year the Group recognised €0.6m, €2.8m and €0.6m of income from the Veld Credit Opportunities III L.P. (formerly AnaCap Credit Opportunities III L.P.), Veld Credit SCSp SICAV RAIF (formerly AnaCap Credit SCSp SICAV RAIF) and Veld Real Estate Co-Invest L.P. (formerly AnaCap Veld Real Estate Co-Invest L.P.) fund structures respectively in relation to master servicing activities provided by the Group to each fund structure (year ended 31 D.ecember 2021: €1.1m, €2.0m and €0.2m respectively).

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

During the year, the Group incurred charges of €129k (year ended 31 December 2021: €130k) to Veld Luxembourg S.à r.l. (formerly AnaCap Luxembourg S.à r.l.) in relation to support functions and services provided to the master servicing platform.

Fees payable to AnaCap Financial Partners Limited ("AFPL")

During the year, the Group incurred charges of €1.8m (year ended 31 December 2021: €2.4m) 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 Veld Capital Limited

Since 30 September 2022 fees of €933k have been payable to Veld Capital Limited in relation to support functions and services provided to the Group. This includes central functions, HR, office rent and staff costs. €288k has been paid.

Fees payable to Equipped Analytical Intelligence Limited

During the year, the Group incurred charges of €1.4m (year ended 31 December 2021: €1.3m) to Equipped A.I. Limited in relation to data analytics, data operations and software licence services provided to the Group.

Fees payable to Belasko UK Limited

During the year, the Group incurred charges to Belasko UK Limited of €738k in respect of accountancy services provided to the Group (year ended 31 December 2021: €680k).

Promissory note payable to Veld Credit SCSp SICAV RAIF

During the year, Veld Credit SCSp SICAV RAIF (formerly AnaCap Credit SCSp SICAV RAIF) pre funded investments on behalf of AFE of €4.3m (year ended 31 December 2021: €nil). The promissory note was settled on 10 February 2023.

Notes to the Consolidated Financial Statements (continued)

18. Related party transactions (continued)

	As at 31 December 2022	As at 31 December 2021
	€000	€000
Due to related parties		
Carne Global Fund Managers (Luxembourg) S.A.	-	31
Veld Credit SCSp SICAV RAIF	4,320	-
Veld Capital Limited	645	-
AnaCap Financial Partners Limited	607	711
Equipped A.I. Limited	500	993
Prime Credit Solutions 4 S.à r.l.	15	-
Prime Credit Solutions 19 S.à r.l.	1,700	-
AFE Holdings SCSp SICAV RAIF	23	-
Belasko UK Limited	-	7
Total	**7,810**	**1,742**

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 year and the balances due to them at the end of the year.

	Year ended 31 December 2022	Year ended 31 December 2021
	€000	€000
Fees charged		
Directors' fees	182	236
Total fees charged during the year	**182**	**236**

	As at 31 December 2022	As at 31 December 2021
	€000	€000
Fees payable		
Directors' fees payable	73	71
Directors' fees payable at the end of the year	**73**	**71**

19. Reconciliation of Net Asset Value as per Offering Memorandum

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

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

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

Notes to the Consolidated Financial Statements (continued)

19. Reconciliation of Net Asset Value as per Offering Memorandum (continued)

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

	As at 31 December 2022 €000	As at 31 December 2021 €000	As at 31 December 2020 €000
NAV according to the Consolidated Statement of Financial Position	10,899	(13,695)	(28,949)
Adjustments:			
Cash and cash equivalents	(18,806)	(21,438)	(17,233)
Trade and other receivables	(45,348)	(28,401)	(16,992)
Trade and other payables (current and non-current)	12,858	10,246	10,717
Borrowings (current and non-current)	403,543	389,742	350,646
Fair value movement	(24,991)	(34,830)	(20,780)
Adjusted NAV	**338,155**	**301,624**	**277,409**

20. Investments in subsidiaries and controlled entities

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

	Place of incorporation	Ownership % as at 31 December 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
Veld Asset Solutions 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
Veld Asset Solutions, 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

20. Investments in subsidiaries and controlled entities (continued)

As of 31 December 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)
- Veld Asset Solutions 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, S.L.U. was renamed from Silonea Investments, S.L.U. on 7 September 2022.

