AFE S.A. SICAV-RAIF

Audited Consolidated Annual Report
For the Year Ended 31 December 2023

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General Information

Fund

AFE S.A. SICAV-RAIF
Since 28 March 2023:
43-45, Allée Scheffer
L-2520 Luxembourg
Grand Duchy of Luxembourg
R.C.S. Luxembourg: B216080

Until 28 March 2023:
26-30, Avenue du Dix Septembre
L-2550 Luxembourg
Grand Duchy of Luxembourg

Board of Directors

- Edward Green (resigned 28 February 2023);
- Audrey Lewis;
- Graham Parry-Dew;
- Christopher Ross-Roberts;
- Eric Verret;
- Anthony Place (appointed 21 December 2023);
- James Culshaw (appointed 9 February 2024).

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;
- John Alldis;
- William Blackwell (resigned 1 June 2023);
- Veronica Buffoni;
- John Donohoe (resigned 1 June 2023);
- Jacqueline O'Connor;
- Glenn Thorpe (appointed 2 August 2023).

Portfolio Manager

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

Board of Directors of the Portfolio Manager

- Anouk Agnes;
- John Alldis;
- William Blackwell (resigned 1 June 2023);
- Veronica Buffoni;
- John Donohoe (resigned 1 June 2023);
- Jacqueline O'Connor;
- Glenn Thorpe (appointed 2 August 2023).

Administrative Agent

Belasko Luxembourg S.a.r.l
Since 28 March 2023:
43-45, Allée Scheffer
L-2520 Luxembourg
Grand Duchy of Luxembourg

Until 28 March 2023:
26-30, Avenue du Dix Septembre
L-2550 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 9 February 2024:
AGG Capital Management Limited
27 Esplanade
St. Helier
Jersey
JE1 1SG

Until 21 December 2023:
Veld Capital Limited
105 Wigmore Street
London
W1U 1QY

Directors' Report

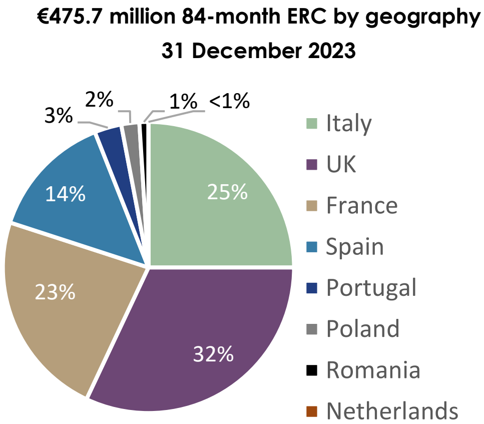
The Directors of AFE S.A. SICAV-RAIF ("AFE") are pleased to present the Directors' Report and Consolidated Annual Report (the "Financial Statements") on the activities and financial performance of AFE and its subsidiaries (together, the "Group") for the year ended 31 December 2023. The Financial Statements incorporate the assets, liabilities, revenue and expenses of the Group.

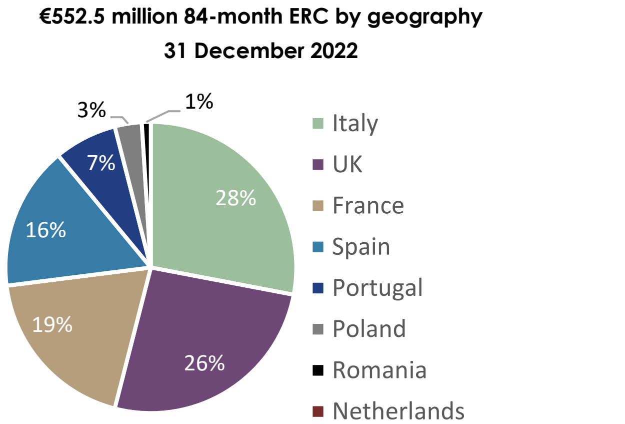
This report represents the AFE and Group results relating to the final period of AFE management by Veld Capital Limited as Investment Advisor (until 21 December 2023), with AGG Capital Management Limited ("AGG") becoming Investment Adviser on 9 February 2024. Full details of the Recapitalisation of AFE's liabilities are given below, including the provision of additional capital, liquidity flexibility and capital structure runway to AFE to allow it to continue operations as a going concern.

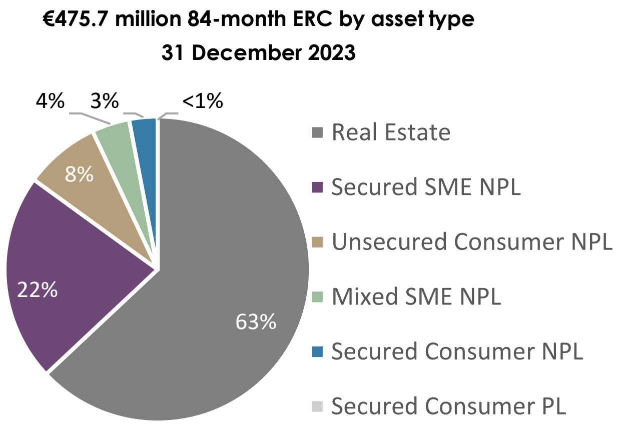
Business Overview

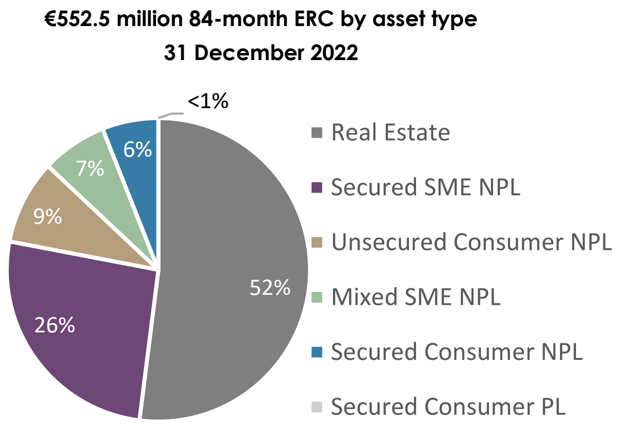
AFE purchases and invests in a diverse range of performing and non-performing debt across Europe. AFE has the capability to price and purchase a wide range of debt, consisting of portfolios of unsecured and secured consumer, SME, mortgage and real estate, including mixed portfolios, with a view to generating strong risk-adjusted returns on an ongoing basis. In 2023, under Veld's direction prior to finding a capital resolution to its pending financial liabilities, AFE's focus was to temporarily preserve liquidity and as a result AFE only made c.€22.9m of follow-on investments into existing assets in the UK, France, Italy and the Netherlands.

The following charts illustrate the continued 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 2023. Geographic and asset diversity provides resilience throughout the cycle in different countries.









Directors' Report (continued)

Key Performance Indicators

The data below is based on the Group for the years ended 31 December 2023 and 31 December 2022.

		Year ended 31 December 2023	Year ended 31 December 2022	% change
84-month ERC (€'000s)	1	475,714	552,548	-13.9%
84-month Gross ERC (€'000s)	2	493,180	573,690	-14.0%
Cumulative purchases of loan portfolios and loan notes (€'000s)	3	734,024	711,132	3.2%
Number of investments	4	65	67	-3.0%
Number of accounts	5	102,034	207,996	-50.9%
Total attributable collections (€'000s)	6	69,072	156,895	-56.0%
Total gross collections (€'000s)	7	69,072	150,201	-54.0%
Core collections (€'000s)	8	61,657	130,388	-52.7%
Operating expenses (€'000s)	9	31,433	35,367	-11.1%
Core collection cost ratio	10	51.0%	27.1%	87.8%
Adjusted EBITDA (€'000s)	11	39,588	116,773	-66.1%
Normalised Adjusted EBITDA (€'000s)	12	32,173	96,960	-66.8%

(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 represent 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.

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

Our key performance indicators are not required by, or presented in accordance with, IFRS (collectively, such measures, the "Non-IFRS Measures"). Such Non-IFRS Measures are presented based on information derived from our financial statements, our historical accounting records and our internal accounting system.

Directors' Report (continued)

Asset base and returns on portfolios purchased

The table below reflects the full historical capital deployment of AFE and the Portfolio Business, while under the direction of Veld Capital Limited as Investment Advisor, running from 2012 to 27 June 2017 plus capital that has been deployed since the incorporation of AFE; a total of €887 million has been deployed through acquisitions of 78 investments with an aggregate face value of €13.5 billion. Since 2012, 13 portfolios have been fully sold. As of 31 December 2023, the portfolios held by AFE had an aggregate face value of €9.0 billion following the historical sale of deals with a face value of €3.6 billion, with an 84-month ERC of €475.7 million. The reduction in ERC from September 2023 is the result of the revaluation process and no further deployment in the last three months of 2023 to replenish ERC.

