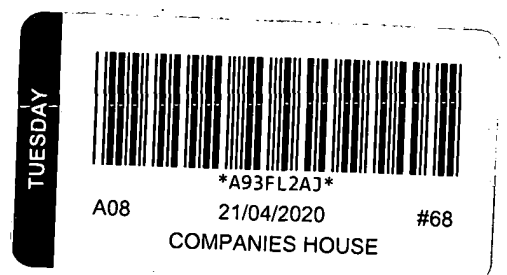


# Värde Partners Europe Limited

Annual report and consolidated financial  
statements

Registered number 05174658  
for the year ended 31 December 2019



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## Directors' report

The Directors present their annual report, strategic report and the audited financial statements for the year ended 31 December 2019.

### Principal activities

Värde Partners Europe Limited ("The Company", "VPE"), registered at 2 St James's Market, London, SW1Y 4AH, is a private limited company incorporated in July 2004 and is an Financial Conduct Authority ("FCA") authorised investment advisor and discretionary investment manager.

VPE is indirectly wholly owned by Värde Management, L.P. ("VMLP"), a US registered investment adviser in the Värde organisation ("Värde"), a global alternative investment firm. Värde was founded in 1993 and operates with partner-led offices in Minneapolis, London, Singapore and New York as well as additional offices in Asia-Pacific, Europe and North America. As of 31 December 2019, Värde's assets under management are about \$14.5 billion.

VPE's business is to provide advisory and sub-investment management services to VMLP as the principal investment adviser to the Värde funds with regard to European investment activities VPE does not hold client money or assets.

VPE has two wholly owned subsidiaries, Varde Partners Iberia SLU ("VPIB") based in Madrid and Varde Partners Italy S.R.L. ("VPIT") based in Milan, Italy. VPE also has a Greek subsidiary, Varde Partners Hellas EPE ("VPH"), in Athens.

The term "Group" refers to the consolidation of VPE, VPIB, VPIT and VPH.

### Result and dividend

The Group's profit for the year was £1,011,000 (2018: £1,851,000). A dividend of £3,000,000 was paid to VPE BL LLC 2019 (2018: £nil). It was then paid from VPE BL LLC to the ultimate parent company, VMLP. The Directors do not recommend the payment of a final dividend.

### Directors and Directors' interests

The Directors who held office during the year and up to the date of this report were as follows:

George G. Hicks (resigned 29 November 2019)

Ricky J. Noel

Anthony Iannazzo

Bradley P. Bauer (appointed 14 January 2020)

### Political contributions

Neither the Company nor its subsidiary made any political donations or incurred any political expenditure during the year.

## Directors' report (continued)

### Insurance Policies

Certain Directors benefited from qualifying third party indemnity provisions in place during the financial year and at the date of this report.

### Pillar 3 disclosure

The Company's Pillar 3 disclosure can be found on the following website: <http://www.pillar3.eu/VPEL0900302>

### Auditors

Pursuant to section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

### Disclosure of information to auditors

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each Director has taken appropriate steps to be informed of any relevant audit information as well as confirmed that the Company's auditor is aware of any such information.

By order of the Board



**Bradley P. Bauer**  
CEO & Director

17 April 2020

*Company number 05174658*

Level 2-3  
2 St James's Market  
London SW1Y 4AH  
United Kingdom

## Strategic report

As noted the Group acts as a sub-adviser to VMLP with regard to potential investments in Europe.

### *Business review*

VPE is based in London and is an FCA authorised investment adviser and discretionary investment manager. VPE is wholly owned by VPE BL LLC, which is wholly owned by VMLP and generates its income by charging management fees to VMLP based on a residual profit split arrangement.

Turnover for the year ended 31 December 2019 increased by approximately 3.4% to £42.4m (2018: £41.0m). VPE continues to be remunerated by VMLP under the residual profit split method ("RPSM"). The functions performed by Värde affiliates and the related assets and risks involved in the integrated, global investment management business meet the standards for remuneration under the RPSM. The RPSM remunerates Värde affiliates at arm's length for the non-routine investment management functions that are performed by affiliates globally. Additionally, the RPSM is one of the most appropriate methods listed under the Organisation for Economic Co-operation and Development guidelines.

Subsequent to 31 December 2019, the COVID-19 outbreak was declared a pandemic by the World Health Organization. The situation is dynamic with various cities and countries around the world responding in different ways to address the outbreak. The Company has implemented actions where appropriate to provide a safe working environment for its employees while ensuring continuity of business.

Värde was founded in 1993 and operates with partner-led offices in Minneapolis, London, Singapore and New York as well as additional offices in Asia-Pacific, Europe and North America. As of 31 December 2019, Värde's assets under management is about \$14.5 billion. VPE provides advisory and sub-investment management services to VMLP as the principal investment adviser to the Värde funds with regard to European investment activities.

