AXIOM
ALTERNATIVE INVESTMENTS

Axiom European Financial Debt Fund Limited

(Registered number 61003)

Annual Report and Financial Statements
for the year ended 31 December 2022

CONTENTS

HIGHLIGHTS[1]

	31 December 2022	31 December 2021
Published net assets	£84,901,000	£96,585,000
Published NAV per Ordinary Share[1]	92.43p	105.15p
Share price	84.00p	95.50p
Discount to Published NAV	(9.12)%	(9.18)%
(Loss)/profit for the year	£(6,172,000)	£14,746,000
Dividend per share declared in respect of the year	6.00p	6.00p
Total (loss)/return per Ordinary Share (based on the Published NAV)	(6.39)%	16.88%
Total (loss)/return per Ordinary Share (based on share price)	(5.76)%	15.34%
Ordinary Shares in issue at year end	91,852,904	91,852,904

[1] These are Alternative Performance Measures. Please see note 22 for a reconciliation of the NAV per Ordinary Share of 92.76p (2021: 105.48p) to the Published NAV per Ordinary Share of 92.43p (2021: 105.15p).

www.axiom-ai.com/web/en/axiom-european-financial-debt-fund-limited-2/

An authorised closed-ended investment company, incorporated under the Companies (Guernsey) Law, 2008.

REGISTERED IN GUERNSEY No. 61003

OVERVIEW AND INVESTMENT STRATEGY

General information
The Company is an authorised closed-ended Guernsey investment company with registered number 61003. Its Ordinary Shares were admitted to the premium listing segment of the FCA's Official List and to trading on the Premium Segment on 15 October 2018. Prior to this, the Ordinary Shares traded on the SFS.

Proposals for the liquidation of the Company
The Board will shortly put forward proposals for the liquidation of the Company, including the ability for Shareholders to receive shares, in respect of their holdings of the Company's Ordinary Shares, in a new open-ended fund managed by the same management team and with a similar investment mandate to the Company. The Board believes that these proposals will provide continuity for those Shareholders in terms of exposure to a strategy similar to the one currently pursued by the Company and under the same management team. The New Fund, AUFC, which will be a new Compartment of Axiom Lux SICAV, an established Luxembourg SICAV that is registered as a UCITS with the Luxembourg financial regulator, the Commission de Surveillance du Secteur Financier, will be open-ended with daily liquidity. The proposals will also include a mechanism for those Shareholders who do not wish to continue their investment to achieve a cash exit.

Further details of the Proposals for the implementation of the Scheme will be described in the Circular, which, when finalised, will be made available on the Company's section of the Investment Manager's website (https://axiom-ai.com/web/en/axiom-european-financial-debt-fund-limited-2/).

Investment objective
The investment objective of the Company is to provide Shareholders with an attractive return, while limiting downside risk, through investment in the following financial institution investment instruments:

- Regulatory capital instruments, being financial instruments issued by a European financial institution which constitute regulatory capital for the purposes of Basel I, Basel II or Basel III or Solvency I or Solvency II;
- Other financial institution investment instruments, being financial instruments issued by a European financial institution, including without limitation senior debt, which do not constitute regulatory capital instruments; and
- Derivative instruments, being CDOs, securitisations or derivatives, whether funded or unfunded, linked or referenced to regulatory capital instruments or other financial institution investment instruments.

Investment policy
The Company seeks to invest in a diversified portfolio of financial institution investment instruments. The Company focuses primarily on investing in the secondary market, although instruments have been subscribed in the primary market where the Investment Manager, Axiom AI, identifies attractive opportunities.

In February 2022, the Directors approved a minor change to the investment policy in respect of hedging and derivatives. The words in brackets were added to the following sentence: "The Company may implement other hedging and derivative strategies designed to protect investment performance against material movements in (but not limited to) exchange rates and to protect against credit risk".

The Company invests its assets with the aim of spreading investment risk.

For a more detailed description of the investment policy, please see the Company's Prospectus, which is available on the Company's section of the Investment Manager's website (http://www.axiom-ai.com/web/data/prospectus/ENG/AEFD-prospectus-UK.pdf).

CHAIRMAN'S STATEMENT

The Company's portfolio generated a positive NAV return per share (based on the Published NAV) including dividends and net of all expenses of 0.77% over the second half of the year, partly clawing back the first half deficit to give a net negative result of 6.39% for 2022 as a whole (2021: +16.88%).

When I wrote to you with our 2022 Half Year results in August, I noted that the Company's returns in the first half of the year had been line with what one would expect at that point in the interest cycle, that is when interest rates begin to rise. The normalisation of interest rates after the decade-plus long period of extremely low interest rates post the Global Financial Crisis of 2008 has continued apace to the point where we and the wider markets can now anticipate the imminent ending of that process even if we cannot be definitive as to exactly when or at what level. Further, different countries and blocs with their own currencies will reach their individual equilibrium points at different times. The nature of markets is to anticipate the future and the various markets in bonds are no exception and therefore, in general, have now adjusted to the new normal levels of yield and the pattern of positive returns largely from coupon payments is beginning to reassert itself. For a strategy such as ours, the added value from active portfolio management is also coming to the fore again as markets stabilised in the final quarter of 2022.

Further details on the development of key market events and activity in the portfolio are given in the Investment Manager's Report, beginning on page 5.

Up to the end of 2021, our three-year NAV return was +39.09% or +11.63% p.a. The negative result for 2022 has consequently brought the four-year figures to +30.9% and +6.96% p.a. While this is behind our long-term target of +10% p.a., net of operating expenses, it is a creditable result in the context of including a period of sharply rising short-term rates and long-term yields.

In aggregate, the Company reported a net loss for the year ended 31 December 2022 of £6.17 million (2021: profit of £14.75 million), representing a loss per Ordinary Share of 6.72p (2021: earnings of 16.05p) and the Company's NAV at 31 December 2022 was £85.20 million (92.76p per Ordinary Share) (2021: £96.88 million, 105.48p per Ordinary Share). Over the full year, the share price discount to NAV remained broadly steady at 9.12% at the end of 2022 (2021: 9.18%).

Dividends

As in prior years, the Company declared four dividends each of 1.50p per Ordinary Share in relation to the year: one was declared after the balance sheet date and was paid on 24 February 2023 to Shareholders on the register at 3 February 2023. During the period, actual payments of 6.00p were made, being the May, August and November dividends of 1.50p each and the 1.50p dividend in respect of the period ended 31 December 2021, which was paid on 25 February 2022.

Proposals for the future of the Company

When I wrote to you with our Half Year results in August 2022, I reported that the conclusion of our consultation with Shareholders was that while many larger Shareholders wished to remain invested in an evolved strategy reflecting the changing opportunity set since the launch of the Company, they would prefer to do so through an open-ended structure rather than a closed-ended investment company. The Board's conclusion remains that there is insufficient remaining investor demand for such a strategy expressed in the form of a closed-ended listed vehicle such as the Company.

Our advisers are currently working on proposals anticipated to be published shortly and put to Shareholders at a general meeting. In broad terms, these are designed to give those who wish to continue in the evolved strategy the opportunity to do so via an open-ended vehicle and those who do not, a cash exit. The existing Company will consequently be liquidated.

CHAIRMAN'S STATEMENT *(continued)*

Outlook

The outlook for our strategy is positive. Rising interest rates are in general good for banks, enabling wider spreads between lending and deposit rates and we have seen robust performances from banks as they have reported their results. Returns on equity have been strong, interest margins widened, and non-performing loans have remained at low levels.

The background to our principal industry sector as a whole therefore remains positive.

Of course, what is true for the industry in general is not necessarily true for all participants and sharply rising interest rates have exposed weaknesses at some institutions while others have exhibited their own idiosyncrasies, provoking a nervous depositor base to withdraw funds in classic bank runs and we have seen several high-profile examples in recent weeks, including one in our own universe of European banks, Credit Suisse. Although Credit Suisse was one of our panel of prime brokers, we had no counterparty exposure outstanding at the year-end nor any subsequently and in any event no customer has suffered losses as a result of its near-collapse. The same cannot be said for the AT1 bonds of Credit Suisse which have been wiped out by regulatory fiat as part of the transaction which has reportedly placed a $3.25 billion value on the Credit Suisse equity. This appears to a very strange decision in that it reverses the established order of insolvency whereby ordinary shareholders bear the first tranche of losses. This may yet have unintended consequences and set a dangerous precedent. As at the time of writing, the market is still digesting this news. Non-Swiss regulators, being the Single Resolution Board, the European Banking Authority, ECB Banking Supervision and the Bank of England have moved swiftly to give clarity to the markets that they will continue to follow the established hierarchy of capital instruments and the absorption of losses in a resolution or insolvency intervention.

We had a small exposure of approximately 1% of NAV at the year end to Credit Suisse AT1 bonds. While we have suffered a loss of that capital, it is to be expected from time to time that such things will happen even in carefully-managed portfolios.

Inflation is still elevated but appears to have reached a steady level and may soon fall back quite sharply as the pre-Ukrainian war price index levels drop out of the trailing 12-month comparison. The immediate danger to that trajectory is the extent to which this past consumer price inflation becomes baked into future inflation through significant current wage settlements, understandable as those are given the margin by which inflation has outstripped wages over the past year and the consequent erosion of living standards for workers. This may lead to interest rates remaining higher for longer than would otherwise be the case.

We look forward with renewed optimism for opportunities in the market in regulatory capital instruments issued by financial institutions in which we operate and where, through the open-ended rollover option, continuing shareholders can benefit from the application of our Investment Manager's specialist skills to a rich opportunity set which is not easily accessible to more generalist managers.

William Scott
Chairman
21 March 2023

INVESTMENT MANAGER'S REPORT

1. Market developments

January

European banks started the year on a strong footing, with rates repricing higher, economic data coming in better than expected and earnings beating consensus. The SX7R returned 7.37% in January 2022 vs. -3.81% for the SXXR. The yield on 5-year German bunds climbed from -45bps to -20bps while the SubFin moved up 20bps to 125bps. US 10-year Treasuries sold-off with yields reaching 1.80%.

Inflation was becoming increasingly uncomfortable for governments and central banks globally. Commodity markets have not softened, lead times and backlogs were increasing, and service inflation was starting to catch up with goods. On 26 January 2022, Jerome Powell prepared the market for a more hawkish turn. Undeterred by the recent volatility in global markets, he refused to rule out the possibility of raising rates by 50bps at once or hiking at consecutive meetings. In Europe, January inflation readings came much higher than expected, more than offsetting base effects. As interest rates of -50bps in the Euro area were evidently not consistent with 5% inflation and unemployment at record lows, we expected the ECB to revise its inflation projections upwards and recognise at its March meeting that the conditions of the froward guidance were met.

In Italy, the re-election of President Mattarella was taken positively by risk assets. Mario Draghi would be able to continue his work on the allocation of pandemic funds and structural reforms. Though non-establishment parties were leading in the polls, political volatility was expected to be pushed back to 2023. In the meantime, the flexibility of PEPP reinvestments was expected to provide a put for periphery spreads. In international news, the fluid situation at the Ukrainian borders and raising concerns about Taiwan were sources of spikes in volatility.

On the M&A front, Société Générale announced the acquisition of LeasePlan for EUR5 billion. The deal would create a dominant player in the auto leasing business in Europe. Though the price tag was slightly higher than expected, the capital impact was relatively limited for Société Générale and cost synergies could surprise positively.

The start of the earnings season was encouraging. Deutsche Bank reported results 10% ahead of consensus and announced a buyback, which was not widely expected and was interpreted as a sign of the ECB's satisfaction with Deutsche's turn-around plan execution. UBS beat expectations by 13% and unveiled a strategy plan focused on capital return commitments and operating jaws. Sabadell and Bankinter also surprised positively.