Portfolios purchased in the year ended:	Purchase price (13)	Actual collections to 31 December 2023	84-month ERC	Total estimated collections (14)	Gross money multiple (15)
	€000	€000	€000	€000	
Year ended 31 December 2012	75,084	177,048	8,088	185,136	2.5x
Year ended 31 December 2013	77,386	165,802	5,867	171,669	2.2x
Year ended 31 December 2014	59,025	130,885	5,235	136,120	2.3x
Year ended 31 December 2015	47,806	63,940	4,841	68,781	1.4x
Year ended 31 December 2016	125,617	211,898	44,832	256,730	2.0x
Year ended 31 December 2017	65,017	98,935	13,272	112,207	1.7x
Year ended 31 December 2018	161,652	173,408	48,462	221,870	1.4x
Year ended 31 December 2019	36,119	27,788	25,457	53,245	1.5x
Year ended 31 December 2020	23,806	23,360	22,887	46,247	1.9x
Year ended 31 December 2021	118,530	59,099	136,035	195,134	1.6x
Year ended 31 December 2022	96,493	23,944	160,738	184,682	1.9x
Total	**886,535**	**1,156,107**	**475,714**	**1,631,821**	**1.8x**

For real estate investments, where AFE funds an ongoing share of capital expenditure or other working capital need, this 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 2023 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. As noted above, the Group's Net Debt position and composition changed significantly as part of the Recapitalisation completed on 9 February 2024.

			Year ended 31 December 2023
			€000
Borrowings:	The Notes		307,500
	Revolving Credit Facility		95,745
Less:	Cash at bank		(22,635)
	Cash held on AFE's account at servicers'		(9,979)
	Less cash deposits paid		(82)
Add back:	Cash collected on behalf of secured loan note holders		1,831
Net debt			**372,380**
LTV ratio at period end		16	78.3%
Adjusted EBITDA leverage ratio		17	9.41
LTM Adjusted EBITDA		18	39,588
Net interest expense		19	30,892
Fixed charge cover ratio ("FCCR")		20	1.28

(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 2023. In June 2023 assets were disposed of crystalising loss on disposal of €7.1m. Excluding these sales brings Normalised Adjusted EBITDA leverage ratio to 11.57.

(18) LTM Adjusted EBITDA means Adjusted EBITDA for the 12 months ended 31 December 2023.

(19) Net interest expense means interest expense on total debt for the 12 months ended 31 December 2023.

(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 2023
		€000
Borrowings:	The Notes	307,500
	Unamortised discount on issuance of the Notes	(100)
	Unamortised transaction fees	(440)
	Interest payable as at 31 December 2023 (current liability)	4,598
	Interest payable RCF as at 31 December 2023 (current liability)	26
	Revolving credit facility - amount drawn	95,745
	Revolving credit facility - PIK interest payable	306
Total borrowings		**407,635**

See also the paragraph titled "*Going Concern*" on page 9.

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 20 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

2023 Performance

The group reported total attributable collections of €69.1m against a target of €109.7m, set in June 2023 while AFE was managed by Veld Capital Limited as Investment Advisor. This represents a €40.6m or 37.0% underperformance, mainly driven by slower collections in Italy and Spain and by €8.3m of real estate collection that was delayed to March 2024, decreasing underperformance to 29.4%.

New investments and disposals

During the year ended 31 December 2023, AFE made follow on investments of c.€21.9m in existing real estate backed debt investments in France, Italy and the United Kingdom and c.€1.0m in an existing performing loans investment in the Netherlands. No investments were made in new loan portfolios or real estate backed debt investments.

During the year ended 31 December 2023, AFE completed the sale and final realisation of 6 portfolio tails with proceeds of c.€7.4m vs. a December 2022 book value of €14.5m.

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.

Going Concern

The available cash as of the date of signing of the Financial Statements is c.€14.8m, with current liabilities exceeding current assets. The Group liquidity position significantly improved as a result of a comprehensive recapitalisation and refinancing of the Company's capital structure and the acquisition of a majority stake in AFE by funds managed by AGG Capital Management Limited ("AGG") (the "Recapitalisation").

On 22 December 2023, the Company announced entry into an agreement (the "Framework Agreement") with, among others, the Bridge Facility Lenders, AGG Capital Management Limited ("AGG", AGG being an affiliate of one of the Bridge Facility Lenders and Noteholders) and an ad hoc group of holders of the Notes (the "AHG") and certain other Noteholders on the terms of a comprehensive recapitalisation and refinancing of AFE's capital structure and the acquisition of a majority of AFE by AGG. Veld Capital Limited ceased to be the investment advisor on 21 December 2023.

AGG is a leading pan-European discretionary investment manager and subsidiary of Arrow Global Group. AGG has best-in-class expertise and a strong track record in deploying and managing comparable asset portfolios to the Company. Supported by additional liquidity, AGG plans to execute the Company's business plan by maximising value from AFE's existing portfolio, as well as growing estimated remaining collections (ERC) through opportunistic acquisitions.

Key highlights as at year end included the strengthening of the Group's near term financial flexibility through a bridge facility (the "Bridged Facility") of approximately €95.7 million. An enhanced interim governance regime until the closing of the Recapitalisation and the role of Investment Adviser of the Group to be transitioned to AGG, with Veld Capital supporting the transition to AGG and agreeing a long term master servicing relationship around specific assets with the Group.

Directors' Report (continued)

Significant recent developments (continued)

The completion of the Recapitalisation occurred on 9 February 2024 and AGG acquired a majority stake in AFE and became the Investment Adviser. As a result of the Recapitalisation, the AIFM will be entitled to receive a management fee on a quarterly basis, based on 1.50% of AFE's NAV (as defined in the Offering Memorandum, pro-rated for the number of days in each period). The Recapitalisation provides additional capital, liquidity flexibility and capital structure runway to the Group through the following financings and equity transfers:

i. drawings in full by AFE in an aggregate principal amount of €132.9 million (including capitalised fees and original issue discount) pursuant to an amended term loan facilities agreement between the parties thereto originally dated 21 December 2023 and amended and restated on 26 January 2024 (the Term Loan Facilities Agreement), the proceeds of which were used to repay the Bridge Facility in full. The remaining drawings of €37.2 million were made available for general corporate and working capital purposes of the Group;
ii. the amendment and restatement of the indenture (the "Amended and Restated Indenture") governing the Notes following the Consent Solicitation, in which Noteholders of approximately 95.6% in aggregate principal amount of Notes consented to the proposed amendments to the terms of the Notes, including the extension of the Notes' maturity date from 2024 to 2030. The Amended and Restated Indenture and the amended Notes became operative on 9 February 2024 and a 1% consent fee was paid to eligible Noteholders who consented to the Consent Solicitation on or prior to the early consent deadline, on the terms and conditions set forth in a Consent Solicitation statement dated 22 December 2023;
iii. the issuance of approximately €35.7 million in aggregate principal amount of additional Notes pursuant to the Amended and Restated Indenture at a price of 70% of the principal amount thereof, which generated gross proceeds of €25.0 million; and
iv. the consummation of the equity transfer of the Group at the level of the Group's holding entity ("Holdco"), with funds managed by AGGCM and certain Noteholders who entered into the Framework Agreement acquiring, through a holding vehicle, the limited partnership interests in Holdco and the general partner of Holdco pursuant to certain equity and partnership interests transfer documents dated 9 February 2024 and following which funds managed by AGGCM has indirectly the majority ownership of the entire share capital of the Company.

In accordance with article 28 of the Luxembourg Law of 23 July 2016 on reserved alternative investment funds (RAIF Law), the Shareholders of AFE have resolved on 21 February 2024 not to dissolve the Company and to continue the operations of the Company.

<u>Listing</u>

Prior to the Recapitalisation, the Notes were admitted to trading on the Euro MTF market of the Luxembourg Stock Exchange. As part of the Recapitalisation, the Notes were admitted to the International Stock Exchange on 14 February 2024. The Notes were delisted from the Luxembourg Stock Exchange on 19 February 2024.

Eric Verret

Director
14 May 2024

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 2023.

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

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 and its subsidiaries (the "Fund") as at 31 December 2023, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS Accounting Standards 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 2023;
- 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, including material accounting policy information and other explanatory information.