VPE has a wholly owned Spanish subsidiary, VPIB, and a wholly owned Italian subsidiary, VPIT, which support VPE's non-regulated investment activity in Spain and Italy Greece respectively. VPE also has a 90% Greek subsidiary, VPH, but no longer carries out activities through it. VPE holds share capital of €3,000 in VPIB, €10,000 in VPIT and €2,700 in VPH. The remaining 10% of VPH is held by VPIB. VPE remunerates VPIB and VPIT based on a residual profit split arrangement for services provided.

### *Principal risks and uncertainties*

The Group is an advisory and discretionary investment manager that does not act on its own account and does not hold either client money or assets. VPE is categorised as an IFPRU limited licence firm by the FCA for regulatory capital purposes and its subsidiaries, VPIB, VPIT and VPH, are not regulated companies. VPE has established a risk management process in order to confirm that it has effective systems and controls in place to identify, monitor and manage risks arising in the business. To mitigate any such risks, the Company's strategy is to maintain adequate capital resources in excess of the Capital Resource Requirement ("CRR") in order to protect itself from unfavourable market conditions. The Group's exposure to market risks is limited since the Group does not act on its own account and does not hold either client money or assets.

The emergence of COVID-19 has led to significant uncertainty in the global social-economic environment. At the date of this report, the Directors anticipate the impact on the Company's principal risks to most likely be in the form of operational and market risk. The Company anticipates potential operational disruption and contingency arrangements are in place to deliver operational resilience.

## Strategic report (continued)

### *Principal risks and uncertainties (continued)*

The Directors have not seen any material change in the Company's financial position or performance as at the date of this report and in conjunction with the Company's ultimate parent continue to monitor the impact COVID-19 has on investment valuations in the Varde funds and, to the extent relevant, the Company will reflect any impact of such valuation adjustments as appropriate in its regular reporting

The principal risks are regularly assessed and monitored and the Company is satisfied with its evaluation process.

### *Key performance measures*

The key performance measures of the Group are as follows:

	2019	2018	Variance
	£'000	£'000	%
Staff Costs	31,383	29,306	7%
Dividend	3,000	-	100%
Shareholder's Funds	13,268	15,180	(13%)

During 2019, the average headcount for the Group remained in line with prior years which will continue to provide the staffing required, as assessed by senior management to support the requirements of the business in providing appropriate levels of service.

The Group closely monitors its capital resources and the Directors continue to be satisfied that the Group has sufficient capital resources to protect itself from any unfavourable market conditions.

### *Future Outlook*

The Group will seek to maintain sufficient business capacity to provide its required services to VMLP as their regulatory assets under management increase in size. This may include reviewing new markets for investment opportunities and identifying geographical locations for additional offices to support those investment opportunities. However there is no intention to develop new product lines within the Group and there is no intention to enter markets to start raising funds or distributing products from the Group.

In anticipation of Brexit (31 January 2020), VPE carried out an inventory of VPE's activities in Europe in conjunction with regulatory counsel and analysed the impact Brexit may have on these activities. The analysis has not identified any fundamental issues with the Group's ability to conduct its business post-Brexit. VPE will continue to monitor and update the developments during the transition period (until 31 December 2020).

The Company has been regularly reviewing its business continuity planning in light of the recent events, and has implemented additional actions where appropriate to provide a safe working environment for its employees while ensuring continuity of business. It continues to keep the situation under review.

By order of the Board



Bradley P. Bauer  
CEO & Director

17 April 2020

Company number 05174658

Level 2-3  
2 St James's Market  
London SW1Y 4AH  
United Kingdom

## STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE STRATEGIC REPORT, THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

~~Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the group and parent company financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.~~

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of the Group's profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to:

select suitable accounting policies and then apply them consistently;

make judgements and estimates that are reasonable and prudent;

state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;

assess the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and

use the going concern basis of accounting unless they either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF VARDE PARTNERS EUROPE LIMITED

### Opinion

We have audited the financial statements of Värde Partners Europe Limited ("the company") for the year ended 31 December 2019 which comprise the Group Consolidated Profit and Loss Account, the Group Consolidated Other Comprehensive Income, the Group and Parent Company Balance Sheets, the Group and Parent Company's Statements of Changes in Equity, the Group Consolidated Cash Flow Statement and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2019 and of the group's profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the group in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

### Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

### Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

**Matters on which we are required to report by exception**

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

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

We have nothing to report in these respects.

**Directors' responsibilities**

As explained more fully in their statement set out on page 7, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

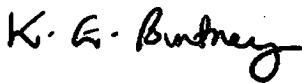
**Auditor's responsibilities**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

**The purpose of our audit work and to whom we owe our responsibilities**

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.