February

The war in Ukraine drove risk assets lower in February 2022. The SubFin widened by 35bps to 152bps over the month. As of 4 March 2022, the SX7R suffered a 28% drawdown from its February 2022 peak. The loss was especially acute for banks deemed to be more sensitive to Russia: RBI lost 55% of its market value, while Société Générale, Erste Bank and UniCredit posted losses close to 40%. This was quite a significant move: in a typical recession (the Tech bubble, the 2011-12 Eurozone crisis or the Covid-19 crisis for instance), bank equities' drawdowns tended to be around 40 to 45%.

Several elements were likely to have contributed to the price action:

i. Direct losses from Russian exposures;

ii. Possible losses stemming from legal uncertainty, settlement risk and unusual price action on Russian markets;

iii. The macroeconomic impact of the war in Ukraine and sanctions against Russia, from growth to inflation and rates; and

iv. Higher risk premia linked to a possible extension of the conflict outside of Russia and Ukraine.

We believe that the fourth factor explained most of the movement while the first and second factors were less significant.

INVESTMENT MANAGER'S REPORT *(continued)*

a. Some early press reports have pointed to frightening possible Russian losses for European banks (as high as EUR100 billion). They ignored the fact that the exposure was largely sitting within local subsidiaries that were bankruptcy remote in the context of banking groups. The maximum total loss for the group would be the equity invested along with potential intra-group debt (which was typically very small). As an example, though Société Générale had a EUR18 billion exposure to Russia, the bulk of it (EUR15 billion) was located in its Russian subsidiary Rosbank. If Rosbank became insolvent or was seized by Russian authorities, Société Générale group would only lose 50bps of CET1 capital. They would still be well above regulatory requirements and their ability to distribute dividends would remain intact. For the sector in general, we would price a total CET1 impact of less than 30bps and a loss of future profits of not much more than 1%.

b. The speed and extent of the sanctions imposed on the Russian financial system was unprecedented. Some banks were cut off from Swift, correspondent relationships were banned, some assets were frozen, transactions with the Central Bank were only authorised if related to energy payments, etc. This created unprecedented price action on Russian markets and significant operational and legal risks for banks. It was impossible to predict the size of the losses that would arise from trapped collateral, settlement or gap risk. As of March 2022, we could only assume that banks would have been limiting leverage on Russian assets and using leading international custodians. The Swift ban was only operational from 26 March 2022, leaving banks time to adapt. Our base case was that we would not see any major impact from this side.

c. The main macroeconomic impact of the war in Ukraine was expected to materialise through commodities and supply chains. There were legitimate fears that higher commodity prices would slow growth. In 2020 and 2021, the EU had annual energy trade deficits of respectively EUR160 billion and EUR275 billion. In 2010-2014, when energy prices were around current levels (Brent at USD120), the deficit was EUR400 billion. A return to these levels would represent a GDP drag of 0.8%. It was worth noting that the majority of gas imports were based on long-term contracts, and that the current gas curve was very backward-dated (2025 gas futures were up less than 20% since the start of 2022). Exports to Russia would also be affected: in 2021, the EU exported circa EUR80 billion of goods and circa EUR20 billion of services to Russia. If those were halved, it would represent an additional 0.3% drag on GDP. Food prices were also going up, but the EU was a net exporter. In total, the annualised GDP impact for the EU was likely to be around 1% with an uncertainty range of 0.7%-1.5%.

   However, there were several mitigants: the conflict was likely to drag on for months, but not years; consensus of real GDP growth for the EU was above 4% for 2022 before the start of the war – growth was still highly likely to be above 2% despite very high energy prices; higher energy prices would be partly subsidised by governments, reducing the impact on purchasing powers for consumers; Germany had fully abandoned its hawkish fiscal stance, reinforcing the fiscal impulse and increasing flexibility for periphery governments; and the EU was more united, paving the way for a closer banking union and more fiscal integration.

   The impact on rates was more subtle. In the immediate future, there would be some delay to the normalisation agenda as central banks waited for clarity on the economic impact of the crisis. But in the medium-term, the sheer pressure of inflationary forces combined with lavish fiscal policies would make rate hikes unavoidable.

d. The first three factors do not explain why bank equities suffered close to two-thirds of their typical recession drawdown. We believed investors feared that the conflict would extend beyond Ukraine and Russia. China could have decided to attack Taiwan. Russia could have decided to go beyond Ukraine; in a worst case scenario, a war between NATO and Russia could be inadvertently triggered. There were also scenarios of possible widespread consequences from damages to key nuclear infrastructure. The unexpected move of Putin pushed "rational" investors to review their working assumption of a mostly stable geopolitical environment. To be clear, we did not think that the conflict would escalate outside of Ukraine. Signs from China were relatively encouraging. However, we believed that the unthinkable would continue to be priced until a resolution of the Ukrainian war was in sight or the geopolitical stage had stabilised.

   We were conscious that the higher risk premia would not dissipate quickly and that the market would need signs of stabilisation. We expected the conflict to drag on for weeks or months and would not be surprised to see Putin move against Transnistria. However we had a strong core bullish bias in the medium-term and could have progressively added risk in March 2022 on strong headline moves.

INVESTMENT MANAGER'S REPORT *(continued)*

March

Risk assets took respite in a fall of implied volatility towards the end of the month as the Ukrainian conflict appeared to stay geographically contained. Russian gas and oil exports were more resilient than expected, which limited the increase in energy prices. High inflation readings fuelled fears that hawkish central banks could trigger a recession in their attempt to slow demand at a time when real incomes were already suffering from elevated imported prices. The SubFin ended the month slightly better by 10bps. The VIX settled 10 points lower at 20. The European bank indices SX7T and SX7R returned respectively -3.01% and -2.11% vs. +1.00% for the SXXR.

The latest EBA risk dashboard highlighted the soundness of the European banking sector. NPLs reached a new low of 2.0% while CET1 remained elevated at an average of 15.4%. ROE stabilised at levels higher than in the pre-pandemic period. Regulators were reassuring about the first-round impact of the Ukrainian conflict, noting that a default of all Russian exposures would not be a capital event for the sector and confirming that dividends and buybacks could be continued. However, they also stressed that second-round effects, such as reduced growth, increased compliance costs and higher risk premia could negatively impact profitability.

Inferring from past recessions, we estimated that a 1-point reduction in the real GDP growth outlook could lower earnings expectations for the banking sector by about as much as 8%, with 5% coming from higher provisions for loan losses, and the rest divided between lower fees and lower loan growth. However, this would be more than compensated by higher interest rates, with the sectors' results sensitivity to a 100bps parallel move being around 25%. In addition, new guaranteed loan programs and increased fiscal spending overall were likely to reduce provisioning needs and provide a boost to loan growth. As such, we found the 13% underperformance of the SX7R versus the broader European market since mid-February 2022 difficult to reconcile with Bund yields climbing from 30bps to 55bps over the period. The consensus of 2022 earnings expectations of sell-side analysts were revised down by only 3% since mid-February, with ROE expectations for the SX7E remaining above 8%, while the sector was trading at only 55% of book value.

We understood the concerns regarding inflation and the future path of real growth. There were downside risks ahead: high energy prices would hurt real income; rich real estate valuations could be tested by rising mortgage rates, resulting in lower perceived wealth and balance sheet quality; and central banks could have been required to tighten aggressively into a recession if inflation did not settle down. However, we believed the balance of risks was to the upside: consumers had barely started to tap into their excess savings; high government spending was still irrigating the European economy and protecting vulnerable businesses; though manufacturing was operating above potential, less energy-intensive services were still operating below potential, offering significant real growth prospects as economies reopened; the labour market was still reasonably elastic, with more people continuing to join the workforce without unsustainable increases in wages; and inflation expectations were not unanchored.

April

April 2022 was another down month for risk assets. Stocks were led lower by the technology sector and cyclicals. The SXXP returned -0.57% while the SX7P and SX7E respectively ended the month at -2.08% and -3.40%. The SubFin widened to 195bps. Amid higher long-term inflation expectations, Germany and US 10-year yields respectively climbed above 0.9% and 2.9%.

In defiance of the prevailing pessimistic mood, European banks had an excellent start to the reporting season. On aggregate, revenues were 7% higher than expected – the strongest positive surprise in years – while earnings were 25% better. On a year-on-year basis, revenues grew by more than 8%. Net interest income was supported by dynamic lending book growth and stable or increasing margins. Costs were in line overall, which came as a relief in the current environment. There was no evidence of deterioration in asset quality: NPLs continued to decrease, and defaults remained significantly below average. Banks nonetheless took precautionary provisions in light of geopolitical and monetary policy risks. Capital ratios took a transitory hit from mark-to-market losses in bonds not accounted at cost.

As analysts revised their expectations for the year upwards, the sector kept trading at depressed levels. The SX7E was valued at 6.7x next year earnings (and 5.9x 2023 earnings), which contrasted with a median level of 9.0x and a maximum of 12x over the last decade. Only twice was the P/E lower: in the middle of the 2011/2012 Eurozone crisis and at the onset of the pandemic. Why the disconnect between fundamentals and valuations?

INVESTMENT MANAGER'S REPORT *(continued)*

Two sets of developments were unsettling markets: on the one hand, higher commodity and supply chain costs were eroding purchasing power and consumer confidence (the Putin and Xi Jinping risk): on the other hand, the risk of a wage-rent-inflation loop could have driven central bankers to slam the brakes on growth by raising rates to contractionary levels (the Bullard and Knot risk).

Though uncertainty was high (the prime example was the possibility of Russia cutting gas supply), our central scenario remained more optimistic versus the consensus: we saw a progressive improvement in commodity and supply conditions as extraction and production capacities were rebuilt; we saw growth in services sustaining employment and spending trends; and we saw central banks not willing to risk a contractionary spiral to fight inflation.

May

Risk appetite was slightly better over the month as investors pondered record inflation against a continued expansion in global demand and hints of easing supply chain pressures. The SubFin index closed the month 5 bps tighter at c.185 bps. Energy and bank stocks outperformed while retailers and media companies underperformed. The SX7R returned +6.54% versus -0.61% for the SXXR.

Eurozone macroeconomic developments pointed to a strengthening in the core inflation momentum:

- Core CPI increased by 0.5% MoM to an all-time high of 3.8% YoY.
- Fiscal packages aimed at protecting discretionary income against energy and food prices are being broadly adopted, fueling demand-pull core inflation.
- Negotiated wages climbed to a 10-year high of 2.8%.
- Growth in bank loans increased to 5.3% YoY (vs. a pre-pandemic 5Y average of c. 2.5%).

Recession risk remained hotly debated amid unusually high demand and supply shocks. Despite the current commodity squeeze, we see two consecutive quarters of negative growth in the Eurozone as unlikely in 2022:

- Higher import prices are financed by fiscal deficits. The Euro area is heading for deficits of 4.6% and 3.1% in 2022 and 2023. The bloc is having a hard time departing from pandemic stimulus: in fact, between 2016 and 2019, the average deficit was below 1%. In contrast, a combined USD125 brent and EUR90/Mwh gas shock represents an estimated 2.2% GDP shock versus pre-pandemic levels (where they were trading closer to USD65 and EUR25/Mwh).
- The reopening effect has not fully played out. May Eurozone activity surveys reported the highest increase in employment over the past decade as well as strong investment trends. The supply side is ramping up productive capacity, feeding a positive loop. Countries with tight labour markets, such as the UK, are much less likely to enjoy the benefits of a rising workforce and therefore the most likely to suffer from stagflation.
- The resolve of the ECB in its fight against inflation is questionable. The shift in rate hikes expectations, though spectacular, has lagged increases in forward inflation markets – and is very far off from changes in realised core inflation. Presently, inflation is liquidating aggregate debt at record pace and Bund 20y/10y real rates are still below -1%. As such, we believe talks of a recession induced by higher rates in the Eurozone to be premature.