***** Veld Asset Solutions Italy S.r.l. was renamed from AFE Italy S.r.l. on 12 September 2022.

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

Notes to the Consolidated Financial Statements (continued)

21. Financial risk management

Credit risk

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

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

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

Financial instrument	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	POCI	Total
	€'000	€'000	€'000	€'000	€'000
Purchased loan portfolios	-	-	-	207,502	207,502
Purchased loan notes	8,152	-	-	-	8,152
Investments in joint ventures at amortised cost	99,952	-	-	-	99,952
Gross carrying amount	108,104	-	-	207,502	315,606
Loss allowance	(4,228)	-	-	(80,110)	(84,338)
Carrying amount	**103,876**	**-**	**-**	**127,392**	**231,268**

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**

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

Financial instrument	Carrying amount	% secured
	€'000	
Purchased loan portfolios	207,502	64%
Purchased loan notes	8,152	100%
Gross carrying amount	215,654	65%
Loss allowance	(80,579)	-
Carrying amount	135,075	65%

21. Financial risk management (continued)

Credit risk (continued)

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

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

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

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

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

The below table shows how the impairment charge recognised for the year ended 31 December 2022 can be attributed by geography, taking into consideration the Group's Assets including advances made by REOCOs for property acquisitions (see note 15):

Country	Carrying value as at 31 December 2022	Impairment gain/(losses) for the year	Carrying value as at 31 December 2022
	€000	€000	€000
- Italy	97,931	1,305	99,236
- Spain	75,406	222	75,628
- Portugal	35,017	(2,841)	32,176
- Romania	4,444	(503)	3,941
- United Kingdom	88,877	227	89,104
- Poland	13,835	(2,199)	11,636
- France	65,301	-	65,301
- Netherlands	1,089	-	1,089
Total	**381,900**	**(3,789)**	**378,111**

Comparative figures for the year ended 31 December 2021:

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

Notes to the Consolidated Financial Statements (continued)

21. Financial risk management (continued)

Liquidity risk

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

The Group is subject to the risk that it will not have sufficient borrowing facilities and working capital to fund its existing and future growth of the business. The policy adopted by the Group is to reduce its risk by ensuring that there are sufficient committed debt facilities to cover forecast borrowings plus the operating headroom. Further, the aim is to ensure that there is a balanced refinancing profile, diversification of debt funding sources and no over-reliance on a single or small group of lenders. The total undrawn amount on the Facility as at 31 December 2022 was €1.5m (31 December 2021: €22.2m).

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

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

	Within 1 year	1-3 years	3-5 years	Over 5 years	Total
	€000	**€000**	**€000**	**€000**	**€000**
Borrowings	115,740	322,961	-	-	438,701
Secured loan notes	1,922	6,423	-	3,800	12,145
Trade and other payables	12,858	-	-	-	12,858
Total	**130,520**	**329,384**	**-**	**3,800**	**463,704**

Comparative figures for the year ended 31 December 2021:

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

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

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

	As at 31 December 2022	As at 31 December 2021
Gross ERC	573,690	556,167
ERC	552,548	531,098

Notes to the Consolidated Financial Statements (continued)

21. Financial risk management (continued)

Liquidity risk (continued)

A maturity analysis of the Group's Assets (excluding inventory), borrowings and facilities as at 31 December 2022 is presented below:

	Notes	Financial assets €000	% of total	Borrowings and facilities €000	% of total
Within one year	12 / 23	87,196	28.0%	100,426	24.2%
After one year		224,133	72.0%	315,262	75.8%
Total		**311,329**	**100%**	**415,688**	**100%**

Comparative figures for the year ended 31 December 2021:

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

Market risk

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

Interest rate risk

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

The Group is exposed to interest rate risk on its borrowings, principally on the Notes that incur annual interest at a rate equal to the sum of i) three-month Euro Interbank Offered Rate ("EURIBOR") (subject to a 0% floor) plus ii) 5.00%. During the reporting period average interest at a rate of 5.35% has been incurred on the Notes.