**Karl Pountney (Senior Statutory Auditor)**  
**for and on behalf of KPMG LLP, Statutory Auditor**  
*Chartered Accountants*  
1 Sovereign Square  
Sovereign Street  
Leeds  
LS1 4DA  
17 April 2020

**Consolidated Profit and Loss Account**  
*for year ended 31 December 2019*

	<i>Note</i>	2019 £'000	2018 £'000
<b>Turnover</b>		42,381	40,711
Staff costs	5	(31,383)	(29,306)
Other external charges	4	(8,553)	(8,502)
Depreciation	4	(586)	(170)
Other operating income / (charges)		(559)	(212)
<b>Operating Profit</b>		1,300	2,521
Interest receivable and similar income		7	5
<b>Profit on ordinary activities before taxation</b>		1,307	2,526
Tax on profit on ordinary activities	7	(296)	(675)
<b>Profit on ordinary activities after taxation</b>		1,011	1,851

The notes on pages 17 to 31 form an integral part of these financial statements.

**Consolidated Other Comprehensive Income**  
*for year ended 31 December 2019*

	2019	2018
	£'000	£'000
Profit for the year	1,011	1,851
Foreign exchange differences on translation of foreign operations*	77	1
<b>Total Comprehensive Income</b>	<b>1,088</b>	<b>1,852</b>

\* These may reverse in future periods

The notes on pages 17 to 31 form an integral part of these financial statements.

## Consolidated Balance Sheet

at 31 December 2019

	<i>Note</i>	2019 £'000	2018 £'000
<b>Fixed assets</b>			
Tangible assets	8	4,141	3,699
<b>Current assets</b>			
Debtors (including amounts falling due after more than one year: £8,232k (2018: £14,911k))	9	30,852	36,308
Cash at bank and in hand		2,302	3,453
		<hr/> 33,154	<hr/> 39,761
Creditors: amounts falling due within one year	10	(19,345)	(20,266)
<b>Net current assets</b>		<hr/> 13,809	<hr/> 19,495
<b>Total assets less current liabilities</b>		17,950	23,194
Creditors: amounts falling due after more than one year	11	(4,682)	(8,014)
<b>Net assets</b>		<hr/> <hr/> 13,268	<hr/> <hr/> 15,180
<b>Capital and reserves</b>			
Called up share capital	13	188	188
Profit and loss account		12,924	14,913
Foreign Currency Translation Reserve		156	79
<b>Shareholders' funds</b>	14	<hr/> <hr/> 13,268	<hr/> <hr/> 15,180

The notes on pages 17 to 31 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 17 April 2020 and were signed on its behalf by:

  
Bradley P. Bauer  
CEO & Director

Company number 05174658

## Company Balance Sheet

at 31 December 2019

	Note	2019 £'000	2018 £'000
<b>Fixed assets</b>			
Tangible assets	8	3,868	3,514
Investments	3	13	13
<b>Current assets</b>			
Debtors (including amounts falling due after more than one year: £7,919k (2018: £14,609k))	9	30,475	36,227
Cash at bank and in hand		2,128	3,139
		<u>32,603</u>	<u>39,366</u>
Creditors: amounts falling due within one year	10	(19,341)	(20,814)
<b>Net current assets</b>		<u>13,262</u>	<u>18,552</u>
<b>Total assets less current liabilities</b>		17,143	22,079
Creditors: amounts falling due after more than one year	11	(4,428)	(7,815)
<b>Net assets</b>		<u>12,715</u>	<u>14,264</u>
<b>Capital and reserves</b>			
Called up share capital	13	188	188
Profit and loss account		12,527	14,076
<b>Shareholders' funds</b>	14	<u>12,715</u>	<u>14,264</u>

The notes on pages 17 to 31 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 17 April 2020 and were signed on its behalf by:



Bradley P. Bauer  
CEO & Director

Company number 05174658

**Consolidated Statement of Changes in Equity**

**For year ended 31 December 2019**

	Called up Share capital	Profit and loss account	Foreign currency translation reserve	Total equity
	£000	£000	£000	£000
Balance at 1 January 2019	188	14,913	79	15,180
Profit	-	1,011	-	1,011
Dividends distribution	-	(3,000)	-	(3,000)
Other comprehensive income	-	-	77	77
	-	(1,989)	77	(1,912)
<b>Balance at 31 December 2019</b>	<b>188</b>	<b>12,924</b>	<b>156</b>	<b>13,268</b>

	Called up Share capital	Profit and loss account	Foreign currency translation reserve	Total equity
	£000	£000	£000	£000
Balance at 1 January 2018	188	13,062	78	13,328
Profit	-	1,851	-	1,851
Dividends distribution	-	-	-	-
Other comprehensive income	-	-	1	1
	-	1,851	1	1,852
<b>Balance at 31 December 2018</b>	<b>188</b>	<b>14,913</b>	<b>79</b>	<b>15,180</b>