That said, headline GDP should matter less than usual for banks. Traditionally, recessions are bad for banks because they are associated with: a. deleveraging; and b. rising defaults due to a negative investment/final demand loop. This is not the current set-up. Loan growth is actually accelerating to a record pace and hiring is strong. In an economy where labour markets are supported by the need to rebuild domestic energy, food and supply chain security, though living standards are likely to fall, defaults may not rise as much as suggested by headline growth.

INVESTMENT MANAGER'S REPORT *(continued)*

The outlook for banks' earnings is encouraging:

- Consensus EPS expectations for 2022 and 2023 for the SX7P are now back at their highest year-to- date, erasing the Ukraine-Russia war losses.
- NII expectations should continue to climb as analysts update their models with the latest rate market levels – at this time, analysts are still lagging the Eurozone rates market by c. 50-75bps.
- Analysts' assumptions for future loan losses are on the conservative side. They are forecast to be above the 2017-2019 average in spite of the Covid-19 precautionary provisions and default trends signalling the opposite so far.
- Nominal cost trends are likely to be slightly worse than expected, though C/I ratios should be better than expected.

On the regulatory front, the Basel Committee is allegedly considering treating the Eurozone as one bloc for the calculation of the GSIB buffers. Though practical implications are limited for now, it is a new step towards more fungibility of capital and liquidity within the area. In other news, the Italian government is working on the renewal of the state guarantees on NPL transactions. The new scheme would provide for a state guarantee of 85-95%, while the senior note minimum rating should be BBB+ (one notch higher).

June

Risk Markets sold-off in June as investors grew increasingly concerned over the risk of central banks tightening in a recession. CDS indices in Europe and the US are starting to price stressed economic conditions, with implied high-yield default rates in the high single digits, well above current trends. The Xover and SubFin indices respectively closed the month around 600 bps (+ c.155 bps) and 250 bps (+c.65 bps). M/m core inflation stabilized at high levels in Europe and the US. The SX7R returned -9.11% vs. -7.09% for the SXXR.

Fundamentals remain solid. Bank lending accelerated to 5.8% in May, up from 5.3% in April and 4.8% in March, as credit demand followed strong nominal GDP. High-yield and leveraged loans annualised default rates were around 75 bps in June, well below their historical average of about 3%. The latest EBA data was also comforting for the banking sector: non-performing and forborne loan ratios reduced further on average to 1.9%.

Supervisors started to adopt a more prudent tone. The SSM asked banks to add a Russian gas embargo stress test in their capital planning, and there is a risk that the ECB may require buybacks to be more spread out over time, rather than smaller. We note that Intesa received ECB approval to carry its share buyback programme at the end of the month.

July

Risk assets rallied in July as company earnings and economic activity surprised to the upside, especially in Europe. The Subfin index tightened by 45 bps to close the month at 204 bps. STOXX Europe companies reported revenues and earnings respectively 4% and 5% higher than expected. Within the European banking sector, revenues were 5% higher and earnings 30% higher. The SX7R ended the month at 1.66% vs. 7.74% for the SXXR.

Bank earnings were boosted by solid growth in lending volumes and expanding margins as higher interest rates started to flow through the P&L. Asset quality was benign as defaults remained low. Costs were broadly in-line, though were guided to creep higher. Commissions were more mixed: transaction and lending commissions were boosted by the pick-up in activity while investment commissions suffered from lower flows and customer engagement. Trading was strong in macro products and equities. Capital markets remained very weak. In aggregate, European banks posted very strong earnings, with a number of banks printing their highest quarterly net income ever.

On the macro front, the ECB enacted the end of the negative interest rates era while introducing a new policy tool designed to contain excessive widening in sovereign spreads. The tool was approved unanimously, has infinite capacity (no limit on the amount of securities purchased) and is only constrained by indicative conditions, giving the ECB unprecedented market and therefore, political power.

A new time-limited banking tax is being discussed in Spain. If voted, it should take away close to 10% of Spanish banks' 2022 and 2023 earnings, assuming extra costs are not passed on to customers. It is not clear yet what the position of regulators will be on this tax, as banks are typically required by the EBA to reflect the cost of taxes in their lending margins. Similar measures are discussed in the Czech Republic.

INVESTMENT MANAGER'S REPORT *(continued)*

August

August was a hectic month for markets as inflation and energy remained at the forefront of investors' concerns. Hawkish central banks sent bonds lower with Bund yields touching 1.54%, 10Y gilts at 2.80% and 10Y USTs at 3.19%. The Subfin and Xover ended the month wider at 240 bps and 588 bps, respectively. Banks outperformed the market, with the SX7R returning -1.1% vs. -5.1% for the SXXR.

Newsflow was dominated by energy supply risks as Russia announced a full stop to NS1. This brings total Russian gas cuts to 80% of pre-invasion flows. Should Russia stop all exports, simulations show that further demand cuts would be necessary in case of a cold winter. The size of household and business support programs announced to date in the EU equals c. 2.5% of GDP (3.5% in Greece, 3% in Italy and 2% in Germany).

Bank analysts continued to restrike their earnings expectations higher as sensitivity to interest rates and strong lending outweighed salary inflation and a more prudent credit losses outlook. Price/book ratios at 0.5x are consistent with an average deflationary recession being priced in. While the typical recession knocks out 40% of bank earnings, our pessimistic scenario only sees a 15% impact with inflation and rates supporting revenues. As such, we believe earnings resilience should provide support at these levels. Q3 results could be a catalyst for a rally should energy concerns not worsen.

On the primary front, August was one of the busiest months in recent memory, with significant new issues volume across the cap structure. Banks are adopting a more economic approach to redemptions. Volksbank Wien announced that it will not exercise the call on its T2 note. This is the second T2 extension this year after Deutsche Pfandbriefbank.

September

September saw FX and interest rate volatility add to already elevated risk premia across European assets. Gilts were especially erratic, with 10Y rates moving by over 100 bps in a single day. The Subfin and the Xover closed the month at 286 bps and 650 bps respectively. The SXXR returned -6.43% versus -4.65% for the SX7R.

The market backdrop remains difficult to navigate as instability in key benchmarks makes a fertile ground for fear mongering, speculative attacks and negative feedback loops. During the UK mini-budget episode, a legitimate initial move in sterling and rates was precipitated by pension funds having to fire-sell their long duration holdings due to the inadequate liquidity of their asset-liability management strategies. Elsewhere, unsubstantiated rumors about Credit Suisse being insolvent triggered a short-lived panic that sent their AT1s 15 points lower and revived fears of a "Lehman moment" in Europe.

Despite all the noise, fundamentals remain bullish for European banks. We expect Q3 and Q4 results to reflect the continued expansion of volumes and margins as well as low and stable default rates. Tighter monetary policy is boosting net interest margins, and ample capital and funding buffers are supporting lending volumes, while strong job markets and accommodative fiscal policies are keeping defaults very low. Market volatility has remained a source of profits for most trading floors.

October

Risk assets rallied in October as central banks were seen to favour smaller interest rate hikes going forward. The Subfin tightened as of 31/1/0/2022 by over 50 bps to close the month at 213 bps. The SX7R returned +8.39% vs. +6.35% for the SXXR.

Economic data painted a picture of soft growth and entrenched inflation. Annualized Q/Q GDP growth for the third quarter came at +2.6% in the US and +0.9% in the EU. Despite poor consumer and business sentiment, job creations remained robust on both sides of the Atlantic. EU October inflation numbers surprised to the upside, due to energy, food and industrial goods. Prices of services showed a notable deceleration.

European bank earnings have been strong with little signs of asset quality deterioration. Future guidance was optimistic, with the exception of UK banks which have pre-emptively built up larger reserves. On aggregate, revenues came up 5% higher than analyst expectations, driven by strong net interest income and trading, while earnings came 20% better. Compared to last year, revenues and earnings were resp. 13% and 20% higher. Banks that showed inferior cost control underperformed.

In other news, the ECB took actions on TLTRO, removing the arbitrage for banks as expected. Remuneration of excess reserves was not mentioned, which is encouraging. Asian markets have seen a plunge in the valuation of AT1s and perpetual insurance securities after the Australian regulator warned against non-economic calls and a South Korean insurer skipped a call.

INVESTMENT MANAGER'S REPORT *(continued)*

November

Risk assets rallied in November as inflation showed signs of easing and the Fed appeared more concerned about the risk of overtightening. The Subfin ended the month 36 bps tighter at 184bps. The SX7R returned 9.14% versus 6.89% for the SXXR.

The macroeconomic outlook remained hotly debated as leading indicators kept sending confusing signals on the strength of nominal demand. On the one hand, rate sensitive sectors are starting to show signs of weakness, with manufacturing surveys, the housing market and layoffs in the technology sector pointing to a recession. On the other hand, continuing wage pressures and labour market strength, along with high cash buffers, allow consumer spending to keep growing in real terms despite rock bottom saving rates. Banks' lending capacity, boosted by public sector guarantees, continues to fuel high credit creation, though at a declining pace. The need to reinvest in supply chains, clean energy and sovereignty is also driving higher capital spending, a feature that is usually not associated with recessions.

In bank specific news, Credit Suisse published another profit warning outlining strong outflows in the Asian wealth management division in October. However, the CEO later explained that outflows started to reverse in November. HM Treasury released the response to its Solvency II consultation, recommending a 65% decrease in the risk margin for life insurers and a 30% reduction for non-life insurance companies, along with a broadening of the eligible asset universe for the Matching Adjustment mechanism. AIB disclosed improved medium-term targets for 2024 – RoTE >13%, CET1 >13.5% and a c. 50% cost income ratio.

In credit, BCP was the latest issuer to decide not to call its T2 notes; however, the bank offered an exchange of the old bond into a new T2 (similar transactions were proposed by Banca Ifis and Shawbrook recently). Nationwide indicated its intention to carry CCDS buybacks.

December

Banks outperformed the market in December as economic data surprised to the upside while central banks guided to more rate hikes than anticipated. The SX7R returned +0.08% vs -3.38% for the SXXR. The Subfin closed 10 basis points tighter at 174 bps. Rates sold off vigorously, with Bunds and 10Y Treasuries ending the month at 2.55% and 3.87%, respectively.

The ECB raised rates 50 bps as expected and set initial parameters for QT with reinvestments to fall by €15bn per month from March 2023. Mrs. Lagarde shocked the market by explicitly committing to further 50 bps rate hikes. As a result, the implied peak rate climbed from 3% to 3.5%. In his press conference, Chairman Powell focused on the labour market, emphasizing the high number of vacancies and strong wage pressures. The final surprise came from the BoJ, which raised its Yield Curve Control cap on 10Y JGBs from +25bps to +50bps.

Monetary data pointed to slowing but still dynamic bank lending in the Euro area. Credit growth to non-financials corporations remained strong at 8.4% YoY, slightly lower than the 8.9% in the previous two months. Among the major countries, Ireland, Greece, Germany, Austria and Finland all saw double digit growth rates. For households, the growth was little changed at 4.1% from 4.2% in October. Month-on-month, total customer deposits were unchanged (higher term deposits offsetting lower sight deposits) while loan volumes were slightly up.