Interest payable on loans under the Facility agreement is charged at an annual marginal rate of 3.5% plus EURIBOR (being EURIBOR for loans denominated in euro, otherwise SONIA). On 6 August 2021 the super senior revolving facility agreement dated 7 July 2017 was amended to replace the reference rate from LIBOR to SONIA for GBP utilisations. In any case that IBOR is less than 0% in respect of any loans drawn, IBOR in respect of that loan shall be deemed to be 0%. As at 31 December 2022, €88.5m of the Facility was drawn. Commitment fees payable under the Facility agreement are accrued at the rate of 35% of the then applicable margin, being 1.225% p.a. in the reporting period.

Interest payable on draws made under the Term Facility agreement is charged at an annual rate of 3.0% plus IBOR, and this rate decreases at various intervals over the term of the agreement. As at 31 December 2022, €6.5m of the facility was drawn. During the reporting period average interest at a rate of 3.54% has been incurred on the Term Facility. No commitment fee is payable under the Term Facility agreement.

The following table shows the impact on finance costs if the EURIBOR had increased by 100 basis points:

	Year ended 31 December 2022 €000	Year ended 31 December 2021 €000
Increase in finance cost	2,227	1,416
Total impact on the Statement of Comprehensive Income for the year	**2,227**	**1,416**

Notes to the Consolidated Financial Statements (continued)

21. Financial risk management (continued)

Liquidity risk (continued)

The following table shows the impact on finance costs if the EURIBOR had decreased by 100 basis points. Given that EURIBOR was negative during 2021, a decrease in EURIBOR would not have had a material impact on finance costs, as the Notes accrue interest at 5% + EURIBOR, with EURIBOR being subject to a 0% floor.

	Year ended 31 December 2022	Year ended 31 December 2021
	€000	€000
Decrease in finance cost	(731)	-
Total impact on the Statement of Comprehensive Income for the year	**(731)**	**-**

Foreign currency risk

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in foreign currency exchange rates. The Group has invested in a loan portfolio denominated in Polish Zloty (PLN). The group holds 13 (31 December 2021: 5) direct real estate investments that are denominated in GBP. Additionally, the Group held cash balances in foreign currencies including GBP at the reporting date. Consequently, the business is subject to three elements of foreign currency risk considered below.

- **Statement of Consolidated Comprehensive Income exposure**

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

- **Statement of Consolidated Financial Position exposure**

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

- **Cash flow exposure**

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

Foreign currency sensitivity analysis

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

	Year ended 31 December 2022	Year ended 31 December 2021
	€000	€000
Equity and net assets		
Polish Zloty (PLN)	(1,259)	(1,578)
Sterling (GBP)	(8,605)	(6,743)
Loss		
Polish Zloty (PLN)	(1,259)	(1,578)
Sterling (GBP)	(8,605)	(6,743)

21. Financial risk management (continued)

Foreign currency risk (continued)

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

	Year ended 31 December 2022	Year ended 31 December 2021
	€000	€000
Equity and net assets		
Polish Zloty (PLN)	1,259	1,578
Sterling (GBP)	8,605	6,743
Profit		
Polish Zloty (PLN)	1,259	1,578
Sterling (GBP)	8,605	6,743

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

Capital risk management

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

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

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

	As at 31 December 2022	As at 31 December 2021
	€000	€000
Equity	10,899	(13,695)
Borrowings	403,543	389,742
Less: Cash and cash equivalents	(18,806)	(21,438)
Total	**395,636**	**354,609**

22. Valuation of financial assets, liabilities and other instruments

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

Financial assets	Fair value hierarchy	Fair Value 31 December 2022	Book value 31 December 2022
		€000	€000
Purchased loan portfolios*	Level 3	108,357	127,392
Purchased loan notes	Level 3	7,413	7,683
Investments in joint ventures at amortised cost	Level 3	94,399	96,193
Investments in joint ventures at FVPL	Level 3	80,061	80,061
Cash and cash equivalents	Level 2	18,806	18,806
Trade and other receivables	Level 2	42,296	42,296
Total		**351,332**	**372,431**

Notes to the Consolidated Financial Statements (continued)

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

Financial liabilities	Fair value hierarchy	Fair Value 31 December 2022	Book value 31 December 2022
		€000	€000
Senior Secured Notes	Level 1	262,928	308,520
Revolving Credit Facility	Level 2	88,518	88,518
Term Facility	Level 2	6,505	6,505
Secured loan notes	Level 3	12,145	12,145
Trade and other payables	Level 2	11,792	11,792
Total		**381,888**	**427,480**

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 and the term facility, 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 31 December 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.