**Company Statement of Changes in Equity  
For year ended 31 December 2019**

	Called up Share capital £000	Profit and loss account £000	Total equity £000
Balance at 1 January 2019	188	14,076	14,264
Profit	-	1,451	1,451
Dividends distribution	-	(3,000)	(3,000)
Other comprehensive income	-	-	-
	-	(1,549)	(1,549)
<b>Balance at 31 December 2019</b>	<b>188</b>	<b>12,527</b>	<b>12,715</b>
	Called up Share capital £000	Profit and loss account £000	Total equity £000
Balance at 1 January 2018	188	12,428	12,616
Profit	-	1,648	1,648
Dividends distribution	-	-	-
Other comprehensive income	-	-	-
	-	1,648	1,648
<b>Balance at 31 December 2018</b>	<b>188</b>	<b>14,076</b>	<b>14,264</b>

**Consolidated Cash flow statement**  
*for year ended 31 December 2019*

	<i>Notes</i>	2019 £'000	2018 £'000
<b>Cash flows from operation activities</b>			
Operating profit for the year		1,300	2,521
<i>Adjustments for:</i>			
Interest receivable and similar income	<i>17</i>	7	5
Foreign exchange differences		77	1
Depreciation charges		586	170
Loss on disposal of tangible fixed assets		85	-
Decrease in debtors		5,644	2,374
(Decrease) in creditors		(3,882)	(337)
Taxation		(854)	(1,261)
<b>Net cash from operating activities</b>		<b>2,963</b>	<b>3,473</b>
<b>Cash flow from investing activities</b>			
Acquisition of tangible fixed assets	<i>17</i>	(1,114)	(3,426)
<b>Net cash from investing activities</b>		<b>(1,114)</b>	<b>(3,426)</b>
<b>Cash flow from financing activities</b>			
Dividend paid	<i>17</i>	(3,000)	-
<b>Net cash from financing activities</b>		<b>(3,000)</b>	<b>-</b>
Net (decrease)/increase in cash and cash equivalents		(1,151)	47
Cash and cash equivalents at 1 January		3,453	3,406
Cash and cash equivalent at 31 December	<i>18</i>	<b>2,302</b>	<b>3,453</b>

The notes on pages 17 to 31 form an integral part of these financial statements.

## Notes

*(forming part of the financial statements)*

### 1 Accounting policies

Värde Partners Europe Limited (the "Company") is a company limited by shares, incorporated and domiciled in the UK.

These Group and parent company financial statements were prepared in accordance with Financial Reporting Standard 102 *The Financial Reporting Standard* applicable in the UK and Republic of Ireland ("*FRS 102*") as issued in August 2014. The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000.

The parent company is included in the consolidated financial statements, and is considered to be a qualifying entity under FRS 102 paragraphs 1.8 to 1.12. The following exemptions available under FRS 102 in respect of certain disclosures for the parent company financial statements have been applied:

- The reconciliation of the number of shares outstanding from the beginning to the end of the period has not been included a second time;
- No separate parent company Cash Flow Statement with related notes is included; and
- Key Management Personnel compensation has not been included a second time.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

#### 1.1 Measurement convention

The financial statements are prepared on the historical cost basis.

#### 1.2 Going concern

The consolidated financial statements have been prepared on a going concern basis. Having reviewed the financial projections of the Group, the Directors consider it has sufficient cash resources to meet its financial obligations for a period of at least 12 months from the date of approval of these consolidated financial statements. The Directors also considered the position of the Group's ultimate parent, VMLP, as, in addition to being the ultimate owner of the Group, it is also its primary source of revenue. The key consideration was various stress scenarios on VMLP's financial projections (including those potentially arising from COVID-19) to assess the impact on profitability, cash flows and the balance sheet. Considering the results of this stress testing, the Directors are not aware of any material uncertainties that may cast significant doubt upon the Group and Company's ability to continue as a going concern. Therefore, the financial statements continued to be prepared on the going concern basis.

#### 1.3 Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings made up to 31 December 2019. A subsidiary is an entity that is controlled by the parent. The results of subsidiary undertakings are included in the consolidated profit and loss account from the date that control commences until the date that control ceases. Control is established when the Company has the power to govern the operating and financial policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable.

Under Section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account.

In the parent financial statements, investment in subsidiary is carried at historical cost.

## Notes (continued)

### 1 Accounting policies (continued)

#### 1.4 Foreign currency

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Assets and liabilities of overseas subsidiary undertakings are translated into sterling at the closing rates on the balance sheet date. The trading results of overseas subsidiary are translated into sterling at the average exchange rate ruling during the period, with the adjustment between average rates and the rates ruling at the balance sheet date being taken to reserves. The exchange difference arising on the retranslation of opening net assets of overseas subsidiary is taken directly to reserves. All other exchange differences are taken to the profit and loss account.

#### 1.5 Basic financial instruments

##### Trade and other debtors / creditors

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument.

##### Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

#### 1.6 Tangible fixed assets

##### Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation.

Leases in which the entity assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. All other leases are classified as operating leases. Leased assets acquired by way of finance lease are stated on initial recognition at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, including any incremental costs directly attributable to negotiating and arranging the lease. At initial recognition a finance lease liability is recognised equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments. The present value of the minimum lease payments is calculated using the interest rate implicit in the lease.