On the regulatory front, the UK is preparing a review of the ring fencing rules as a post-Brexit plan to reduce the burden on smaller lenders. The EBA published the results of its Risk Assessment Report: it noted elevated but declining levels of capital and liquidity, improving profitability and low NPL ratios. It warned against potential IT risks and highlighted the rising level of Stage 2 assets.

In bank specific news, HSBC announced that it had agreed to sell its Canadian business to RBC for a cash consideration of CAD 13.5bn (an impressive price of 2.5x P/B). The bank said it expected to distribute most of the surplus generated through exceptional dividends or buybacks but would also consider organic growth and investment opportunities. Moody's upgraded the Co-operative Bank's ratings from B1 to Ba3. The upgrade reflects the improving profitability and the higher capital buffers. UBS announced the redemption of its $2bn 5% 23P AT1 on its first call date. NatWest announced the redemption of legacy NWG 11.5 Perp at the make-whole level. There was £31mn left outstanding and NatWest will take a P&L charge of c.£45mn on the transaction. Standard Chartered consent solicitation for modifying the reference rate from LIBOR to SOFR on its 7.014% and 6.409% preference shares failed to reach the 75% approval threshold.

INVESTMENT MANAGER'S REPORT *(continued)*

2. Investment Objective and Strategy

The Company is a closed-ended fund investing in liabilities issued by European financial institutions, predominantly legacy T1s, T2s, and AT1s across five sub-strategies:

- Liquid Relative Value: instruments issued by large and strong quality institutions, with significant liquidity. These can be purchased on either primary or secondary markets.
- Less Liquid Relative Value: instruments issued by large and strong quality institutions, with limited liquidity due to past
- Restructuring: instruments issued by institutions in preparation or implementation of a restructuring process (secondary market).
- Special Situations: instruments issued by entities in run-off, under a merger process or split between several entities (secondary market).
- Midcap Origination: instruments issued by small institutions or small subsidiaries of larger institutions (primary market).

3. Company activity

January

In Midcap Origination, the Company took part in the inaugural RT1 issuance from offshore life insurance specialist Utmost. It also came back into eSure RT1s. The Company took advantage of the sell-off in Metro Bank T2s post the withdrawal of M&A rumours to build a small position. Finally, it increased its exposure to My Money Bank T2s.

In Liquid Relative Value, the Company bought some Santander retail legacy bonds, with the expectation that they would be redeemed at par at the next call date.

February

In Liquid Relative Value, the Company closed its short position on Société Générale long-dated T2s. It bought DPB CMS following the sell-off in discos.

In Midcap Origination, the Company participated in Chesnara's inaugural T2. It also bought Quintet's AT1s. The Company took gains on Fidelidade T2s.

March

In Midcap Origination, the Company took part in the new Co-Operative Bank senior HoldCo issue in GBP at a 6% coupon.

In Liquid Relative Value, it bought some RBI 2022 T2s in CHF. In Restructuring, the Company opened a position in a Bank of Cyprus 2031 T2, which offered a yield to call of around 9%.

April

In Liquid Relative Value, the Company took a position in La Banque Postale 3% AT1s as a play on French spreads. It added to its position in BCP both in AT1s and T2s.

In Midcap Origination, the Company divested from Leeds' PIBS to reduce its overall exposure to fixed perpetual instruments.

May

In Liquid Relative Value, the Company slightly increased our exposure to BCP and opened a position in La Banque Postale, while we closed our RBI holdings.

In Restructuring, the Company added to Piraeus and sold our GamaLife Tier 2s. In MidCap Origination, we reduced our exposure to Coop Bank.

June

In Liquid Relative Value, the Company bought Intesa AT1s at a low cash price and opened a position into Credit Suisse low-trigger AT1s. We participated in the new Credito Emiliano Tier 2 issue. We added to Quintet Private Bank.

In MidCap Origination, the Company took part in an inaugural AT1 issue from the commodity broker Marex at a 13.25% coupon.

INVESTMENT MANAGER'S REPORT *(continued)*

July

In Liquid Relative Value, we added Athora and RBI to our AT1 positions.

In Midcap Origination, we slightly increased our investment in eSure.

August

In Liquid Relative Value, we reduced the Company's exposure to Intesa and Credito Emiliano while we opened a position in Virgin Money 8.25% AT1s.

In Midcap Origination, we sold some Banca di Asti AT1s.

September

In Midcap Origination, we bought Sainsbury Bank, Bank of Cyprus and Banco Popolare di Adige Tier 2s.

In Restructuring, we sold Piraeus Bank Tier 2s and bought Cajamar senior bonds.

In Liquid Relative Value, we opened a position in the National Bank of Greece Tier 2s. We closed our Danske and BNP CDS contracts.

In Illiquid Relative Value, we reduced our holdings of RSA and Benefact prefs.

October

In Liquid Relative Value, we purchased low cash price AT1s from issuers such as Sabadell, Unicredit, Deutsche Bank and Deutsche Pfandbriefbank.

In Midcap Origination, we took part in the new Permanent TSB 13.25% AT1 issue. We added to Marex 13.25% AT1. We sold Jupiter T2s and Quintet AT1s.

In Illiquid Relative Value, we trimmed our holdings of Lloyds, Bank of Ireland, RSA and Santander preference shares.

November

In Midcap origination and Restructuring, we trimmed our positions in a number of names, such as Banca di Asti, International Personal Finance, Co-op bank and Shawbrook.

In Illiquid Relative Value, we reduced preference share holdings.

In Liquid Relative Value, we bought Banco BPM, Pfandbrief Bank, Credit Suisse and Provident.

December

In Liquid Relative Value, we bought Barclays, Virgin Money, Socgen, Intesa and Volksbank Wien AT1s.

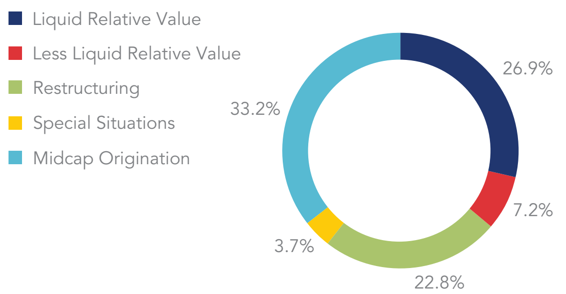
In Midcap Origination, we bought Permanent TSB Tier 2s. We reduced Shawbrook, My Money Bank, Piraeus, the Co-Operative Bank, OneSavings, International Personal Finance and NIBC.

In Illiquid Relative Value, we sold Lloyds, Bank of Ireland and Newcastle Building Societies.

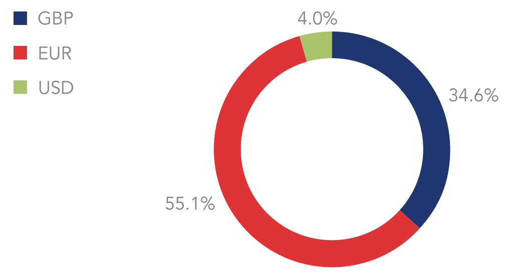
INVESTMENT MANAGER'S REPORT *(continued)*

4. Portfolio (as at 31 December 2022)

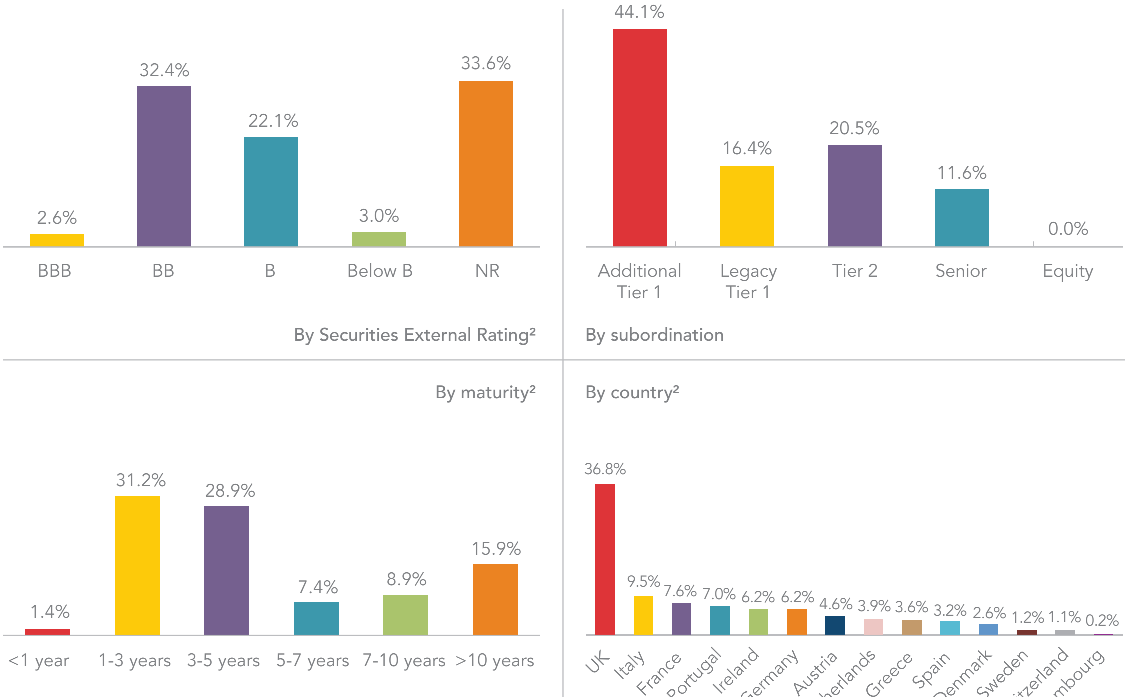
Strategy Allocation (as a % of total net assets)[1]



Denomination (as a % of total net assets)[1]



Portfolio Breakdown (as a % of total net assets)



[1]Splits adjusted for single assets.

INVESTMENT MANAGER'S REPORT *(continued)*

5. Company metrics (as at 31 December 2022)

Share price and NAV	
Share price (mid) (GB pence)	84.00
Published NAV per share (daily) (GB pence)	92.43
Dividends paid over last 12 months (GB pence)	6.00
Shares in issue	91,852,904
Market capitalisation (GBP mn)	77.16
Total Published Net Assets (GBP mn)	84.90
Premium/(Discount)	(9.12)%

Portfolio information (APM)	31 December 2022	31 December 2021
Modified duration	3.21	3.08
Sensitivity to credit	6.23	5.56
Positions	83	84
Average price at end of the month[1]	91.02	113.62
Running yield (GBP)	9.29%	5.95%
Yield to perpetuity (GBP)[2]	12.15%	6.23%
Yield to call (GBP)[3]	13.68%	6.70%
Gross assets	102.4%	112.7%
Net gearing	97.5%	108.4%
Investments/Published net assets	95.4%	95.7%
Cash	2.2%	7.3%
Collateral	4.9%	4.2%
Net Repo/Published net assets	0.0%	5.3%
CDS/Published net assets	28.7%	32.9%

Net Return[4, 7]