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 IFRS Accounting Standards 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate to them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

PricewaterhouseCoopers, Société coopérative
Represented by

Luxembourg, 14 May 2024

Electronically signed by:
Thierry Salagnac

Thierry Salagnac

Consolidated Statement of Comprehensive Income for the Year Ended 31 December 2023

	Notes	Year ended 31 December 2023 €000	Year ended 31 December 2022 €000
Revenue			
Interest income from purchased loan portfolios	11	29,543	38,169
Interest income from purchased loan notes	11	855	851
Interest income on loans to joint ventures at amortised cost	11	12,334	10,805
Fair value gain on investments in joint ventures at FVPL	11	16,718	22,844
Other income		3,780	5,064
Total revenue	5	**63,230**	**77,733**
Operating expenses			
Collection activity costs		(14,214)	(16,982)
Impairment loss	11	(56,662)	(3,789)
Loss on disposal	11	(7,100)	-
Net foreign currency gain/(loss)	7	986	(1,744)
Other operating expenses	7	(17,219)	(18,385)
Total operating expenses		**(94,209)**	**(40,900)**
Operating profit		**(30,979)**	**36,833**
Finance costs	8	(34,500)	(24,805)
Share of profit in joint venture accounted for using equity method	12	9,691	8,348
Profit from discontinued operation		-	3,991
(Loss)/profit before tax		**(55,788)**	**24,367**
Tax credit	9	2,618	227
Comprehensive (loss)/income for the year		**(53,170)**	**24,594**

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 2023

	Notes	As at 31 December 2023 €000	As at 31 December 2022 €000
Assets			
Non-current assets			
Property, plant and equipment		90	221
Investments in joint ventures at amortised cost	11	47,535	45,420
Investments in joint ventures at FVPL	11	103,518	80,061
Participation in joint ventures	12	61,168	47,926
Goodwill	10	770	1,836
Total non-current assets		**213,081**	**175,464**
Current assets			
Cash and cash equivalents		22,635	18,806
Trade and other receivables	14	31,463	42,296
Tax receivable		389	68
Other assets	14	3,928	2,984
Purchased loan portfolios	11	65,044	127,392
Purchased loan notes	11	6,869	7,683
Investments in joint ventures at amortised cost	11	33,196	50,773
Inventory	13	21,758	18,856
Total current assets		**185,282**	**268,858**
Total assets		**398,363**	**444,322**
Liabilities			
Non-current liabilities			
Borrowings	22	-	305,039
Secured loan notes	22	9,019	-
Total non-current liabilities		**9,019**	**305,039**
Current liabilities			
Borrowings	22	407,635	98,504
Secured loan notes	22	562	12,145
Trade and other payables	15	21,730	11,792
Other liabilities	15	-	1,066
Tax provisions	23	1,688	4,877
Total current liabilities		**431,615**	**128,384**
Total liabilities		**440,634**	**433,423**
Equity			
Share capital	16	1,250	1,250
Retained earnings		(43,521)	9,649
Total equity		**(42,271)**	**10,899**
Total equity and liabilities		**398,363**	**444,322**
Net Asset Value as per Offering Memorandum	**18**	**318,431**	**338,155**
Net Asset Value per share	**16**	**(33.82)**	**8.72**

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 2023 were approved by the Board of Directors and authorised for issue on its behalf by:

Eric Verret

Director

14 May 2024

Consolidated Statement of Cash Flows for the Year Ended 31 December 2023

	Notes	Year ended 31 December 2023	Year ended 31 December 2022
		€000	€000
Cash flows from operating activities			
(Loss)/profit before tax		**(55,788)**	**24,367**
Adjustments for:			
Interest income from purchased loan portfolios	11	(29,543)	(38,169)
Interest income from purchased loan notes	11	(855)	(851)
Interest income from joint ventures	11	(12,334)	(10,805)
Fair value movement of investment in joint ventures at FVPL	11	(16,718)	(22,844)
Impairment losses		56,662	3,789
Loss on disposals		7,100	-
Finance costs	8	34,500	24,805
Unrealised foreign currency (gain)/loss	7	(1,104)	2,404
Share of profit in joint venture accounted for using equity method	12	(9,691)	(8,348)
Share of profit in associate classified as held for sale		-	(3,991)
Operating cash flows before movements in working capital		**(27,771)**	**(29,643)**
Change in trade and other receivables*		5,248	(11,316)
Change in trade and other payables*		9,938	3,564
Cash used in operating activities before collections and purchases		**(12,585)**	**(37,395)**
Taxes paid		(960)	(1,034)
Collections in the year - sale of inventory	11	5,948	12,912
Collections in the year - loans	11	44,773	97,409
Collections in the year - joint ventures	11	18,351	27,580
Acquisition of purchased loan notes	11	(967)	(1,110)
Acquisition of joint ventures	11	(16,873)	(93,694)
Net cash generated from operating activities		**37,687**	**4,668**
Cash flows from investing activities			
Consideration paid for the acquisition of Galata		(400)	-
Net cash used in investing activities		**(400)**	**-**
Cash flows from financing activities			
Proceeds from borrowings		39,417	52,938
Repayment of borrowings		(40,376)	(38,627)
Repayment of secured loan notes		(1,607)	(2,369)
Finance costs paid		(30,892)	(19,242)
Net cash used in financing activities		**(33,458)**	**(7,300)**
Net movements in cash and cash equivalents		3,829	(2,632)
Cash and cash equivalents at the beginning of the year		18,806	21,438
Cash and cash equivalents at the end of the year		**22,635**	**18,806**

*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 2023

	Share capital	Retained earnings	Total equity
	€000	€000	€000
Balance as at 1 January 2023	**1,250**	**9,649**	**10,899**
Comprehensive loss for the year	-	(53,170)	(53,170)
Balance as at 31 December 2023	**1,250**	**(43,521)**	**(42,271)**

Comparative figures from 1 January to 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**

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") acted as investment advisor to the Portfolio Manager until 21 December 2023.

The principal activity of AFE and its subsidiaries as listed in note 19 (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.

The Fund did not hold any total return swaps or enter in security financing transactions during the year ended 31 December 2023.

Significant changes in the current reporting year

<u>Changes to the Fund</u>

On 28th March 2023 the Fund changed address to 43-45, Allée Scheffer, L-2520 Luxembourg.

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

On 21st December 2023 Anthony Place was appointed to the Board of Directors.

<u>Changes to the Board of Directors of the AIFM</u>

On 1st June 2023 John Donohoe and William Blackwell resigned from the Board of Directors.

On 2nd August 2023 Glenn Thorpe was appointed to the Board of Directors.

<u>New Investments and disposals</u>

During the year ended 31 December 2023, AFE made follow on investments of c.€21.9m in existing real estate backed debt investments in France, Italy and the United Kingdom and c.€1.0m in an existing performing loans investment in the Netherlands.

During the year ended 31 December 2023, AFE completed the sale and final realisation of 6 portfolio tails with proceeds of c.€7.4m.

<u>Market developments</u>

An increasingly challenging economic backdrop relating to persistent inflationary pressures and rising interest rates has developed over 2022 and continued in 2023. The group closely monitors market developments and mitigates risks through regular monitoring of the group's liquidity position and business plan. Whilst the group acknowledges 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 from the ongoing war in Ukraine or related sanctions.

2. Adoption of new and amended IFRS accounting standards and changes in accounting policies

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

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

2. Adoption of new and amended IFRS accounting standards and changes in accounting policies (continued)

Amendments to IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors clarifies how entities distinguish changes in accounting policies from changes in accounting estimates, with primary focus on the definition and guidance on accounting estimates. The amendments clarify that accounting estimates are monetary amounts in the financial statements subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that an entity develops an accounting estimate to achieve the objective set out by an accounting policy.

Amendments to IAS 12, Deferred Tax related to Assets and Liabilities arising from a Single Transaction clarifies how entities account for deferred taxes on certain transactions, such as leases and decommissioning obligations, with a focus on reducing diversity in practice. The amendments narrow the scope of the initial recognition exemption so entities will need to recognise a deferred tax asset and a deferred tax liability arising from transactions that give rise to equal and offsetting temporary differences.

Amendments to IAS 12, Income Taxes: international Tax Reform – Pillar Two Model Rules introduces an immediate temporary mandatory exception from accounting for deferred tax related to GloBE top-up tax. However, entities will be required to provide new disclosures about their potential exposure to the top-up tax at the reporting date in periods in which a tax law is enacted but the top-up tax does not yet apply.

The Group does not expect there to be material impact on the Financial Statements due to the adoption of these standards and amendments.