The company assesses at each reporting date whether tangible fixed assets (including those leased under a finance lease) are impaired.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. The estimated useful lives are as follows:

- Computer Equipment 3 years
- Furniture and Fixture 5 years
- Leasehold Improvement term of the lease

## Notes (continued)

### 1 Accounting policies (continued)

#### 1.7 Employee benefits

##### *Post-retirement benefits*

The Company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The amount charged to the profit and loss account represents the contributions paid to the scheme in respect of the accounting period.

##### *Deferred Compensation Plan*

The Company along with its ultimate parent, VMLP operates Deferred Compensation Plans, (i) Deferred Bonus and (ii) Phantom Carried Interest.

- (i) The Deferred Bonus operates by deferring a percentage of individual employee's bonus in excess of a floor amount which is then paid in future periods.
- (ii) The Phantom Carried Interest Plan (the Phantom Plan) grants certain employees an opportunity to participate in the investments' performance of individual Värde Funds managed by VMLP.

Employees participating in the Phantom Plan are awarded a phantom allocation of the carried interest received by the general partner of the specific Värde Fund. The phantom allocation entitles the employee to receive an amount of cash from the Company generally equal to the amount of carried interest they would have received if they held the same percentage points of carried interest in the general partner of the specific Värde Fund. Employees are not entitled to receive payments under the scheme until the fund distributes the carried interest in cash, the timing of which is uncertain as at 31 December 2019. Amounts are subject to forfeiture in the event an employee terminates employment prior to the payment date. In case of forfeiture, no payment will be made and the total liability will be re-estimated with any adjustment recognised in profit or loss. As such, the Board's best estimate has been utilised in preparing the financial statements.

Deferred Bonus liabilities are recognised in full in the year it is awarded. Phantom Carry liabilities are amortised based on the expected life of the Phantom Plan.

#### 1.8 Provisions

A provision is recognised in the balance sheet when the entity has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recognised at the best estimate of the amount required to settle the obligation at the reporting date.

#### 1.9 Turnover

Income is derived from the Group's activities as an Investment Advisor and is recognised on an accruals basis exclusive of value added tax.

#### 1.10 Expenses

##### *Operating lease*

Operating lease rentals are charged to the profit and loss account on a straight line basis inclusive of non-refundable deposit of the period of the lease. Any refundable deposits are held on the balance sheet until the end of the contract.

##### *Interest receivable*

Other interest receivable and similar income include interest receivable on funds invested and net foreign exchange gains.

Interest income is recognised in profit or loss as they accrue, using the effective interest method. Dividend income is recognised in the profit and loss account on the date the entity's right to receive payments is established. Foreign currency gains and losses are reported on a net basis.

## Notes (continued)

### 1 Accounting policies (continued)

#### 1.11 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. The following timing differences are not provided for: differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met; and differences relating to investments in subsidiaries, to the extent that it is not probable that they will reverse in the foreseeable future and the reporting entity is able to control the reversal of the timing difference. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is provided in respect of the additional tax that will be paid or not on differences between the amount at which an asset (other than goodwill) or liability is recognised in a business combination and the corresponding amount that can be deducted or assessed for tax. Goodwill is adjusted by the amount of such deferred tax.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

### 2 Accounting estimates and judgements

The preparation of the financial statements requires the Directors to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and assumptions are reviewed on an ongoing basis with any revisions to accounting estimates recognised in the period in which the estimate is revised and in any future periods affected. The judgements and assumptions that are most important to the Group are those related to the Group's long term incentives.

#### Long term incentives

The key assumptions within the Group's long term incentives are employee behaviour and the estimated value when the award will vest. As at 31 December 2019, changing these assumptions would have the following impact:

- A relative increase of 10% in the number of awards expected to vest (i.e. employee behaviour) would have an impact of £364,000 on the recognised liability of phantom carry; and
- A 10% change in the award level would have an impact of £603,000 on the recognised liability of deferred bonus and phantom carry.

**Notes (continued)**

**3. Investments**

*Acquisition and Disposals*

*Cost or valuation*

Acquisition on 27th March 2014	2,575
Acquisition on 5 February 2016	7,572
Acquisition on 19 September 2017	<u>2,401</u>

*Net book value:*

At 31 December 2019	<u>12,548</u>
At 31 December 2018	<u>12,548</u>

Subsidiary undertakings

The following are subsidiary undertakings of the company:

Name	Registered Office	Class of Shares	Holdings
Varde Partners Iberia SLU	Calle Serrano 49, Planta 2, Madrid, Spain	Ordinary	100%
Varde Partners Italy S.R.L	Via Manzoni 41, Milano, Italy	Ordinary	100%
Varde Partners Hellas EPE	62 Kifissias Avenue, Maroussi, Greece	Ordinary	90%

Varde Partners Iberia SLU was incorporated in January 2014. Varde Partners Italy S.R.L was incorporated in February 2016. Varde Partners Hellas EPE was incorporated in September 2017. The principal activity of these entities is the provision of transaction support services to VPE.