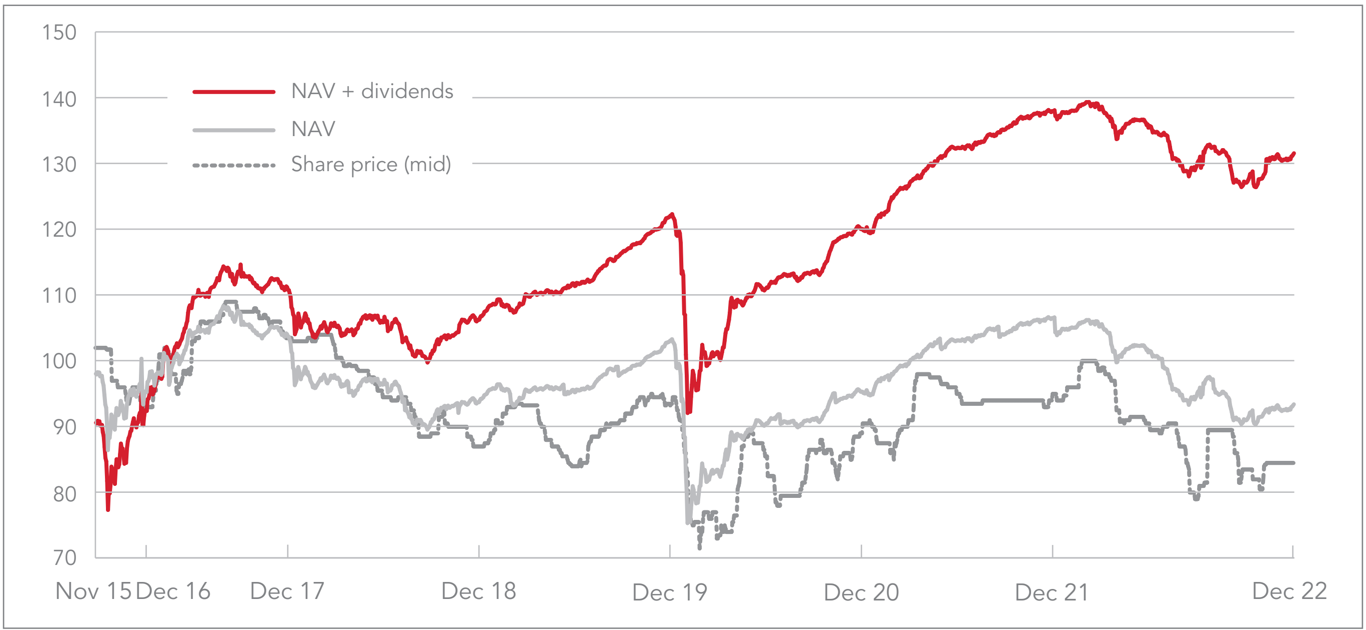
Total Performance					
1 month	3 months[6]	6 months[6]	1 year[6]	3 years[5]	Since launch[5]
0.60%	3.56%	1.03%	-6.32%	3.97%	5.18%

Monthly Performance	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Total
2015											0.19%	-1.48%	-1.29%
2016	-4.02%	-4.59%	3.57%	1.16%	2.62%	-1.97%	2.83%	1.69%	-0.21%	2.06%	-1.60%	1.91%	3.10%
2017	2.67%	0.93%	1.12%	2.01%	1.72%	-1.41%	1.86%	0.58%	1.76%	2.72%	1.31%	0.23%	16.14%
2018	3.12%	-0.70%	-1.95%	1.14%	-5.84%	-0.72%	1.60%	-1.26%	2.43%	-1.54%	-2.68%	-1.44%	-8.00%
2019	3.36%	2.30%	0.29%	2.53%	-1.58%	2.29%	0.30%	0.75%	0.97%	2.22%	1.77%	1.12%	16.98%
2020	1.99%	-0.87%	-19.95%	5.24%	3.68%	4.27%	1.90%	1.88%	-0.32%	0.53%	5.03%	1.48%	1.73%
2021	-0.16%	3.78%	2.45%	2.15%	1.65%	1.27%	0.83%	1.19%	1.97%	0.18%	-0.45%	1.23%	16.87%
2022	0.33%	-1.80%	0.03%	-0.85%	-0.95%	-4.15%	0.41%	1.64%	-4.41%	0.95%	1.98%	0.60%	-6.32%

[1] *Bonds only.*
[2] *The yield to perpetuity is the yield of the portfolio converted in GBP with the hypothesis that securities are not reimbursed and kept to perpetuity.*
[3] *The yield to call is the yield of the portfolio converted in GBP at the anticipated reimbursement date of the bonds.*
[4] *Past performance does not guarantee future results.*
[5] *Annualised performance, dividends reinvested.*
[6] *Performance with dividends reinvested.*
[7] *Data is from Bloomberg so may differ slightly to Company records.*

INVESTMENT MANAGER'S REPORT *(continued)*

6. NAV evolution[1]



[1]Based on the Published NAV.

7. Outlook

2022 will be remembered as the year when the bond market crashed. The conjunction of global monetary tightening and the war in Ukraine resulted in an exceptionally fast increase in interest rates combined with a significant widening of credit spreads. Bund yields increased from -0.18% to 2.56% while the spread on the Xover index doubled. Axiom European Financial Debt returned -6.32% vs. -12.89% for the Ice Bofa Coco AT1 Index and -12.46% for the Tier 2 Ice Bofa Index.

European banks' fundamentals remained strong throughout the year. The average CET1 oscillated around 15% as higher capital generation compensated for the increase in shareholder distributions. The stock of non-performing loans was stable and the average NPL ratio reached a new low of 1.8%. Banks took precautionary provisions and downgraded some assets in light of elevated macro risks. The average LCR ratio stayed around its post-GFC highs i.e. 160%.

Banks' profits climbed. The increase in interest rates generally allowed banks to boost commercial deposit margins while the high level of economic activity supported commissions. The estimated next fiscal year ROE on the Stoxx Europe 600 Index jumped above 10% for the first time in more than a decade.

In 2023, bank credit investors will have to navigate the many cross-currents induced by monetary tightening. On the one hand, elevated interest rates allow banks to earn sizable margins on their retail and transactional funding; continued fiscal spending and tight labour markets are supporting asset quality. On the other hand, QT is slowly increasing funding costs and pressuring global asset prices, resulting in lower collateral valuations. The Company intends to take advantage of the higher carry available on the bank fixed income market while keeping a prudent duration, credit and liquidity profile.

Gildas Surry
Axiom Alternative Investments SARL
21 March 2023

Antonio Roman
Axiom Alternative Investments SARL
21 March 2023

INVESTMENT PORTFOLIO

as at 31 December 2022

	£'000	% of NAV
Investments in capital instruments at fair value through profit or loss		
Bonds		
West Bromwich Building Society 4.500% Perp (Var)	3,266	3.83
Ulster Bank Ireland DAC 11.750% Perp	3,030	3.56
Co-Operative Bank Finance PLC 9.500% 04/25/29 (Var)	2,430	2.85
Intesa Sanpaolo SpA 7.75% Perp (Var)	2,147	2.52
eSure Group PLC 6.000% Perp (Var)	2,030	2.38
Volksbank Wien AG 7.750% Perp (Var)	2,026	2.38
Barclays PLC 6.375% Perp (VAR)	2,024	2.38
Promontia MMB SASu 8.000% Perp (Var)	1,839	2.16
Shawbrook Group 12.103% 12/08/27 Perp (Var)	1,757	2.06
Novo Banco SA 8.500% 07/06/28 (Var)	1,688	1.98
Nottingham Building Society 7.875% Perp	1,669	1.96
International Personal Finance PLC 9.750% 11/12/25	1,507	1.77
Promontia MMB SASU 5.250% 10/15/41 (Var)	1,479	1.74
AnaCap Financial Europe SA 5.000% 08/01/24 (Var)	1,389	1.63
Lifetri Groep BV 5.250% 06/01/32 (Var)	1,355	1.59
IKB Funding Trust I 1.087% Perp (Var)	1,317	1.55
Cassa di Risparmio di Asti SpA 9.250% Perp (Var)	1,299	1.52
OSB Group PLC 6.000% Perp (Var)	1,286	1.51
Saxo Bank A/S 8.125% Perp (Var)	1,279	1.50
Coventry Building Society 12.125% Perp	1,176	1.38
Bank of Cyprus Holdings PLC 6.625% 10/23/31 (Var)	1,131	1.33
Brit Insurance Holdings Ltd 3.661% Perp (Var)	1,060	1.24
Oldenburgische Landesbank AG 6.000% Perp (Var)	1,049	1.23
Chesnara PLC 4.750% 08/04/32	1,031	1.21
Bracken MidCo1 PLC 6.750% 11/01/27	1,013	1.19
DDM Debt AB 9.000% 04/19/26	989	1.16
NIBC Bank NV 6.000% Perp (Var)	981	1.15
UnipolSai Assicurazioni SpA 6.375% Perp (Var)	965	1.13
Banco Comercial Portugues SA 9.250% Perp (Var)	934	1.10
Marex Group PLC 13.25% Perp (Var)	927	1.09
Piraeus Financial Holdings SA 8.750% Perp (Var)	920	1.08
Credit Suisse Group AG 6.25% Perpetual Bond	916	1.07
Saxo Bank A/S 5.500% 07/03/29	916	1.07
Banca Pop Alto Adige 9.000% 09/09/2032 (Var)	908	1.07
Investec PLC 6.750% Perp (Var)	907	1.06
Virgin Money UK plc 8.25% Perp 06/17/27	906	1.06
Utmost Group PLC 6.125% Perp (Var)	897	1.05
La Banque Postale SA 3.000% Perp (Var)	891	1.05
Amissima Vita SpA 7.000% 08/16/31 (Var)	890	1.05
Buoni Poliennali del tes 1.600% 11/22/28 (Fixed)	876	1.03
Athora Netherlands NV 7.0% Perp 06/19/25	870	1.02
Piraeus Bank SA 3.875% 11/03/27 (Var)	862	1.01
Skipton Building Society 12.875% Perp	846	0.99
Banco Comercial Portugues SA 3.871% 03/27/30	842	0.99
Societe Generale 8.00% Perp (Var)	834	0.98
Deut Pfandbriefbank AG 5.75% 04/28/23 Perp (Var)	812	0.95
Metro Bank PLC 9.500% 10/08/25 (Var)	797	0.94
National Bank Greece SA 8.25% 07/18/29 (Fix to Var)	793	0.93
Banco BPM SPA 7.000% 04/12/27 (Var)	782	0.92
BNP Paribas SA Perp (Var)	743	0.87
Kommunalkredit Austria AG 6.500% Perp (Var)	739	0.87

INVESTMENT PORTFOLIO

as at 31 December 2022 *(continued)*

	£'000	% of NAV
Investments in capital instruments at fair value through profit or loss *(continued)*		
Bonds *(continued)*		
Novo Banco SA 3.500% 07/23/24 (Var)	675	0.79
Deutsche Bank AG 4.625% 10/30/27 Perp (Var)	675	0.79
TSB Group Holdings PLC 7.875% Perp (Var)	647	0.76
Standard Chartered 4.315860% Perp 01/12/2049	641	0.75
Deutsche Postbank Funding Trust I 0.390% Perp (Var)	635	0.74
Aareal Bank AG 6.849% Perp (Var)	629	0.74
Banco de Credito Social Cooperativo SA 8.000% 09/22/26 (Var)	624	0.73
Banco De Sabadell SA 5.75% Perp (Var)	618	0.73
Raiffeisen Bank Intl 6.00% Perp 06/15/26	579	0.68
Banco Comercial Portugues SA 4.000% 05/17/32 (Var)	563	0.66
BNP Paribas SA 0.000% Perp (Var)	549	0.64
Caixa Economica Montepio Geral 5.000% Perp (Var)	534	0.63
GNB Cia de Securos de Vida SA 3.102% Perp (Var)	532	0.62
Abanca Corp Bancaire SA 7.500% Perp (Var)	524	0.62
Banco de Credito Social Cooperativo SA 5.250% 11/27/31 (Var)	522	0.61
Sainsburys Bank 10.500% 03/12/2033 (Var)	515	0.60
National Westminster Bank PLC 11.500% Perp Series BR	482	0.57
Louvre Bidco SAS 5.375% 09/30/24 (Var)	480	0.56
Provident Financial 8.875% 01/13/32 (Var)	447	0.52
BAWAG Group AG 5.125% Perp (Var)	440	0.52
Piraeus Bank SA 9.750% 06/26/24 (Var)	433	0.51
Unicaja Banco SA 4.875% Perp (Var)	386	0.45
Permanent TSB Group 13.25% (Var)	287	0.34
Ecology Building Society 9.625% Perp (Var)	258	0.30
Mitsubishi UFJ Investor Services & Banking Luxembourg SA 4.013% 12/15/50 (Var)	171	0.20
National Westminster Bank PLC 11.500% Perp Series RG	147	0.17
Banco Popular Espanol SA 8.000% 07/29/21	–	–
Banco Popular Espanol SA 8.250% 10/19/21	–	–
Popular Capital SA 6.000% Perp	–	–
	77,013	90.39
Other capital instruments		
Bank of Ireland 12.625% Perp	722	0.85
	722	0.85
Total investments in capital instruments at fair value through profit or loss	77,735	91.24