3. Summary of material accounting policies

Basis of preparation

The Consolidated Financial Statements have been prepared in accordance with IFRS Accounting 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 continues to actively monitor its liquidity and covenant adherence. The available cash as of the date of signing of the Financial Statements is c.€14.8m, with current liabilities exceeding current assets. The Group liquidity position significantly improved as a result of a comprehensive recapitalisation and refinancing of the Company's capital structure and the acquisition of a majority stake in AFE by funds managed by AGG Capital Management Limited ("AGG") (the "Recapitalisation").

On 22 December 2023, the Company announced entry into an agreement (the "Framework Agreement") with, among others, the Bridge Facility Lenders, AGG Capital Management Limited ("AGG", AGG being an affiliate of one of the Bridge Facility Lenders and Noteholders) and an ad hoc group of holders of the Notes (the "AHG") and certain other Noteholders on the terms of a comprehensive recapitalisation and refinancing of AFE's capital structure and the acquisition of a majority of AFE by AGG. Veld Capital Limited ceased to be the investment advisor on 21 December 2023.

AGG is a leading pan-European discretionary investment manager and subsidiary of Arrow Global Group. AGG has best-in-class expertise and a strong track record in deploying and managing comparable asset portfolios to the Company. Supported by additional liquidity, AGG plans to execute the Company's business plan by maximising value from AFE's existing portfolio, as well as growing estimated remaining collections (ERC) through opportunistic acquisitions.

Key highlights as at year end included the strengthening of the Group's near term financial flexibility through a bridge facility (the "Bridged Facility") of approximately €95.7 million. An enhanced interim governance regime until the closing of the Recapitalisation and the role of Investment Adviser of the Group to be transitioned to AGG, with Veld Capital supporting the transition to AGG and agreeing a long term master servicing relationship around specific assets with the Group.

The completion of the Recapitalisation occurred on 9 February 2024 and AGG acquired a majority stake in AFE and became the Investment Adviser. As a result of the Recapitalisation, the AIFM will be entitled to receive a management fee on a quarterly basis, based on 1.50% of AFE's NAV (as defined in the Offering Memorandum, pro-rated for the number of days in each period). The Recapitalisation provides additional capital, liquidity flexibility and capital structure runway to the Group through the following financings and equity transfers:

Notes to the Consolidated Financial Statements (continued)

Going concern (continued)

i. drawings in full by AFE in an aggregate principal amount of €132.9 million (including capitalised fees and original issue discount) pursuant to an amended term loan facilities agreement between the parties thereto originally dated 21 December 2023 and amended and restated on 26 January 2024 (the Term Loan Facilities Agreement), the proceeds of which were used to repay the Bridge Facility in full. The remaining drawings of €37.2 million were made available for general corporate and working capital purposes of the Group;
ii. the amendment and restatement of the indenture (the "Amended and Restated Indenture") governing the Notes following the Consent Solicitation, in which Noteholders of approximately 95.6% in aggregate principal amount of Notes consented to the proposed amendments to the terms of the Notes, including the extension of the Notes' maturity date from 2024 to 2030. The Amended and Restated Indenture and the amended Notes became operative on 9 February 2024 and a 1% consent fee was paid to eligible Noteholders who consented to the Consent Solicitation on or prior to the early consent deadline, on the terms and conditions set forth in a Consent Solicitation statement dated 22 December 2023;
iii. the issuance of approximately €35.7 million in aggregate principal amount of additional Notes pursuant to the Amended and Restated Indenture at a price of 70% of the principal amount thereof, which generated gross proceeds of €25.0 million; and
iv. the consummation of the equity transfer of the Group at the level of the Group's holding entity ("Holdco"), with funds managed by AGGCM and certain Noteholders who entered into the Framework Agreement acquiring, through a holding vehicle, the limited partnership interests in Holdco and the general partner of Holdco pursuant to certain equity and partnership interests transfer documents dated 9 February 2024 and following which funds managed by AGGCM has indirectly the majority ownership of the entire share capital of the Company.

In accordance with article 28 of the Luxembourg Law of 23 July 2016 on reserved alternative investment funds (RAIF Law), the Shareholders of AFE have resolved on 21 February 2024 not to dissolve the Company and to continue the operations of the Company.

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 19 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.

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.

Notes to the Consolidated Financial Statements (continued)

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 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.

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 or non-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.

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.

Notes to the Consolidated Financial Statements (continued)

Derecognition of financial assets (continued)

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).

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.

Notes to the Consolidated Financial Statements (continued)

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.

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.

Notes to the Consolidated Financial Statements (continued)

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.

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 backed into pricing at acquisition.

Notes to the Consolidated Financial Statements (continued)

Critical estimates (continued)

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 2023 by €12.7m. A change in the expected future cash flows by -10% would reduce the carrying value of financial assets as at 31 December 2023 by €13.4m.

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

5. Segmental reporting

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

	As at 31 December 2023	As at 31 December 2022
	€000	**€000**
Purchased loan portfolios	65,044	127,392
Purchased loan notes	6,869	7,683
Investments in joint ventures	245,417	224,180
Inventory	21,758	18,856
Consolidated Statement of Financial Position		
Total segment assets	398,363	444,322
Total segment liabilities	(440,634)	(433,423)
Segment net assets	**(42,271)**	**10,899**

Notes to the Consolidated Financial Statements (continued)

5. Segmental reporting (continued)

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

	Year ended 31 December 2023	Year ended 31 December 2022
	€000	€000
- Romania	402	619
- Poland	1,936	2,341
- Netherlands	180	22
- Italy, Spain, Portugal	39,327	43,511
Total revenue	**41,845**	**46,493**

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

	Year ended 31 December 2023	Year ended 31 December 2022
	€000	€000
- United Kingdom	16,466	22,414
- France	4,667	3,331
- Italy	252	431
Total revenue	**21,385**	**26,176**

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 2023	As at 31 December 2022
	€000	€000
- Romania	3,297	3,980
- Poland	7,394	13,539
- Netherlands	1,821	1,089
- Italy, Spain, Portugal	114,356	196,034
Total	**126,868**	**214,642**

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

	As at 31 December 2023	As at 31 December 2022
	€000	€000
- United Kingdom	113,347	83,000
- France	73,697	60,137
- Italy	25,176	20,332
Total	**212,220**	**163,469**

Notes to the Consolidated Financial Statements (continued)

5. Segmental reporting (continued)

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

	Gross ERC 31 December 2023	ERC 31 December 2023	Effect of discounting 31 December 2023	Adjusted NAV 31 December 2023
	€000	€000	€000	€000
- Romania	4,118	4,118	(974)	3,144
- Italy	77,484	77,484	(35,078)	42,406
- Spain	82,079	66,283	(22,649)	43,634
- Portugal	18,314	16,644	(7,893)	8,751
- Poland	10,893	10,893	(3,674)	7,219
- Netherlands	1,722	1,722	356	2,078
Total	**194,610**	**177,144**	**(69,912)**	**107,232**

Comparative figures for the year ended 31 December 2022:

	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**

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 2023	ERC 31 December 2023	Effect of discounting 31 December 2023	Adjusted NAV 31 December 2023
	€000	€000	€000	€000
- United Kingdom	147,903	147,903	(35,578)	112,325
- Italy	42,927	42,927	(17,750)	25,177
- France	107,740	107,740	(34,043)	73,697
Total	**298,570**	**298,570**	**(87,371)**	**211,199**

Comparative figures for the year ended 31 December 2022:

	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**

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:

Notes to the Consolidated Financial Statements (continued)

5. Segmental reporting (continued)

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 2023	As at 31 December 2022
	€000	**€000**
Fees charged		
Audit fees	500	728
Total fees charged during the year	**500**	**728**
Fees payable		
Audit fees payable	987	712
Audit fees payable at the end of the year	**987**	**712**

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 2023	Year ended 31 December 2022
	€000	€000
Management fees	6,359	5,724
Directors' fees	162	182
Legal and professional fees	1,016	825
Administration fees	1,222	1,070
Audit fees	500	728
Abort deal fees	-	45
Depositary charges	29	66
Staff costs	4,651	4,309
Other expenses	3,280	5,436
Other operating expenses	**17,219**	**18,385**
Realised foreign currency losses/(gains)	118	(660)
Unrealised foreign currency (gains)/losses	(1,104)	2,404
Net foreign currency (gains)/losses	**(986)**	**1,744**

Staff costs include the total remuneration cost of all employees within the Group during the year. As at 31 December 2023, the Group had 18 employees (31 December 2022: 26). Other expenses include €3.1m borne by the Group from Veld Capital Limited in accordance with the Support Services agreement (see note 17 related party transactions), (year ended 31 December 2022 €1.8m).