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

Fair value estimation (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 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 €12.9m impact to the carrying value as of 31 December 2022, and a 12 month delay in forecast exit dates would have a €13.6m impact to the carrying value as of 31 December 2022.

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.

Notes to the Consolidated Financial Statements (continued)

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

Reconciliation of assets measured at FVPL

	As at 31 December 2022	As at 31 December 2021
	€000	€000
Financial assets measured at FVPL as at beginning of year	69,126	9,322
Loans to joint venture at FVPL	29,292	67,107
Collections in the year	(33,266)	(8,845)
Interest income	-	380
Movement in fair value	22,844	261
Reclassification	(1,972)	-
Net foreign currency (loss)/gain	(3,771)	901
Financial assets measured at FVPL at the end of the year	**82,253**	**69,126**

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

The carrying values of the Term Facility, Revolving Credit Facility and Secured Loan Notes are reasonable approximation of their fair values. The fair value of the Senior Secured Notes was determined using the quoted market price at Euro MTF Market of Luxembourg Stock Exchange (Level 1) as at 31 December 2022 €262.9m (as at 31 December 2021: €303.3m).

There have been no transfers between the levels.

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

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

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

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

23. Borrowings and facilities

	As at 31 December 2022	As at 31 December 2021
	€000	€000
Expected falling due after one year		
Senior Secured Notes	305,039	303,524
Secured loan notes	10,223	12,520
Term Facility	-	7,297
Total	**315,262**	**323,341**
Expected falling due within one year		
Revolving Credit Facility	88,518	68,465
Term Facility	6,505	7,851
Senior Secured Notes	3,481	2,605
Secured loan notes	1,922	482
Total	**100,426**	**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.

Notes to the Consolidated Financial Statements (continued)

23. Borrowings and facilities (continued)

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 year ended 31 December 2022 the Group remained compliant with all covenants outlined on the Senior Secured Notes and the Super Senior Revolving Credit Facility.

As at 31 December 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. plus Euribor for amounts drawn (the "Margin"), with commitment fees being 35% of the Margin. As at 31 December 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 31 December 2022 is equal to €1.5m (31 December 2021: €21.5m). The Revolving Credit Facility ("RCF") initial maturity was 7 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 31 December 2022, the LTV Ratio was 64.9% and the SSRCF LTV Ratio was 0.09:1.

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 July 2023. As at 31 December 2022, €6.5m (31 December 2021: €15.4m) had been drawn. Interest accrues at a rate equal to the Margin and EURIBOR. At 31 December 2022 the applicable Margin was 3.0%. In accordance with the Term Facility agreement, ACS6 was required to ensure that leverage as at 31 December 2022 did not exceed 50.0%; as at 31 December 2022, leverage was 14.36%. 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.

Reconciliation of changes in financial liabilities arising from financing activities

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

	Cash and cash equivalents	Borrowings	Secured loan notes	Total
	€000	€000	€000	€000
As at 1 January 2022	**21,438**	**(389,781)**	**(11,381)**	**(379,724)**
Cash flows	(2,632)	4,931	2,369	4,668
Foreign exchange adjustments	-	3,845	-	3,845
Finance cost	-	(22,538)	(1,915)	(24,453)
Other non-cash movements	-	-	(1,218)	(1,218)
As at 31 December 2022	**18,806**	**(403,543)**	**(12,145)**	**(396,882)**

Notes to the Consolidated Financial Statements (continued)

23. Borrowings and facilities (continued)

Comparative figures as at 31 December 2021:

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

24. Commitments and contingencies

Portuguese tax liability

On 14 January 2021, the Group received a notification issued by the Portuguese Tax Authorities ("PTA") referring to tax audit proceedings in relation to the Portuguese assets held within the Group for the financial years 2016 – 2018. This notification has been expected in light of the Portuguese tax charge that was settled in 2018 relating to financial years 2013 – 2015. A settlement of €0.3m was made in relation to this notification in 2022.

The total tax provision reflected in the Financial Statements as at 31 December 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 31 December 2022, the Group is expected to fund c.€39.5m (c.€17.7m as at 31 December 2021) for its share of acquisition cost and capital expenditure over the next three years.