INVESTMENT PORTFOLIO

as at 31 December 2022 *(continued)*

	£'000	% of NAV
Derivative financial assets at fair value through profit or loss		
GBP/USD foreign currency forward	260	0.30
Derivative financial assets at fair value through profit or loss	260	0.30
Derivative financial liabilities at fair value through profit or loss		
GBP/EUR foreign currency forward	(461)	(0.54)
Subfin CDSI S35 5Y SW CDS 12/20/22	(427)	(0.50)
Subfin CDSI S38 5Y CDS 12/20/27	(426)	(0.50)
Derivative financial liabilities at fair value through profit or loss	(1,314)	(1.54)
Related party fund investments		
Axiom Alternative Liquid Rates Z Cap Scv	1,836	2.16
Related party fund investments	1,836	2.16
Other assets and liabilities		
Collateral accounts for derivative financial instruments at fair value through profit or loss	4,164	4.88
Cash and cash equivalents	3,941	4.62
Other receivables and prepayments	1,473	1.73
Bank overdrafts	(2,234)	(2.62)
Other payables and accruals	(661)	(0.78)
Other assets and liabilities	6,683	7.84
Net assets (as reported in these financial statements (see note 22))	**85,200**	**100.00**

PRINCIPAL RISKS AND UNCERTAINTIES

Risk is inherent in the Company's activities, but it is managed through an ongoing process of identifying and assessing risks and ensuring that appropriate controls are in place. The Board evaluates the Company's principal risks on an ongoing basis, and continuously assesses for future risks that could have a potential impact. During the year, the Board and the Investment Manager had ongoing discussions and reviews to consider the current, emerging, and potential risks of the Company. The discussions generated insights into a range of emerging and potential risks and has helped to focus attention on additional areas for monitoring by the Board and the Investment Manager. The Company's risk register is reviewed by the Board, including the assessment of future risks that may arise.

The Board has carried out a robust assessment of the Company's emerging and principal risks and the key risks faced by the Company, along with controls employed to mitigate those risks. These have not substantially changed in the last year and are set out below.

Proposals for the liquidation of the Company

The Board is putting forward proposals for the liquidation of the Company (see page 2). If Shareholders vote in favour of the Proposals, the Company will be liquidated.

Further details of the Proposals for the implementation of the Scheme will be described in the Circular, which, when finalised, will be made available on the Company's section of the Investment Manager's website (https://axiom-ai.com/web/en/axiom-european-financial-debt-fund-limited-2/).

Macroeconomic risk

Adverse changes affecting the global financial markets and economy as a whole, and in particular European financial debt markets, may have a material negative impact on the performance of the Company's investments. In addition, the Company's non-Pounds Sterling investments may be affected by fluctuations in currency exchange rates. Prices of financial and derivative instruments in which the Company invests are subject to significant volatility due to market risk.

The Company may use derivatives, including options, short market indices, CDS, and others, to mitigate market-related downside risk, but the Company is not committed to maintaining market hedges at any time.

The Company has a systematic hedging policy with respect to currency risk. Subject only to the availability of suitable arrangements, the assets denominated in currencies other than Pounds Sterling are hedged by the Company (to a certain extent) by using currency forward agreements to buy or sell a specified amount of Pounds Sterling on a particular date in the future.

Historically, FX hedging has undermined many closed-ended investment funds, as a result of sharp movements in the FX rates leaving large hedging losses which could not be met as assets were illiquid and banks were under severe balance sheet strain and could not offer forbearance on facilities in breach.

The Company is exposed to FX hedging risks (see note 24) but this risk is mitigated by the following:

- Based on the worst case scenario observed in monthly spot movements in the past 10 years, our worst case expected hedging loss on expiry would be 4.00% of NAV;
- Our portfolio trading liquidity is such that it would take one day, in normal circumstances, to liquidate sufficient assets to meet such an anticipated worst case loss; and
- In "stressed" markets, we estimate it would take one day to raise such liquidity.

PRINCIPAL RISKS AND UNCERTAINTIES *(continued)*

Russian Invasion of Ukraine

Russia's invasion of Ukraine and resulting international sanctions on Russia are believed to have already caused substantial economic damage to that country, which is likely to worsen the longer the sanctions are in place, and has had a wider global effect on the supply and prices of certain commodities and consequently on inflation and general economic growth of the global economy. The effects will vary from country to country, depending, for example, on their dependence on Russian energy supplies, particularly gas, which cannot be so easily transported and substituted as oil. European and global banks in general were very strongly capitalised as at the end of 2021 and they have limited direct exposure to Russian credit risk and there is no evidence of meaningful stress in the financial markets. The military and political situation will no doubt continue to develop and as a consequence there may well be further price volatility in some instruments, but absent unexpected catastrophic tail risk events, the effects on the Company's portfolio are not expected to be significant.

Investment risk

There are certain risks associated with the Company's investment activities that are largely a result of the Company's investment policy (e.g. a portfolio concentrated on European financial debt) and certain investment techniques which are inherently risky (e.g. short selling).

There are numerous risks associated with having a concentrated portfolio and the primary risk management tool used by the Company is the extensive research performed by the Investment Manager prior to investment, along with the ongoing monitoring of a position once held in the Company's portfolio. The Board reviews portfolio concentration and receives a detailed overview of the portfolio positions quarterly, and more frequently if necessary.

Counterparty risk

The Company has credit and operational risk exposure to its counterparties which will require it to post collateral to support its obligations in connection with forwards and other derivative instruments. Cash pending investment or held on deposit will also be held with counterparties. The insolvency of a counterparty would result in a loss to the Company which could be material.

In order to mitigate this risk the Company seeks to trade only with reputable counterparties that the Investment Manager believes to be creditworthy. The Investment Manager negotiates its ISDA agreements to include bilateral collateral agreements. In addition, cash held is only with financial institutions with short term credit ratings of A-1 (Standard & Poor's) or P-1 (Moody's) or better.

Exposure to counterparties is monitored by the Investment Manager and reported to the Board each quarter.

Credit risk

The Company may use leverage to meet its investment objectives. The Company will also use forward contracts to hedge its non-Pounds Sterling assets. In order to do this, it will need to have in place credit lines with one or more financial institutions.

Due to market conditions or other factors, credit lines may be withdrawn and it might not be possible to put in place alternative arrangements. As such, the ability to meet the Company's investment objective and/or hedging strategy may not be met.

The Investment Manager monitors the use of credit lines and reports to the Board each quarter.

PRINCIPAL RISKS AND UNCERTAINTIES *(continued)*

Share price risk

The Company is exposed to the risk that its shares may trade at a significant discount to NAV or that the market in the shares will be illiquid. To mitigate this risk the Company increased the frequency of the publication of its NAV to daily and has retained the Broker to maintain regular contact with existing and potential shareholders. The Board monitors the trading activity of the shares on a regular basis and addresses the premium/discount to NAV at its regular quarterly meetings.

From 1 January 2022 to 31 December 2022, the Company's shares traded at an average discount to NAV of 9.19% (2021: 9.14% discount to NAV). At the year end, the shares traded at a 9.12% discount to Published NAV (2021: 9.18% discount). The level of discount had not improved over the year, which is part of the reason for putting forward the Proposals to liquidate the Company – as detailed in the Circular, which, when finalised, will be made available on the Company's section of the Investment Manager's website (https://axiom-ai.com/web/en/axiom-european-financial-debt-fund-limited-2/).

Regulatory risk

Changes in laws or regulations, or a failure to comply with these, could have a detrimental impact on the Company's operations. Prior to initiating a position, the Investment Manager considers any possible legal and regulatory issues that could impact the investment and the Company. The Company's advisers and service providers monitor regulatory changes on an ongoing basis, and the Board is apprised of any regulatory inquiries and material regulatory developments on a quarterly basis.

Reputational risk

Reputational damage to the Company or the Investment Manager as a result of negative publicity could adversely affect the Company. To address this risk, the Company has engaged a public relations firm to monitor media coverage and actively engage with media sources as necessary. The Board also receives updates from the Broker and the Investment Manager on a quarterly basis and considers measures to address concerns as they arise.

ENVIRONMENTAL, EMPLOYEE, SOCIAL AND COMMUNITY ISSUES

As an investment company, the Company does not have any employees or physical property, and most of its activities are performed by other organisations. Therefore, the Company does not combust fuel and does not have any greenhouse gas emissions to report from its operations, nor does it have direct responsibility for any other emission producing sources.

ESG Policy
The Board believes that all companies have a duty to consider their impact on the community and the environment. As an investment company, the Company does not have any employees and all of its day-today activities are delegated to third party service providers. The Directors, together with the Company's key service providers, the Administratorr, Company Secretary and external auditor are all based in Guernsey and Board meetings are held in Guernsey, thus negating the need for long commutes or flights to/from Board meetings, and thereby minimising the negative environmental impact of travel to/from Board meetings.

When making investment decisions, the Investment Manager uses three main mechanisms to integrate ESG criteria:

- Its in-house database and tools dedicated to ESG, as described in its ESG policy which is available on their website https://axiom-ai.com/web/en/responsible-investing/);
- Engagement with management or investor relations teams to get additional information; and
- Information published in annual reports or other regulatory filings (such as TCFD or sustainability reports).

Axiom AI's Investment Committee is ultimately responsible for the progress of ESG integration by the investment teams, under the supervision of Axiom AI's Executive Committee.

In addition to the ESG policy, Axiom AI maintains an exclusion list. Investments in securities issued by a firm on that exclusion list are prohibited. If a name is added to the exclusion list and the securities are already in the portfolios, the portfolio manager must divest the securities, in a way that is not harmful to holders (no fire sale). The list is mainly based on the lists established by recognised key players, such as the Norwegian government pension fund. The list was introduced in order to formalise the Investment Manager's desire not to invest in any company engaged in activities that do not correspond to our values and our requirements in terms of sustainable development. Companies can be excluded, for example because they produce controversial weapons, such as the ones covered by the Ottawa and Oslo Conventions (anti-personnel mines, cluster munitions). This list is regularly reviewed and amended.

GENDER DIVERSITY

The Board of Directors of the Company currently comprises three male Directors. Further information in relation to the Board's policy on diversity can be found in the Directors' Remuneration Report on page 42.

KEY PERFORMANCE INDICATORS

The Board uses the following KPIs to help assess the Company's performance against its objectives. Further information regarding the Company's performance is provided in the Chairman's Statement and the Investment Manager's Report.