8. Finance costs

	Year ended 31 December 2023	Year ended 31 December 2022
	€000	€000
Fees on Revolving Credit Facility	(4)	157
Interest on borrowings	8,166	4,238
Interest on Senior Secured Notes and related Charges	27,071	18,143
Interest expense - secured loan notes	1,789	1,915
Revaluation (gain)/loss on secured loan notes	(2,522)	352
Total finance costs - borrowings	**34,500**	**24,805**

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 2023 €000	Year ended 31 December 2022 €000
(Loss)/profit before tax		(55,788)	24,367
Standard income tax rate applicable in Luxembourg		24.94%	24.94%
Theoretical taxation (benefit)/charge		(13,914)	6,077
Effect of profit not subject to income tax		10,373	(7,606)
Taxation benefit on ordinary activities before other taxes		**(3,541)**	**(1,529)**
Other taxes (Net Wealth Tax etc.)		502	86
Provisions	23	421	1,216
Taxation credit		(2,618)	(227)

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 2023, the Group's tax credit of €2.6m (31 December 2022: tax credit of €0.2m) comprised Portuguese and other local tax charges. Further information on the Portuguese tax charges or credits can be found in note 23 '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 2023, the Group's goodwill amounts to €0.77m (as at 31 December 2022: €1.84m). Goodwill arose in 2018 on the acquisition of 100% of the share capital in a Spanish asset manager, Galata Asset Management S.L.

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

Notes to the Consolidated Financial Statements (continued)

11. Financial assets

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

	As at 31 December 2023	As at 31 December 2022
	€000	€000
Expected falling due after one year:		
Purchased loan portfolios	43,484	71,104
Purchased loan notes	1,441	3,187
Investments in joint ventures at amortised cost	75,813	83,806
Investments in joint ventures at FVPL	90,268	66,036
Total	**211,006**	**224,133**
Expected falling due within one year:		
Purchased loan portfolios	21,560	56,288
Purchased loan notes	5,428	4,496
Investments in joint ventures at amortised cost	4,918	12,387
Investments in joint ventures at FVPL	13,250	14,025
Total	**45,156**	**87,196**

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.

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

	As at 31 December 2023	As at 31 December 2022
	€000	€000
Purchased loan notes as at beginning of year	7,683	9,272
Loan notes acquired during the year	967	1,110
Interest income from purchased loan notes	855	851
Collections in the year	(1,167)	(2,537)
Collections in the year - derecognition on sale *	-	(1,111)
Impairment (loss)/gain	(1,469)	98
Purchased loan notes at the end of the year	**6,869**	**7,683**

* 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.

Notes to the Consolidated Financial Statements (continued)

11. Financial assets (continued)

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

	As at 31 December 2023	As at 31 December 2022
	€000	€000
Purchased loan portfolios as at beginning of year	127,392	157,432
Interest income from purchased loan portfolios	29,543	38,169
Collections in the year - sale of inventory	(5,948)	(12,912)
Collections in the year - loans	(29,152)	(54,093)
Collections in the year - derecognition on sale *	(7,382)	(4,210)
Impairment loss **	(38,476)	(4,595)
Loss on disposal	(7,100)	-
Add: movement in inventory and other receivables	(3,833)	7,601
Purchased loan portfolios at the end of the year	**65,044**	**127,392**

* Includes €7.4m proceeds from asset sales in June 2023 (2022: includes €4.2m proceeds from sales of two portfolio tails in December 2022). The proceeds from these sales were recognised as collections in the year – derecognition on sale.
** The impairment loss arose as a result of the revaluation process and primarily dirven by lower expected NPL collections and delayed expected NPL collections.

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

	As at 31 December 2023	As at 31 December 2022
	€000	€000
Joint ventures at amortised cost as at beginning of year	96,193	73,787
Investments acquired in joint ventures at amortised cost	7,360	36,780
Interest income from joint ventures	12,334	10,805
Collections in the year	(18,318)	(27,580)
Collections in the year - derecognition on sale	(33)	-
Impairment (loss)/gain *	(16,717)	707
Reclassification	(977)	1,972
Net foreign currency gain/(loss)	889	(278)
Joint ventures at amortised cost at the end of the year	**80,731**	**96,193**

* The impairment arose as a result of the revaluation process and primarily driven by lower expected NPL collections and delayed expected NPL collections.

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

	As at 31 December 2023	As at 31 December 2022
	€000	€000
Loans to joint ventures at FVPL as at beginning of year	80,061	69,126
Investment in loans to joint ventures at FVPL	11,991	29,292
Collections in the year	(7,072)	(33,266)
Collections in the year - derecognition on sale *	-	(2,192)
Movement in fair value	16,718	22,844
Reclassification	-	(1,972)
Net foreign currency gain/(loss)	1,820	(3,771)
Loans to joint ventures at FVPL at the end of the year	**103,518**	**80,061**

* Includes €2.2m proceeds from sales of a real estate asset in August 2022. The proceeds from this sale were recognised as collections in the year – derecognition on sale.

Notes to the Consolidated Financial Statements (continued)

11. Financial assets (continued)

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

As at 31 December 2023, the carrying value of investments in joint ventures at FVPL is €103.5m (31 December 2022: €80.1m).

12. Participation in joint ventures

	As at 31 December 2023	As at 31 December 2022
	€000	€000
Participation in joint ventures at the beginning of the year	47,926	11,956
Participation acquired during the year	2,574	27,622
Reclassification	977	-
Share of net profit of joint ventures using equity method	9,691	8,348
Participation in joint ventures at the end of the year	**61,168**	**47,926**

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.

	33.3% Precise Credit Solutions 5 SV	50.0% Tiberius SPV S.r.l. cell 5	60.0% Aneto NS FIZ	50.0% Precise Equity Solutions 1 S.a.r.l	%* Green Stone SICAF S.p.A cell Stone 9,12,14	50.0% Precise Credit Solutions 10 S.a.r.l	40.0% Precise Credit Solutions 12 S.a.r.l
	€000	€000		€000	€000	€000	€000
Current assets	28,868	16,254	12,310	53	4,906	367	28
Non-current assets	17,199	-	-	1,153	71,272	7,320	4,489
Current liabilities	(8,564)	(16,254)	(680)	(78)	-	(1,217)	(44)
Non-current liabilities	(36,473)	-	-	-	(33,220)	(4,072)	-
Equity	1,030	-	11,630	19	33,896	1,092	40
Profit in the year	-	-	-	1,109	9,062	1,306	4,433

* The Group has a 48% economic share in Greenstone SICAF S.p.A cell Stone 9 and a 38.4% economic share in Greenstone SICAF S.p.A cell Stones 12 and 14.

Notes to the Consolidated Financial Statements (continued)

12. Participation in joint ventures (continued)

	50.0% Precise Credit Solutions 13 S.a.r.l	39.0% Precise Credit Solutions 14 S.a.r.l	39.3% St Johns JV LP	38.8% 160 BFR Holdco Limited	33.3% Precise Credit Solutions 19 S.a.r.l	38.9% Kervis SGR S.p.A	33.3% Precise Credit Solutions 24 S.a.r.l
	€000	€000	€000	€000	€000	€000	€000
Current assets	707	914	36,527	951	23,356	2,790	1,452
Non-current assets	56,790	31,436	45,253	96,541	55,307	16,350	5,955
Current liabilities	(821)	(5,992)	(11)	(30,488)	(4,223)	(2,990)	(25)
Non-current liabilities	(46,922)	(24,625)	-	(73,181)	(73,803)	(6,458)	(7,371)
Equity	9,754	2,898	81,769	(6,177)	637	7,192	11
Profit in the year	-	(1,165)	-	-	-	2,500	-

	38.7% 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	38.0% Precise Credit Solutions 38 S.a.r.l	Total as at 31 December 2023
	€000	€000	€000	€000	€000
Current assets	45	2,071	1,569	21	133,189
Non-current assets	26,290	11,380	50,793	26,085	523,613
Current liabilities	(426)	(4,427)	(5,016)	(177)	(81,433)
Non-current liabilities	(2,697)	(5,415)	(40,297)	(9,299)	(363,833)
Equity	18,543	1,158	7,049	16,962	187,503
Profit in the year	4,669	2,451	-	(332)	24,033

13. Inventory

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

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

	As at 31 December 2023	As at 31 December 2022
	€000	€000
Opening inventory	18,856	22,707
Re-possessions	8,851	7,871
Disposals	(4,090)	(11,722)
Impairment loss	(1,859)	-
Closing balance at the end of the year	**21,758**	**18,856**

Notes to the Consolidated Financial Statements (continued)

14. Trade and other receivables

	As at 31 December 2023	As at 31 December 2022
	€000	**€000**
Collections receivable	9,981	27,338
Other receivables	21,482	14,958
Other assets	3,928	2,984
Total	**35,391**	**45,280**

Collections receivable relate to amounts held by servicers which are owed to the Group. Other receivables include €17.6m prepaid expenses in relation to fees incurred in obtaining the Term Loan Facility and amending the Notes, as well as VAT receivable, prepayments and deposits on signed transactions. 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. There were no significant past due or impaired receivables as at 31 December 2023.