**4. Profit on ordinary activities before taxation - Group**

	2019 £'000	2018 £'000
Profit on ordinary activities before taxation is stated after charging:		
Auditor's remuneration (excluding VAT):		
Audit of the financial statements	47	46
Audit-related assurance services	11	10
Taxation compliance service	20	10
Other tax advisory services	5	3
Depreciation of tangible fixed assets:		
Owned	586	170
Loss on disposal of fixed assets	85	-
Net foreign exchange (gain) / loss	(48)	(14)
Hire of plant and machinery - rentals payable under operating leases (excl. VAT)	33	7
Hire of land and buildings - operating leases (excl. VAT)	2,113	2,247

Notes (continued)

5. Staff number and costs - Group

The average number of persons employed by the Group (including Directors) during the year, analysed by category, was as follows:

	Number of employees	Number of employees
	2019	2018
Business professionals	67	67
Administration	11	10
	<u>78</u>	<u>77</u>

The aggregate payroll costs of these persons were as follows:

	2019	2018
	£'000	£'000
Salaries	23,200	21,309
Social Security	6,969	6,708
Health and life cover, housing and other benefits	743	845
Pension costs	471	444
	<u>31,383</u>	<u>29,306</u>

6. Directors' Remuneration

	2019	2018
	£'000	£'000
Directors' remuneration	3,004	3,980
Company contributions to money purchase pension plans	-	7
	<u>3,004</u>	<u>3,987</u>

No directors are remunerated by the Company. A recharge is made by VMLP to the Company for the salary and benefit costs of both directors, which are included in the above. The salary and benefits of the highest paid director by the Company during the year totalled £2,796,533 (2018: £3,446,015). No directors were part of the pension scheme (2018:1).

The key management personnel ('KMP') of the Company are considered to be the Board of Directors. As a result, the above disclosure is also for the KMP.

Notes (continued)

7. Taxation

Analysis of change in year:	2019	2018
	£'000	£'000
UK corporation tax:		
Current tax on income for the year	(347)	537
Adjustments in respect of prior periods	(537)	(62)
Foreign tax payable	73	70
	<u>(811)</u>	<u>545</u>
<i>Deferred tax</i>		
Origination/reversal of timing differences	1,107	130
	<u>1,107</u>	<u>130</u>
	<u>296</u>	<u>675</u>
Tax on profit on ordinary activities		

*Factors affecting the tax charge for the current year*

The current tax charge for the year is the same as the standard rate of corporation tax in the UK (19%). The differences are explained below:

	2019	2018
	£'000	£'000
<i>Tax reconciliation</i>		
Profit on ordinary activities before tax	1,307	2,526
Current tax at 19% (2018: 19%)	248	480
<i>Effects of:</i>		
Expenses not deductible for tax purpose	53	37
Adjustments in respect of prior periods	45	132
Tax rate changes	(88)	8
Foreign tax expense relief	(35)	(52)
Foreign tax payable	73	70
Total (UK and foreign) tax charge (see above)	<u>296</u>	<u>675</u>

Notes (continued)

8. Tangible fixed assets

Group

	Computer Equipment	Furniture and Fixtures	Leasehold Improvements	Total
	£'000	£'000	£'000	£'000
<b>Cost</b>				
As at 1 January 2019	632	536	3,918	5,086
Additions	130	525	459	1,114
Disposals	(19)	(244)	(702)	(965)
As at 31 December 2019	743	817	3,675	5,235
<b>Depreciation</b>				
As at 1 January 2019	442	297	648	1,387
Charge for year	83	131	372	586
Disposals	(19)	(206)	(654)	(879)
As at 31 December 2019	506	222	366	1,094
<b>Net book value</b>				
As at 31 December 2019	237	595	3,309	4,141
As at 31 December 2018	190	239	3,270	3,699
<b>Company</b>				
	Computer Equipment	Furniture and Fixtures	Leasehold Improvements	Total
	£'000	£'000	£'000	£'000
<b>Cost</b>				
As at 1 January 2019	528	430	3,888	4,846
Additions	121	513	344	978
Disposals	(13)	(248)	(696)	(957)
As at 31 December 2019	636	695	3,536	4,867
<b>Depreciation</b>				
As at 1 January 2019	408	280	644	1,332
Charge for year	65	120	352	537
Disposals	(13)	(208)	(649)	(870)
As at 31 December 2019	460	192	347	999
<b>Net book value</b>				
As at 31 December 2019	176	503	3,189	3,868
As at 31 December 2018	120	150	3,244	3,514

Notes (continued)