Dividends per Ordinary Share
As set out in the Prospectus, the Company intends to distribute all of its income from investments, net of expenses, by way of dividends on a quarterly basis. The Company may retain income for distribution in a subsequent quarter to that in which it arises in order to smooth dividend amounts or for the purposes of efficient cash management.

The Company announced dividends of £5,511,000 (6.00p per Ordinary Share) for the year ended 31 December 2022 (2021: £5,511,000, 6.00p per Ordinary Share) (see note 6 for further details). The Company has met the 6.00p dividend per share target each year since inception and expects to continue to be able to pay out dividends of this level in the future, until the Liquidation of the Company.

NAV and total return
In line with the Prospectus, the Company has been targeting a net total return on invested capital of approximately 10% p.a. over a seven year period.

The Company incurred a total loss of -6.39% in the year ended 31 December 2022 (2021: achieved a total return of +16.88%). The total return from inception to 31 December 2022 was 4.35% p.a., which is below the long-term target return of 10% p.a. net of operating expenses. The future rate of return and dividends cannot be guaranteed, especially in light of the impending vote on the liquidation of the Company.

The Board regularly monitors the premium/discount of the price of the Ordinary Shares to the NAV per share. Should the discount of share price to NAV become unacceptable to the Board, the Company may buy back some of its shares. However, this is unlikely to occur in the immediate future, given the Proposals for the liquidation of the Company.

At 31 December 2022 the share price was 84.00p (2021: 95.50p), a 9.12% discount to the Published NAV (2021: 9.18% discount).

PROMOTING THE SUCCESS OF THE COMPANY

The following disclosure outlines how the Directors have had regard to the matters set out in Section 172(1)(a) to (f) of the Companies Act 2006. Although, as a Guernsey company, the Company is not required to directly comply with the Companies Act 2006, Section 172 is considered as a requirement of the AIC Code with which the Company complies (see page 33 for further details).

The Board considers the needs of a number of stakeholders when considering the long-term future of the Company. The key stakeholders with which the Board liaised during the year ended 31 December 2022 were Shareholders and key service providers.

Shareholders
The Company's significant Shareholders at the year end can be found in the Directors' Report on page 30.

When making principal decisions it is considered imperative to analyse the views of the Company's investors, to ensure that there may continue to be a supply of capital enabling the Company to continue to expand its shareholder base, realise its potential for growth and achieve its long-term investment objective (as disclosed on page 2). Indeed, it was engagement with investors that led the Board to put forward the Proposals for the implementation of the Scheme.

The KPIs, detailed above, have been considered on an ongoing basis as part of the Board's decision making process.

Details of how the Directors communicate with Shareholders can be found in the Corporate Governance Report, on page 35.

During the year, the Board and its advisers engaged with the investors with respect to determining proposals for the future of the Company, as disclosed in the Chairman's Statement.

The only other engagement with investors in the year was routine regarding strategy and performance.

Key service providers
Details of the Company's key service providers can be found in the material contracts section of the Directors' Report on page 25.

The key service providers, including the Investment Manager, are fundamental to the Company's ability to continue in the same state as any changes could disrupt the expected timeliness of information provided to the markets. In turn this would be likely to have a detrimental impact on the Company's reputation. Reputational risk is discussed further on page 22.

The Board considers the performance of the Investment Manager to be imperative to the success of the Company and therefore reviews the performance of the Investment Manager at each Board meeting and conducts a more formal review of all service providers on an annual basis. The Investment Manager and Administrator provide the Board with documentation for consideration at the meetings to assist with their review of performance and the Investment Manager also provides a verbal report to the Board. The Directors raise any queries they have at these meetings with the Investment Manager to help to ensure the successful implementation of the investment objective and success of the Company.

The Board has continuous access to all of the Company's key service providers and has open two-way communication with them. Key aspects of discussion with these service providers, other than those regarding Company performance and strategy, were in respect of fees payable to these providers.

Following these discussions, no fee arrangements were amended in the year ended 31 December 2022. However, protective notice was served on all key service providers due to the Proposals for the implementation of the Scheme. CACEIS refused to accept the protective notice but the Board noted CACEIS's three month notice period and that the fee was immaterial.

William Scott
Chairman
21 March 2023

BOARD OF DIRECTORS

William Scott ***(Chairman and Chairman of the Management Engagement Committee)***
Bill is an independent non-executive director of a number of investment companies and funds. He was formerly Senior Vice President with FRM Investment Management Limited, a leading manager of institutional funds of hedge funds in Guernsey and now part of Man Group Plc. Prior to this, he was a director at Rea Brothers (which became part of the Close Brothers group in 1999 and where he was a director of Close Bank Guernsey Limited). He is a Chartered Accountant, holds the Securities Institute Diploma and is a Chartered Fellow of the Chartered Institute for Securities and Investment. He is also a Chartered Wealth Manager.

Bill currently serves on two other Premium London listed fund boards, Worsley Investors Limited (where he is chairman) and RTW Venture Fund Limited, and has served continuously on Premium London listed boards for 20 years. He is also a director of a number of unlisted and TISE-listed investment companies and management companies.

John Renouf ***(Chairman of the Audit Committee and Senior Independent Director)***
John is a qualified accountant and was employed by FRM Investment Management Limited, which is now a wholly owned subsidiary of Man Group Plc, as a Director and then Managing Director. Prior to this, John was employed on a part time basis by Collins Stewart to assist in its development of offshore funds and he also spent over ten years with Royal Bank of Canada Offshore Fund Managers Limited in Guernsey. In this role he had overall responsibility for the management and administration of Royal Bank of Canada's offshore funds in the Channel Islands together with funds managed and administered on a third party basis.

John currently holds a number of directorships of funds and fund management companies.

Max Hilton ***(Chairman of the Nomination and Remuneration Committee)***
Max returned to Guernsey from New York in 2008 and formed the predecessor firm to MJ Hudson Quantitative Solutions. He previously worked for JP Morgan Securities Inc in New York within proprietary equities and was responsible for managing a global equities portfolio. Prior to this Max had worked at Ziff Brothers Investments in New York and London as a Senior Associate within the quantitative strategy group. Max has a BSc (Hons) Economics from the University of London and has held the CFA designation since 2001. Between 2009 and 2019 he served as Chair of the CFA UK Performance and Risk Measurement Special Interest Group.

DIRECTORS' REPORT

The Directors of the Company are pleased to present their report and audited financial statements for the year ended 31 December 2022.

Principal activity
The principal activity of the Company is to provide Shareholders with an attractive return, while limiting downside risk, through investment in certain financial institution investment instruments as detailed on page 2.

Results and Dividends
The results of the Company for the year are shown on page 53.

As set out in the Prospectus, the Company intends to distribute all of its income from investments, net of expenses, by way of dividends on a quarterly basis. The Company may retain income for distribution in a subsequent quarter to that in which it arises in order to smooth dividend amounts or for the purposes of efficient cash management.

The Company announced dividends of 6.00p per Ordinary Share for the year ended 31 December 2022, of which 4.50p per Ordinary Share were provided for in these financial statements. In accordance with IFRS, dividends are only provided for when they become a contractual liability of the Company. Therefore, the fourth dividend of £1,378,000 (1.50p per Ordinary Share) had not been provided for at 31 December 2022 as, in accordance with IFRS, it was not a liability of the Company at that date.

The Directors do not recommend the payment of a final dividend for the financial year.

Net assets
At 31 December 2022, the Company had net assets of £85,200,000 (2021: £96,883,000). The Published NAV of 92.43p per Ordinary Share was lower than the NAV per Ordinary Share of 92.76p in these financial statements as a result of 50% of the accrued performance fee, which is due to be settled through the purchase of shares in the Company, being allocated to the performance fee reserve (see note 8a for further details of the performance fee).

Capital structure and share issues
At the year end and the date of signing this report, there were 91,852,904 Ordinary Shares in issue (2021: 91,852,904 Ordinary Shares).

Further details are provided in note 21 to the financial statements.

Going concern
The Company's investment activities, together with factors likely to affect its future development, performance and position are set out in the Principal Risks and Uncertainties on pages 20 to 22. The Company closely monitors and manages these risks through a process of ongoing identification, measurement and evaluation, and applies risk management procedures to minimise the Company's exposure to these financial risks, in order to create and protect Shareholder value.

The Board is putting forward proposals for the liquidation of the Company (see page 2). If Shareholders vote in favour of the Proposals, the Company will be liquidated. For this reason, the Board have not adopted the going concern basis in preparing the financial statements.

Further details of the Proposals for the implementation of the Scheme will be described in the Circular, which, when finalised, will be made available on the Company's section of the Investment Manager's website (https://axiom-ai.com/web/en/axiom-european-financial-debt-fund-limited-2/).

DIRECTORS' REPORT *(continued)*

Going concern *(continued)*

Russian Invasion of Ukraine

Russia's invasion of Ukraine and resulting international sanctions on Russia are believed to have already caused substantial economic damage to that country, which is likely to worsen the longer the sanctions are in place, and has had a wider global effect on the supply and prices of certain commodities and consequently on inflation and general economic growth of the global economy. The effects will vary from country to country, depending, for example, on their dependence on Russian energy supplies, particularly gas, which cannot be so easily transported and substituted as oil. European and global banks in general were very strongly capitalised as at the end of 2021 and they have limited direct exposure to Russian credit risk and there is no evidence of meaningful stress in the financial markets. The military and political situation will no doubt continue to develop and as a consequence there may well be further price volatility in some instruments, but absent unexpected catastrophic tail risk events, the effects on the Company's portfolio are not expected to be significant.

In the event that Shareholders were to vote not to liquidate the Company, the Board have considered the financial prospects of the Company for the next twelve months from the date of approval of the Financial Statements and made an assessment of the Company's ability to continue as a going concern. In assessing the going concern status of the Company, the Directors have considered:

- the expected outcome of the Proposals for the implementation of the Scheme, including the vote to liquidate the Company;
- the Company's net assets at 31 December 2022 of £85,200,000 (2021: £96,883,000);
- the predictability of the Company's income and expenses; and
- the liquidity of the Company's assets (at 31 December 2022, 74.5% (2021: 59.5%) of its capital instruments could be liquidated in one day).

After undertaking prudent and robust enquiries, and assessing all data relating to the Company's liquidity, the Directors have a reasonable expectation that the Company would have adequate resources to continue in operational existence for the foreseeable future. However, it is expected that Shareholders will vote in favour of the Proposals and that the Company will be liquidated.

Viability statement

In assessing the viability of the Company, the Directors have considered the Company's principal risks and uncertainties (see pages 20 to 22), and noted the relatively liquid nature of the Company's portfolio, which could be utilised to meet funding requirements, if necessary.

The Board expect that Shareholders will vote in favour of the Proposals, which include the liquidation of the Company. The Directors have concluded that there is a reasonable expectation that the Company will continue in operational existence, be able to pay its liabilities as they fall due, until the Company is put into liquidation later in the year.

Litigation

So far as the Directors are aware, no litigation or claim of material importance is pending or threatened against the Company.

DIRECTORS' REPORT *(continued)*

Internal control and financial reporting
The Board is responsible for establishing and maintaining the Company's system of internal control. Internal control systems are designed to meet the particular needs of the Company and the risks to which it is exposed, and, by their very nature, provide reasonable, but not absolute, assurance against material misstatement or loss. The key procedures which have been established to provide effective internal controls are as follows:

- The Administrator is responsible for the provision of administration and company secretarial duties;
- The duties of investment management, custody of assets, and accounting are segregated. The procedures are designed to complement one another;
- The Directors of the Company clearly define the duties and responsibilities of their agents and advisers in the terms of their contracts;
- The Directors of the Company maintain a schedule of items reserved for the Board. This schedule is reviewed on an annual basis;
- The Board reviews financial information produced by the Company's Investment Manager and the Administrator on a regular basis; and
- On an ongoing basis, compliance reports are provided by the Investment Manager and Administrator at each Board meeting.