15. Trade and other payables

		As at 31 December 2023	As at 31 December 2022
	Notes	**€000**	**€000**
Trade payables		7,596	558
Deferred and contingent consideration		-	1,066
Amounts due to related parties	17	11,912	7,810
Accrued expenses		2,222	3,424
Total trade and other payables		**21,730**	**12,858**

16. Share capital

	As at 31 December 2023	As at 31 December 2022
	€000	**€000**
Share capital at 1 January 2023	1,250	1,250
Total share capital at 31 December 2023	**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.

	As at 31 December 2023	As at 31 December 2022	As at 31 December 2021
	€000	**€000**	**€000**
NAV attributable to Class A shares	(42,271)	10,899	(13,695)
No. of remaining Class A shares	1,250	1,250	1,250
NAV per Class A shares	**(33.82)**	**8.72**	**(10.96)**

17. Related party transactions

Management fees

The AIFM is entitled to receive a management fee on a quarterly basis, based on 1.75% of AFE's NAV (as defined in the Offering Memorandum, pro-rated for the number of days in each period), which includes fees payable to Veld Capital Limited, acting as the investment advisor from 30 September 2022 until 21 December 2023. The management fee for the year was €6,363k, of which €5,619k has been fully paid and €744k is payable.

Notes to the Consolidated Financial Statements (continued)

17. Related party transactions (continued)

The management fee for the year ended 31 December 2022 was €5,724k (€4,121k paid to AnaCap Investment Management Limited, acting as Portfolio Manager until 30 September 2022, €1,470k paid to Veld Capital Limited and €133k paid to Carne Global Fund Managers (Luxembourg) S.A. in relation to management company services).

Master servicing income

During the year, the Group recognised a total of €2.7m of income from the Veld Credit Opportunities III L.P., Veld Credit SCSp SICAV RAIF and Veld Real Estate Co-Invest L.P. fund structures respectively in relation to master servicing activities provided by the Group to each fund structure (year ended 31 December 2022: €4.0m).

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

During the year, the Group incurred charges of €59k (year ended 31 December 2022: €129k) to Veld Luxembourg S.à r.l. in relation to support functions and services provided to the master servicing platform.

Fees payable to Veld Capital Limited

During the year, the Group incurred charges of €4,215k to Veld Capital Limited compared to €1,754k to AnaCap Financial Partners Limited, €1,388k to Equipped Analytical Intelligence Limited and €933k to Veld Capital Limited in the year ended 31 December 2022 in relation to support functions and services provided to the Group. This includes central functions, HR, office rent and staff costs, €1,723k of which has been fully paid and €2,492k is payable.

	As at 31 December 2023	As at 31 December 2022
	€000	€000
Due to related parties		
Veld Credit SCSp SICAV RAIF	-	4,320
Veld Capital Limited	3,237	645
AnaCap Financial Partners Limited	-	607
Prime Credit Solutions SV S.à r.l.	5,033	-
Prime Credit Solutions 4 S.à r.l.	15	15
Prime Credit Solutions 19 S.à r.l.	3,317	1,700
Prime Credit Solutions 24 S.à r.l.	300	-
AFE Holdings SCSp SICAV RAIF	-	23
AFE GP S.à r.l.	10	-
Total	**11,912**	**7,310**

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 2023	Year ended 31 December 2022
	€000	€000
Fees charged		
Directors' fees	162	182
Total fees charged during the year	**162**	**182**

	As at 31 December 2023	As at 31 December 2022
	€000	€000
Fees payable		
Directors' fees payable	44	73
Directors' fees payable at the end of the year	**44**	**73**

Notes to the Consolidated Financial Statements (continued)

18. 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 23 Commitment and contingencies). For the purposes of the Adjusted NAV calculation, the carrying value of the investments in associates and the purchase price paid for the acquisition of Galata (discounted) have been used. The Adjusted NAV forms the basis of the management fee calculation paid each quarter.

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

	As at 31 December 2023	As at 31 December 2022	As at 31 December 2021
	€000	**€000**	**€000**
NAV according to the Consolidated Statement of Financial Position	(42,271)	10,899	(13,695)
Adjustments:			
Cash and cash equivalents	(22,635)	(18,806)	(21,438)
Trade and other receivables	(35,780)	(45,348)	(28,401)
Trade and other payables (current and non-current)	21,730	12,858	10,246
Borrowings (current and non-current)	407,635	403,543	389,742
Fair value movement	(10,248)	(24,991)	(34,830)
Adjusted NAV	**318,431**	**338,155**	**301,624**

Notes to the Consolidated Financial Statements (continued)

19. 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 2023	Ownership % as at 31 December 2022	Current status
ACOF II Portugal Limited	Guernsey	100%**	100%**	Active
AFE Spain Limited	Guernsey	100%	100%	Active
Veld 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
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
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

As of 31 December 2023 the Group had 18 employees spread across 4 different subsidiaries:

- Veld Asset Solutions Limited: 1 (2022: 5)
- Veld Asset Solutions S.a r.l.: 1 (2022: 2)
- Galata Asset Management, S.L: 10 (2022: 13)
- Atila, Unipessoal LDA: 6 (2022: 6)

* 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.

Notes to the Consolidated Financial Statements (continued)

20. 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 of undervalued performing, semi-performing and non-performing credit assets 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	-	-	-	183,630	183,630
Purchased loan notes	8,807	-	-	-	8,807
Investments in joint ventures at amortised cost	101,207	-	-	-	101,207
Gross carrying amount	110,014	-	-	183,630	293,644
Loss allowance	(22,414)	-	-	(118,586)	(141,000)
Carrying amount	**87,600**	**-**	**-**	**65,044**	**152,644**

Comparative figures for the year ended 31 December 2022:

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**

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	183,630	64%
Gross carrying amount	183,630	64%
Loss allowance	(118,586)	-
Carrying amount	65,044	64%

Notes to the Consolidated Financial Statements (continued)

20. 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 11 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 2023 can be attributed by geography, taking into consideration the Group's Assets including advances made by REOCOs for property acquisitions (see note 14):

Country	Carrying value as at 31 December 2023	Impairment gain/(losses) for the year	Carrying value as at 31 December 2023
	€000	**€000**	**€000**
- Italy	96,045	(20,559)	75,486
- Spain	74,669	(23,893)	50,776
- Portugal	19,583	(6,313)	13,270
- Romania	3,850	(553)	3,297
- United Kingdom	113,347	-	113,347
- Poland	12,738	(5,344)	7,394
- France	73,697	-	73,697
- Netherlands	1,089	-	1,821
Total	**395,018**	**(56,662)**	**339,088**

Comparative figures for the year ended 31 December 2022:

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**

Notes to the Consolidated Financial Statements (continued)

20. 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 2023 was €nil. (31 December 2022: €1.5m).

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	428,075	-	-	-	428,075
Secured loan notes	562	3,132	727	5,160	9,581
Trade and other payables	21,730	-	-	-	21,730
Total	**450,367**	**3,132**	**727**	**5,160**	**459,386**

Comparative figures for the year ended 31 December 2022:

	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**

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 2023	As at 31 December 2022
Gross ERC	493,180	573,690
ERC	475,714	552,548

Notes to the Consolidated Financial Statements (continued)

20. Financial risk management (continued)

Liquidity risk (continued)

A maturity analysis of the Group's Assets (excluding inventory), borrowings and facilities as at 31 December 2023 is presented below:

	Notes	Financial assets €000	% of total	Borrowings and facilities €000	% of total
Within one year	11 / 22	45,156	17.6%	408,197	97.8%
After one year		211,006	82.4%	9,019	2.2%
Total		**256,162**	**100%**	**417,216**	**100%**

Comparative figures for the year ended 31 December 2022:

	Notes	Financial assets €000	% of total	Borrowings and facilities €000	% of total
Within one year	11 / 22	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%**

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 8.17% 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%. The Facility was paid in full on 22 December 2023 and replaced with a fixed rate Bridge Facility. 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. The Term Facility was repaid in full on 30 May 2023. During the reporting period up until the 30 May 2023 average interest at a rate of 5.50% 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 2023 €000	Year ended 31 December 2022 €000
Increase in finance cost	3,118	2,227
Total impact on the Statement of Comprehensive Income for the year	**3,118**	**2,227**

Notes to the Consolidated Financial Statements (continued)