9. Debtors

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Debtors: amounts receivable within one year				
Amounts owed by group undertakings	20,519	20,117	20,550	20,413
Account receivable other	219	159	219	159
VAT debtor	231	327	141	264
Corporation tax debtor	937		950	
Prepayments and accrued income	715	794	696	782
	<u>22,620</u>	<u>21,397</u>	<u>22,556</u>	<u>21,618</u>
Debtors: amounts receivable after more one year				
Amounts owed by group undertakings	4,682	10,327	4,428	10,081
Other debtors (rent deposits)	2,571	2,856	2,524	2,800
Deferred tax asset	979	1,728	967	1,728
	<u>8,232</u>	<u>14,911</u>	<u>7,919</u>	<u>14,609</u>
Debtors	<u>30,852</u>	<u>36,308</u>	<u>30,475</u>	<u>36,227</u>

10. Creditors

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Creditors: amounts payable within one year				
Other creditors including taxation and social security	3,246	4,415	2,989	3,970
Amounts due from group undertakings	347	-	2,261	2,398
Trade creditors	655	1,804	614	1,754
Accruals and deferred income	15,097	13,660	13,477	12,305
Corporation tax payable	-	387	-	387
	<u>19,345</u>	<u>20,266</u>	<u>19,341</u>	<u>20,814</u>

Notes (continued)

11. Creditors: amounts falling due after one year

<b>Group</b>	<b>2019</b>	<b>2018</b>
	<b>£'000</b>	<b>£'000</b>
Deferred Compensation Plans	4,682	8,014
	<u>4,682</u>	<u>8,014</u>
<b>Company</b>	<b>2019</b>	<b>2018</b>
	<b>£'000</b>	<b>£'000</b>
Deferred Compensation Plans	4,428	7,815
	<u>4,428</u>	<u>7,815</u>

The carrying value of the Phantom Carry liability was £2,394k in 2019 (2018: £6,419k) for the group. In 2019, the Phantom Carry liability was valued using an Income approach and utilising a Geometric Brownian simulation technique. The value of liability without any simulation or geometric Brownian adjustments would have been £4,369k. In the prior year, the Phantom Carry liability was valued using a discounted cash flow approach. The value of liability without discounting for the time value of money would have been £9,976k. Due to the change in valuation method in 2019, comparison of year end liabilities is not applicable year on year.

12. Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

Group and Company	Assets		Liabilities		Net	
	2019	2018	2019	2018	2019	2018
	£000	£000	£000	£000	£000	£000
Accelerated capital allowances			(225)	(68)	(225)	(68)
Trading losses	845				845	
Employee benefits	346	1,796			346	1,796
Tax assets	1,192	1,796			1,192	1,796
Net of tax liabilities/(assets)			(225)	(68)	(225)	(68)
Net tax assets	<u>1,192</u>	<u>1,796</u>	<u>(225)</u>	<u>(68)</u>	<u>967</u>	<u>1,728</u>

The expected net reversal of deferred tax assets and liabilities expected to occur in the next reporting period is £283,000. This is due to the expected payment of deferred bonus and the reversal of the benefit of accelerated capital allowances.

In March 2020 it was announced that the previously enacted decrease in the corporation tax rate from 19% to 17% from 1 April 2020 will not happen. The impact to VPE of the deferred tax unwinding at 19% and not 17% would be approximately £113,000.

13. Called up share capital

	<b>2019</b>	<b>2018</b>
	<b>£'000</b>	<b>£'000</b>
<i>Allotted, called up and fully paid</i>		
Equity: 188,004 Ordinary shares of £1 each	188	188
	<u>188</u>	<u>188</u>

Notes (continued)

14. Reserves

Movement for the year	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
At 1 January 2019	15,180	13,328	14,264	12,616
Profit for the year	1,011	1,851	1,451	1,648
Other movements	77	1	-	-
Dividends distribution	(3,000)	-	(3,000)	-
At 31 December 2019	<u>13,268</u>	<u>15,180</u>	<u>12,715</u>	<u>14,264</u>

15. Pension scheme (Company only)

The Company contributes to a defined contribution pension scheme. The pension cost charge for the year represents contribution payable by the Company to the scheme and amounted to £470,710 (2018: £443,647).

No contributions were outstanding at the end of the financial year.

Notes (continued)

16. Commitments

Group

Non-cancellable operating leases are payable as follows:

	2019		2018	
	Land and buildings	Other	Land and buildings	Other
	£'000	£'000	£'000	£'000
Operating leases which expire:				
Within one year	1,351	29	1,810	4
Between two and five years	7,576	29	6,590	-
More than five years	6,420	-	6,585	-
	<u>15,347</u>	<u>58</u>	<u>14,985</u>	<u>4</u>

Company

Non-cancellable operating lease rentals are payable as follows:

	2019		2018	
	Land and buildings	Other	Land and buildings	Other
	£'000	£'000	£'000	£'000
Operating leases which expire:				
Within one year	1,144	29	1,674	4
Between two and five years	7,236	29	6,337	-
More than five years	6,420	-	6,585	-
	<u>14,800</u>	<u>58</u>	<u>14,596</u>	<u>4</u>