25. Ultimate parent entity

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

26. Subsequent events

Changes to the Board of Directors

On 28th February 2023 Edward Green resigned from the Board of Directors

Signed and Completed transactions

On 22nd March 2023 AFE repaid €4.3m owed to Veld Credit SCSp SICAV RAIF for pre funding investments on behalf of AFE.

During the period from 31st December 2022 to the signing of the consolidated annual report AFE made follow on investments in existing real estate backed debt investments for an aggregate amount of c.€4.3m.

27. Adjusted EBITDA and Normalised EBITDA

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

Normalised EBITDA eliminates the impact of portfolio disposals.

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

Notes to the Consolidated Financial Statements (continued)

27. Adjusted EBITDA and Normalised EBITDA (continued)

Reconciliation of profit before tax to Normalised and Adjusted EBITDA:

	Year ended 31 December 2022	Year ended 31 December 2021
	€000	€000
Profit before tax	**24,367**	**15,421**
Finance costs	24,805	22,105
Share of profit in associate and joint ventures	(12,339)	(7,729)
Net foreign currency movements	1,744	335
Impairment losses/(gains)	3,789	(151)
Portfolio disposals	19,813	6,456
Collections from portfolios	130,388	122,553
Revenue	(77,733)	(61,979)
Other income	5,064	3,864
Cash collected on behalf of secured loan noteholders	(3,125)	(1,805)
Adjusted EBITDA	**116,773**	**99,070**
Less assets disposals	(19,813)	(6,456)
Normalised Adjusted EBITDA	**96,960**	**92,614**

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

	Year ended 31 December 2022	Year ended 31 December 2021
	€000	€000
Net cash generated from/(used in) operating activities	**4,668**	**(11,571)**
Portfolio acquisitions	94,804	100,112
Taxation paid	1,034	486
Cash collected on behalf of secured loan noteholders	(3,125)	(1,805)
Working capital adjustments	20,052	10,613
Realised foreign currency (gains)/losses	(660)	1,235
Adjusted EBITDA	**116,773**	**99,070**
Less assets disposals	(19,813)	(6,456)
Normalised Adjusted EBITDA	**96,960**	**92,614**

Reconciliation of core collections to Normalised and Adjusted EBITDA:

	Year ended 31 December 2022	Year ended 31 December 2021
	€000	€000
Core Collections in the year	**130,388**	**122,553**
Portfolio disposals	19,813	6,456
Other income	5,064	3,864
Operating expenses	(40,900)	(32,182)
Net foreign currency movements	1,744	335
Impairment losses/(gains)	3,789	(151)
Cash collected on behalf of secured loan noteholders	(3,125)	(1,805)
Adjusted EBITDA	**116,773**	**99,070**
Less assets disposals	(19,813)	(6,456)
Normalised Adjusted EBITDA	**96,960**	**92,614**

Disclosures under the Alternaitive Investment Fund Managers Directive (unaudited)

Liquidity arrangements and liquidity management

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

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

Leverage

The leverage employed by the Fund as per 31 December 2022 was 163.90% of the Fund's net asset value based on the gross method and 169.46% of the Fund's net asset value based on the commitment method.

Risk management

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

Material Changes of the Fund

The Fund changed its address to 26-30, Avenue du Dix Septembre, L-2550 Luxembourg on 28 March 2022. The Fund changed registered name from AnaCap Financial Europe S.A. SICAV-RAIF to AFE S.A. SICAV-RAIF on 30 September 2022.

Remuneration

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

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

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

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

Proportion of the total remuneration of the staff of the AIFM attributable to AFE S.A. SICAV-RAIF, as of 31 December 2022[1]

The proportion of the total remuneration attributable to AFE SA SICAV RAIF has been calculated on a pro-rata basis of assets under management and on the basis of the number of AIFs managed by the AIFM.

			Attributable to AFE S.A. SICAV-RAIF	
	Number of beneficiaries	Total remuneration (EUR)[2]	Fixed remuneration (EUR)	Variable remuneration (EUR)
Total remuneration paid to Identified Staff[3] by the AIFM during the financial year	32	4,878,933	4,342	1,546

Investment Manager Renumeration Disclosure

The investment manager remuneration for the year ended 31 December 2022 allocated to the Fund is €38,300 for the Identified Staff within the Investment Manager.

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