20. Financial risk management (continued)

Interest rate risk (continued)

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

	Year ended 31 December 2023	Year ended 31 December 2022
	€000	**€000**
Decrease in finance cost	(3,118)	(731)
Total impact on the Statement of Comprehensive Income for the year	**(3,118)**	**(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 2022: 13) 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 the tables 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 2023	Year ended 31 December 2022
	€000	**€000**
Equity and net assets		
Polish Zloty (PLN)	(739)	(1,259)
Sterling (GBP)	(11,335)	(8,605)
Loss		
Polish Zloty (PLN)	(739)	(1,259)
Sterling (GBP)	(11,335)	(8,605)

Notes to the Consolidated Financial Statements (continued)

20. 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 2023	Year ended 31 December 2022
	€000	€000
Equity and net assets		
Polish Zloty (PLN)	739	1,259
Sterling (GBP)	11,335	8,605
Profit		
Polish Zloty (PLN)	739	1,259
Sterling (GBP)	11,335	8,605

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 ratio 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 2023	As at 31 December 2022
	€000	€000
Equity	(42,271)	10,899
Borrowings	407,635	403,543
Less: Cash and cash equivalents	(22,635)	(18,806)
Total	**342,729**	**395,636**

21. 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 2023	Book value 31 December 2023
		€000	€000
Purchased loan portfolios*	Level 3	66,000	65,044
Purchased loan notes	Level 3	7,050	6,869
Investments in joint ventures at amortised cost	Level 3	81,814	80,731
Investments in joint ventures at FVPL	Level 3	103,518	103,518
Cash and cash equivalents	Level 2	22,635	22,635
Trade and other receivables	Level 3	31,463	31,463
Total		**312,480**	**310,260**

Notes to the Consolidated Financial Statements (continued)

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

Financial liabilities	Fair value hierarchy	Fair Value 31 December 2023	Book value 31 December 2023
		€000	€000
Senior Secured Notes	Level 1	198,144	311,558
Revolving Credit Facility	Level 2	96,077	96,077
Secured loan notes	Level 3	9,581	9,581
Trade and other payables	Level 2	21,730	21,730
Total		**325,532**	**438,946**

Comparative figures as at 31 December 2022:

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
Loan to joint venture 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**

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**

* 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 2023. 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.

Notes to the Consolidated Financial Statements (continued)

21. 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 €16.9m impact to the carrying value as of 31 December 2023, and a 12 month delay in forecast exit dates would have a €18.3m impact to the carrying value as of 31 December 2023.

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)

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

Reconciliation of assets measured at FVPL

	As at 31 December 2023	As at 31 December 2022
	€000	€000
Financial assets measured at FVPL as at beginning of year	80,061	69,126
Loans to joint venture at FVPL	11,991	29,292
Collections in the year	(7,072)	(33,266)
Collections in the year - derecognition on sale	-	(2,192)
Movement in fair value	16,718	22,844
Reclassification	-	(1,972)
Net foreign currency gain/(loss)	1,820	(3,771)
Financial assets measured at FVPL at the end of the year	**103,518**	**80,061**

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. 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 2023 €64.4m (as at 31 December 2022: €262.9m).

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 11.

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

22. Borrowings and facilities

	As at 31 December 2023	As at 31 December 2022
	€000	€000
Expected falling due after one year		
Senior Secured Notes	-	305,039
Secured loan notes	9,019	10,223
Total	**9,019**	**315,262**
Expected falling due within one year		
Revolving Credit Facility	96,077	88,518
Term Facility	-	6,505
Senior Secured Notes	311,558	3,481
Secured loan notes	562	1,922
Total	**408,197**	**100,426**

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.

22. 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 extension of the maturity date of the Notes from 1 August 2024 to 1 August 2030 and issuance of €35.7m in aggregate principal amount of additional Notes occurred on 9 February 2024.

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 2023 the Group remained compliant with all covenants outlined on the Senior Secured Notes and the Super Senior Revolving Credit Facility.

As at 31 December 2023 AFE had a €95.7m Bridge Facility (2022: €90.0m Super Senior Revolving Credit Facility) available to use to help facilitate its working capital requirements (the "Facility"). The Facility will bear cash interest at a fixed rate of 1.00% p.a. and pay-in-kind interest at a fixed rate of 11.50% p.a. on the principal amount of the outstanding facility. As at 31 December 2023, €95.7m (31 December 2022: €88.5m) had been drawn as a loan from the Facility. The total amount available to draw upon as at 31 December 2023 is equal to €nil (31 December 2022: €1.5m). The Super Senior Revolving Credit Facility was paid in full on 22 December 2023. The Bridge Facility was paid in full on 9 February 2024 and replaced by a Term Loan Facility of €132.9m with a maturity date of 15 January 2030.

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. The facility was repaid in full on 30 May 2023 (31 December 2022: €6.5m had been drawn). Interest accrues at a rate equal to the Margin and EURIBOR.

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 2023	**18,806**	**(403,543)**	**(12,145)**	**(396,882)**
Cash flows	3,829	31,851	1,607	37,287
Foreign exchange adjustments	-	(710)	-	(710)
Finance cost	-	(35,233)	(1,789)	(37,022)
Other non-cash movements	-	-	2,746	2,746
As at 31 December 2023	**22,635**	**(407,635)**	**(9,581)**	**(394,581)**

Notes to the Consolidated Financial Statements (continued)

22. Borrowings and facilities (continued)

Comparative figures as at 31 December 2022:

	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)**

23. 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. In July 2023 €3.0m of over provision was released.

The total tax provision reflected in the Financial Statements as at 31 December 2023 is €1.7m (31 December 2022: €4.9m) based on the last assessment from PTA.

Real estate investments

Under the business plan of the signed and acquired real estate assets, as at 31 December 2023, the Group is expected to fund c.€28.3m (c.€39.5m as at 31 December 2022) for its share of acquisition cost and capital expenditure over the next three years.

24. Ultimate parent entity

As at 31 December 2023, the ultimate parent entity of the Group was Veld Offshore LLP. From 9 February 2024, the ultimate parent entity of the Group is AGG.

25. Subsequent events

The Group liquidity position significantly improved as a result of a comprehensive recapitalisation and refinancing of the Company's capital structure and the acquisition of a majority stake in AFE by funds managed by AGG (the "Recapitalisation").

The completion of the Recapitalisation occurred on 9 February 2024 and AGG acquired a majority stake in AFE and became the Investment Adviser. As a result of the Recapitalisation, the AIFM will be entitled to receive a management fee on a quarterly basis, based on 1.50% of AFE's NAV (as defined in the Offering Memorandum, pro-rated for the number of days in each period). The Recapitalisation provides additional capital, liquidity flexibility and capital structure runway to the Group through the following financings and equity transfers:

i. drawings in full by AFE in an aggregate principal amount of €132.9 million (including capitalised fees and original issue discount) pursuant to an amended term loan facilities agreement between the parties thereto originally dated 21 December 2023 and amended and restated on 26 January 2024 (the Term Loan Facilities Agreement), the proceeds of which were used to repay the Bridge Facility in full. The remaining drawings of €37.2 million were made available for general corporate and working capital purposes of the Group;
ii. the amendment and restatement of the indenture (the "Amended and Restated Indenture") governing the Notes following the Consent Solicitation, in which Noteholders of approximately 95.6% in aggregate principal amount of Notes consented to the proposed amendments to the terms of the Notes, including the extension of the Notes' maturity date from 1 August 2024 to 15 July 2030. The Amended and Restated Indenture and the amended Notes became operative on 9 February 2024 and a 1% consent fee was paid to eligible Noteholders who consented to the Consent Solicitation on or prior to the early consent deadline, on the terms and conditions set forth in a Consent Solicitation statement dated 22 December 2023;
iii. the issuance of approximately €35.7 million in aggregate principal amount of additional Notes pursuant to the Amended and Restated Indenture at a price of 70% of the principal amount thereof, which generated gross proceeds of €25.0 million; and

Notes to the Consolidated Financial Statements (continued)

25. Subsequent events (continued)

iv. the consummation of the equity transfer of the Group at the level of the Group's holding entity ("Holdco"), with funds managed by AGGCM and certain Noteholders who entered into the Framework Agreement acquiring, through a holding vehicle, the limited partnership interests in Holdco and the general partner of Holdco pursuant to certain equity and partnership interests transfer documents dated 9 February 2024 and following which funds managed by AGGCM has indirectly the majority ownership of the entire share capital of the Company.

In accordance with article 28 of the Luxembourg Law of 23 July 2016 on reserved alternative investment funds (RAIF Law), the Shareholders of AFE have resolved on 21 February 2024 not to dissolve the Company and to continue the operations of the Company.