Notes (continued)

17. Analysis of cash flows - Group

	2019 £'000	2018 £'000
<b>Returns on investment and servicing of finance</b>		
Interest received	7	5
	<u>7</u>	<u>5</u>
<b>Capital expenditure and financial investment</b>		
Purchase of tangible fixed assets	(1,114)	(3,426)
	<u>(1,114)</u>	<u>(3,426)</u>
<b>Financing</b>		
Dividends paid	(3,000)	-
	<u>(3,000)</u>	<u>-</u>

18. Analysis of net debt - Group

	At 1 January 2019 £'000	Cash Flow £'000	At 31 December 2019 £'000
Cash at bank	3,453	(1,151)	2,302
Debt due less than one year	-	-	-
Debt due after one year	-	-	-
	<u>3,453</u>	<u>(1,151)</u>	<u>2,302</u>

Notes (continued)

19. Related parties

Transactions with key management personnel

Total compensation of key management personnel is included in note 6.

Group

Related Party Name	Relationship to Company	Nature of Transaction	2019 £'000	2018 £'000
Värde Management, L.P.	100% Equity Ownership	Investment advisory fees	42,299	40,690
Varde Real Estate Advisors Europe (Italy) S.R.L.	Common Control	Shared service income	16	21
Värde Management, L.P.	100% Equity Ownership	Cost recharges	(364)	(1,690)
Varde Real Estate Advisors Europe (Italy) S.R.L.	Common Control	Transaction support and asset management services	(510)	(226)
Varde Real Estate Advisors Europe Limited	Common Control	Shared service income	1	-
Varde Partners Asia pte ltd	Common Control	Secondment fees	234	-
Varde Partners Administration Services Ireland Limited	Common Control	Shared service income	14	-

As at the year end £25,202,000 (2018: £29,630,000) was outstanding from related parties in payment of investment advisory fees and the reimbursement of costs incurred.

Company

Related Party Name	Relationship to Company	Nature of Transaction	2019 £'000	2018 £'000
Värde Management, L.P.	100% Parent	Investment advisory fees	42,299	40,690
Varde Real Estate Advisors Europe (Italy) S.R.L.	Common Control	Shared service income	16	21
Värde Management, L.P.	100% Equity Ownership	Cost recharges	(364)	(1,690)
Värde Partners Iberia SLU	100% Subsidiary	Investment advisory fees	(2,006)	(1,820)
Värde Partners Italy S.R.L.	100% Subsidiary	Investment advisory fees	(1,393)	(822)
Värde Partners Hellas EPE	90% Subsidiary	Investment advisory fees	(85)	(464)
Varde Real Estate Advisors Europe (Italy) S.R.L.	Common Control	Transaction support and asset management services	(510)	(226)
Varde Real Estate Advisors Europe Limited	Common Control	Shared service income	1	-
Varde Partners Asia pte ltd	Common Control	Secondment fees	234	-
Varde Partners Administration Services Ireland Limited	Common Control	Shared service income	14	-

As at the year end £24,873,000 (2018: £29,701,000) was outstanding from Värde Management, L.P. of investment advisory fees and the reimbursement of costs incurred.

As at the year end £1,420,000 (2018: £1,276,000) was outstanding to Värde Partners Iberia SLU for investment advisory recharges and the reimbursement of costs incurred.

As at the year end £683,000 (2018: £621,000) was outstanding to Värde Partners Italy S.R.L. for investment advisory recharges and the reimbursement of costs incurred.

## 19. Related parties (continued)

### *Company (continued)*

As at the year end £nil (2018: £130,000) was outstanding to Värde Partners Hellas EPE for investment advisory recharges and the reimbursement of costs incurred.

As at the year end £322,000 (2018: £154,000) was outstanding to Värde Real Estate Advisors Europe (Italy) Srl for investment advisory recharges and the reimbursement of costs incurred.

As at the year end £2,000 (2018: £nil) was outstanding to Värde Real Estate Advisors Europe Limited for the reimbursement of costs incurred.

As at the year end £233,000 (2018: £nil) was outstanding to Värde Partners Asia pte ltd for the reimbursement of costs incurred.

As at the year end £13,000 (2018: £nil) was outstanding to Värde Partners Administration Services Ireland Limited for the reimbursement of costs incurred.

## 20. Ultimate parent company

Värde Partners Europe Limited's immediate parent is VPE BL LLC and its ultimate parent is Värde Management, L.P. incorporated in Delaware, USA.

The consolidated financial statements of this company are not available to the public.

## 21. Subsequent events

The spread of coronavirus COVID-19 to the UK was confirmed in early 2020 and is causing disruption to businesses and economic activity. The Company considers this outbreak to be a non-adjusting post balance sheet event. As the situation is rapidly evolving, it is not considered practicable to provide a quantitative estimate of the potential impacts.