Listing

Prior to the Recapitalisation, the Notes were admitted to trading on the Euro MTF market of the Luxembourg Stock Exchange. As part of the Recapitalisation, the Notes were admitted to the International Stock Exchange on 14 February 2024. The Notes were delisted from the Luxembourg Stock Exchange on 19 February 2024.

Changes to the Board of Directors

On 9 February 2024 James Culshaw was appointed to the Board of Directors.

Signed and Completed transactions

During the period from 1 January 2024 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.€12.4m.

On 25 March 2024, AFE made an investment of c.€17.5m in a mixed use development opportunity in Portugal with an economic interest of 4.13%. The transaction completed on 26 April 2024 with a further c.€1.4m deployment.

No other material subsequent events between reporting date and the date of signing have been identified other than those disclosed in the relevant notes in the consolidated financial statements.

26. Adjusted EBITDA and Normalised EBITDA

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

Normalised EBITDA eliminates the impact of portfolio disposals.

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

Reconciliation of profit before tax to Normalised and Adjusted EBITDA:

	Year ended 31 December 2023	Year ended 31 December 2022
	€000	**€000**
(Loss)/profit before tax	**(55,788)**	**24,367**
Finance costs	34,500	24,805
Share of profit in associate and joint ventures	(9,691)	(12,339)
Net foreign currency movements	(986)	1,744
Impairment loss	56,662	3,789
Loss on disposal	7,100	-
Proceeds from portfolio disposals	7,415	19,813
Collections from portfolios	61,657	130,388
Revenue	(63,230)	(77,733)
Other income	3,780	5,064
Cash collected on behalf of secured loan noteholders	(1,831)	(3,125)
Adjusted EBITDA	**39,588**	**116,773**
Less assets disposals	(7,415)	(19,813)
Normalised Adjusted EBITDA	**32,173**	**96,960**

Notes to the Consolidated Financial Statements (continued)

26. Adjusted EBITDA and Normalised EBITDA (continued)

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

	Year ended 31 December 2023	Year ended 31 December 2022
	€000	€000
Net cash generated from operating activities	**37,687**	**4,668**
Portfolio acquisitions	17,840	94,804
Taxation paid	960	1,034
Cash collected on behalf of secured loan noteholders	(1,831)	(3,125)
Working capital adjustments	(15,186)	20,052
Realised foreign currency losses/(gains)	118	(660)
Adjusted EBITDA	**39,588**	**116,773**
Less assets disposals	(7,415)	(19,813)
Normalised Adjusted EBITDA	**32,173**	**96,960**

Reconciliation of core collections to Normalised and Adjusted EBITDA:

	Year ended 31 December 2023	Year ended 31 December 2022
	€000	€000
Core Collections in the year	**61,657**	**130,388**
Proceeds from portfolio disposals	7,415	19,813
Other income	3,780	5,064
Operating expenses	(94,209)	(40,900)
Net foreign currency movements	(986)	1,744
Impairment loss	56,662	3,789
Loss on disposal	7,100	-
Cash collected on behalf of secured loan noteholders	(1,831)	(3,125)
Adjusted EBITDA	**39,588**	**116,773**
Less assets disposals	(7,415)	(19,813)
Normalised Adjusted EBITDA	**32,173**	**96,960**

Disclosures under the Alternative Investment Fund Managers Directive (unaudited)

Liquidity arrangements and liquidity management

There are no assets of the Fund subject to special arrangements such as side pockets, gates or other similar arrangements. Liquidity concerns have been raised in the course of 2023 due to issue to manage contractual obligations in relations with two debt instruments respectively (i) Senior secured floating rates notes for a notional of EUR 307,5 Mio, listed on the Luxembourg stock exchange and with a maturity in 08/2024 and (ii) Revolving Credit Facility (the "RCF") for a final notional of EUR 75 Mio, with an initial maturity in 03/2023. Those concerns have been mainly related to current market conditions affecting the nature of capital structure set up in conjunction with the limited liquidity of the asset. Therefore, the Fund had faced difficulties repaying its financial contractual obligation. The outcome of the arrangements taken for addressing the situation have been mainly based on the change of Investment Advisor from Veld Capital Limited to AGG Capital Management in order to restructure the terms and conditions of the financial contractual obligations.

The AIFM confirms it has maintained appropriate capital adequacy provisions as required by the Commission de Surveillance du Secteur Financier ("CSSF").

Global Risk Exposure Risk Management Program Description of the process of identifying, assessing, and managing risks:

Market risk:

Market risk is monitored through the computation of the level of leverage using both the Gross and Commitment Methods.

Leverage is calculated by converting each financial derivative instruments into the equivalent position in the underlying assets of those derivatives, on a Net Asset Value ("NAV") basis.

The market risk linked to the concentration risk is mitigated through investment restrictions set according to the basic principle of diversification. The diversification and other investment restrictions are monitored on a NAV basis.

Liquidity risk:

The Alternative Investment Fund Manager ("AIFM") employs appropriate liquidity management methods and adopts procedures which enable it to monitor the liquidity risk of each Fund. The AIFM ensures that, for each Fund it manages, the investment and financing strategy, the liquidity profile and the redemption policy are consistent.

Additionally, the AIFM has put in place a Liquidity Stress Test taking into consideration the asset and liability, the redemption profile of the funds for both open ended or closed ended funds, the assets liquidity, the potential use of leverage and other liquidity management tools.

Credit and counterparty risk:

Transactions involving derivatives are only entered into with counterparties having an appropriate credit quality. The credit risk linked to counterparty risk is managed through processes outlined in the AIFM's Risk Management Policy and cover the diversification rule aspect and the assessment of the credit worthiness of the issuer.

Operational risk:

Operational risks and delegated activities are closely monitored via a due diligence process and ongoing controls materialised through Key Performance Indicators ("KPIs") and Due Diligence reports. The due diligence covers investment management, distribution, central administration and the depositary bank. This follow up is subject to reporting, monitoring and escalation processes and is therefore reviewed by the Management Committee of the AIFM and ultimately the Board of Directors of the AIFM.

Further to the monitoring of risks, the AIFM is covered by Carne's business continuity plan ("BCP") in line with internal procedures and tested on a regular basis. This contingency planning aims to cover situations in which the premises would not be accessible anymore or in case the IT systems are unavailable and includes:

- Business Continuity Plans
- IT Disaster Recovery Plans

Topics detailed are, among others, procedures to follow if the incident takes place during or out of office hours, people in charge of coordination in such occurrences, addresses, maps and indications to get to the backup facilities, communication channels and so on.

Concentration risk:

Funds which invest in a single, or narrow range of stocks or collective investment schemes or in specialised sectors may be more volatile than more broadly diversified funds.

Disclosures under the Alternative Investment Fund Managers Directive (unaudited)

Risk Management –Leverage:

In accordance with the AIFM Law, the AIFM will for each Fund provide to competent authorities and investors the level of leverage of each Fund both on a gross and on a commitment method basis in accordance with the gross method as set out in Article 7 of the AIFM Regulation and the commitment method as set out in Article 8 of the AIFM Regulation.

The AIFM will set a maximum level of leverage which may be employed within each respective Fund. In case the leverage employed in a Fund as calculated according to the commitment methodology exceeds three times its Net Asset Value, a special disclosure in accordance with Article 111 of the AIFM Regulation will be made.

The leverage employed by the Fund as per 31 December 2023 was 168.12% of the Fund's net asset value based on the gross method and 173.58% of the Fund's net asset value based on the commitment method.

Remuneration

Carne Global Fund Managers (Luxembourg) S.A. (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.

The below table outlines the total remuneration[1] paid to Identified Staff[2] of the AIFM during the financial year[3]:

	Number of beneficiaries	Total remuneration (EUR)*	Fixed remuneration (EUR)	Variable remuneration (EUR)
Senior Management	13	2,700,392	2,065,370	635,022
Other material risk takers	21	2,347,015	1,806,563	540,452

*The AIFM has also determined that, on the basis of number of sub-funds/net asset value of the Fund relative to the number of sub-funds/assets under management, the portion of the total remuneration attributable to the Fund is €27,611.

[1] Total remuneration = sum of fixed remuneration and variable remuneration paid during the AIFM's financial year.
[2] Identified Staff comprises = Directors of the Company, Chief Business Development Officer, Senior Business Development Officer, Person responsible for the Permanent Risk Function, Carne's Responsable du Contrôle, Conducting Officers of the Company, Head of Legal, Directors of the Company, members of the Investment Committee and members of the Valuation Committee
[3] 31 December is the financial year end of the AIFM.