The Company does not have an internal audit department. All of the Company's management functions are delegated to third parties and it is therefore felt that there is no need for the Company to have an internal audit function.

The Board has considered the FRC guidance on risk management, internal control and related financial and business reporting. The Board is responsible for ensuring the maintenance of a robust system of internal control and risk management and for reviewing the effectiveness of the Company's overall internal control arrangements and processes following recommendations from the Audit Committee.

The appointment of the Investment Manager as the AIFM under the AIFMD means that it is responsible for operating the Company's internal system of control and for initially reviewing its effectiveness. Such systems are however designed to minimise the risk and not entirely eliminate risk; they can provide only reasonable assurance against material misstatement or loss.

Financial risk profile
The Company's financial instruments comprise investments at fair value through profit or loss, cash and cash equivalents, other receivables and other payables that arise directly from the Company's operations.

The Board has ultimate responsibility for risk management. Given that there are certain inherent risks related to the business and operations of the Company, the Board believes that developing an effective risk management strategy is crucial to the ongoing viability of the Company. In connection thereto, the Board carries out a robust assessment of the principal risks and uncertainties facing the Company, including those that would threaten its business model, future performance, solvency, liquidity or reputation. The main financial risks are market risk (comprising price risk, foreign currency risk and interest rate risk), credit risk and liquidity risk. Further details are given in note 24 to the financial statements. The principal risks and uncertainties faced by the Company are outlined on pages 20 to 22.

DIRECTORS' REPORT *(continued)*

Material contracts

The Company's material contracts, which are with its key service providers, are with:

- Axiom AI, which acts as Investment Manager and AIFM (note 8a);
- Elysium, which acts as Administrator and Company Secretary (note 8b);
- Winterflood, which acts as Broker (note 8c);
- CACEIS Bank France, which acts as Depositary (note 8e); and
- Link Market Services (Guernsey) Limited, which acts as Registrar (note 8d).

Due to the Proposals put to shareholders, protective notice has been served on all of the Company's key service providers. However, CACEIS refused to accept the protective notice but the Board noted CACEIS's three month notice period and that the fee was immaterial.

Taxation

The Company is exempt from taxation in Guernsey, and it is the intention to conduct the affairs of the Company to ensure that it continues to qualify for exempt company status for the purposes of Guernsey taxation. The Company pays a fixed fee of £1,200 per annum to maintain exempt company status.

Substantial shareholdings

As at 31 December 2022, and at the date of signing this report, the Company was aware of the following interests of 3% or more in the Company's voting rights:

Shareholder	Number of Ordinary Shares	Percentage holding
Serimnir Fund	13,769,672	14.99
Alvis Asset Management	12,929,915	14.08
Axiom AI	11,192,369	12.19
Alder Investment Management	10,403,042	11.33
Premier Miton Group PLC	8,475,718	9.23
Capfi Delen Asset Management	8,237,301	8.97
UBS Wealth Management	5,005,127	5.45
Mount Capital	3,813,030	4.15
Seven Investment Management	2,802,868	3.05

Letters of appointment and election of Directors

Biographies of the Directors are set out on page 26 and demonstrate the wide range of skills and experience each brings to the Board. The Directors were identified and interviewed prior to their appointments and advice was taken in respect of their appointments from the Company's other relevant advisers.

Each Director signed a letter of appointment to formalise their engagement as a Director. Copies of the letters of appointment are available on request from the Company Secretary.

All three of the Directors are independent Non-Executive Directors who were appointed on 7 October 2015 and served throughout the period and to the date of signing this report. In accordance with best practice and the AIC Code, all directors retire at each AGM and, if eligible, may offer themselves for re-election by the Shareholders.

Directors' interests

At 31 December 2022 and at the date of signing this report, the Directors did not have any interests in the shares of the Company.

During the year, no Director had a material interest in a contract to which the Company was a party (other than their own letter of appointment).

DIRECTORS' REPORT *(continued)*

Political donations
The Company made no political donations during the year.

Corporate Governance
The Corporate Governance Report can be found on pages 33 to 35.

Auditor
Grant Thornton has expressed its willingness to continue in office as the Company's auditor (see the Audit Committee Report for further details).

Disclosure of information to auditor
The Directors who held office at the date of approval of this report confirm that, so far as they are aware, there is no relevant audit information of which the Company's auditor is unaware and each Director has taken all steps that he ought to have taken as a Director to establish that the Company's auditor is aware of that information.

On behalf of the Board

William Scott
Chairman
21 March 2023

John Renouf
Director
21 March 2023

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Directors' Report and financial statements in accordance with applicable laws and regulations.

The Law requires the Directors to prepare financial statements for each financial period. Under the Law, the Directors have elected to prepare the financial statements in accordance with UK-adopted international accounting standards.

The financial statements are required by law to give a true and fair view of the state of affairs of the Company as at the end of the financial period and of the profit or loss of the Company for that period. In preparing these financial statements the Directors are required to:

- Select suitable accounting policies and apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether the financial statements have been prepared in accordance with IFRS; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business. In view of the Proposals for the implementation of the Scheme, including the liquidation of the Company by the end of 2023, the financial statements have been prepared on a non-going concern basis.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Law. They are also responsible for safeguarding the assets of the Company and for the prevention and detection of fraud and other irregularities.

Responsibility Statement
Each of the Directors, whose names and functions are listed in the Directors' Report, confirms that, to the best of each person's knowledge:

- the financial statements, prepared in accordance with IFRS, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company;
- the Strategic Report contained in the Annual Report includes a fair review of the development and performance of the business and the position of the Company together with a description of the principal risks and uncertainties that they face;
- the Annual Report and Audited Financial Statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for Shareholders to assess the Company's performance, position, business model and strategy; and
- the Annual Report and Audited Financial Statements includes information required by the FCA for the purpose of ensuring that the Company comply with the provisions of the Listing Rules and the Disclosure Guidance and Transparency Rules of the FCA.

This responsibility statement was approved by the Board of Directors on 21 March 2023 and was signed on behalf of the Board.

William Scott
Chairman
21 March 2023

John Renouf
Director
21 March 2023

CORPORATE GOVERNANCE REPORT

The Company is a registered closed-ended investment scheme pursuant to the POI Law, and the Registered Collective Investment Schemes Rules 2015 issued by the GFSC. As a Guernsey regulated entity, the Company is subject to the GFSC's "Finance Sector Code of Corporate Governance". In addition, companies with shares listed on the Premium Segment are required to comply with the UK Code.

The Company is committed to high standards of corporate governance and has sought to comply with those aspects of the UK Code that are considered by the Board to be practical and appropriate for an organisation of its size and nature.

The Company is a member of the AIC. In applying the main principles set out in the UK Code, the Directors have considered the principles and provisions of the AIC Code, which is available at www.theaic.co.uk. The AIC Code addresses all of the principles set out in the UK Code, as well as setting out additional principles and provisions on issues that are of specific relevance to the Company as an investment company. The Board considers that reporting against the principles and provisions of the AIC Code (which incorporates the main principles of the UK Code) will provide better information to Shareholders.

The Directors recognise the value of the AIC Code and have taken appropriate measures to ensure that, the Company has complied and continues to comply, as far as possible given the Company's size and nature of the business, with the AIC Code, except as set out below:

Chairman – The Chairman of the Company is a member of the Audit Committee, but does not chair it. His membership of the Audit Committee is considered appropriate due to: the lack of perceived conflict; the small size of the Board; and because the Directors believe that he continues to be independent.

Internal audit function – No internal audit function is considered necessary because the Company is an externally managed investment company with no employees. Details of the Company's principal outsourced service providers are detailed in note 8.

Training and induction – No formal training or induction is in place for the Directors. However, all of the Directors are professionally qualified and are therefore required to undertake a sufficient amount of continuous professional development by their professional bodies.

The Board and its Committees
The Board has delegated certain responsibilities to its Committees. Given the size and nature of the Board it is felt appropriate that all independent Directors are members of the Committees.

The roles and responsibilities of the Committees are set out in the terms of reference and are summarised below.

Items are discussed and, as appropriate, matters are endorsed, approved or recommended to the Board by the Committees. The chairman of each of the Committees provides the Board with a summary of the main discussion points at the committee meeting and any decisions made by the committee along with any recommendations which require Board approval.

The Board may also delegate certain functions to other parties; in particular the Directors may delegate to the Investment Manager. However, the Directors retain responsibility for exercising overall control and supervision of the Investment Manager. Matters reserved for the Board include, amongst others, approval and oversight of the Company's investment activities by ensuring that the Company has complied with its investment restrictions. The Board also reviews the performance of the Company against its target return (as defined in the Prospectus) and, in light of the current market conditions, considers the strategy taken by the Investment Manager. Approval of the half-yearly report and financial statements, announcements, dividends and annual report and financial statements are also reserved for the Board.

CORPORATE GOVERNANCE REPORT *(continued)*

The Board and its Committees *(continued)*

Audit Committee

The Company's Audit Committee, comprising all the independent Directors of the Company, meets at least three times a year. John Renouf is the chairman of the Audit Committee.

The Audit Committee:

- Monitors the financial reporting process;
- Monitors the effectiveness of the Company's internal control and risk management systems;
- Monitors the annual statutory audit process;
- Reviews and monitors the independence of the Company's auditor in particular in relation to the auditor's provision of additional services to the Company;
- Reviews the whistleblowing procedures of the Investment Manager; and
- Is responsible for recommending valuations of the Company's investments to the Board.

Details of the internal control and reporting processes can be found in the internal control and financial reporting processes section of the Directors' Report on page 29.

Management Engagement Committee

The Company's Management Engagement Committee, comprising all the independent Directors of the Company, meets at least once a year. William Scott is the chairman of the Management Engagement Committee.

The Management Engagement Committee monitors the performance of the Company's Investment Manager and other key service providers.

Nomination and Remuneration Committee

The Company's Nomination and Remuneration Committee, comprising all the independent Directors of the Company, meets at least once a year. Max Hilton is the chairman of the Nomination and Remuneration Committee.

The Nomination and Remuneration Committee considers the appointment and reappointment of Directors and ensures that the Company maintains fair and appropriate remuneration policies and controls.

The Directors' Remuneration Report and Directors' tenure policy can be found on pages 39 to 42.

Board meeting attendance

During the year, the Company held eight Board meetings, three Audit Committee meetings, one Management Engagement Committee meeting and one Nomination and Remuneration Committee meeting. Attendance at these meetings is detailed below:

	Board meetings	Audit Committee meetings	Management Engagement Committee meetings	Nomination and Remuneration Committee meetings
William Scott	9/9	3/3	1/1	1/1
John Renouf	9/9	3/3	1/1	1/1
Max Hilton	9/9	3/3	1/1	1/1

CORPORATE GOVERNANCE REPORT *(continued)*

Board's performance evaluation

During the year, the Nomination and Remuneration Committee undertook its annual performance evaluation of the Board. The Directors completed a broad-reaching questionnaire produced by the Administrator, whereby each individual evaluated the Board, its committees and the other Directors, the results of which were collated and reviewed in detail by the Nomination and Remuneration Committee and Board. As part of the evaluation, the Directors considered, amongst other things:

- the independence of each Director;
- the skill sets and contribution to the Board of each Director; and
- the Board's culture, including its policies, practices and behaviour;

It was determined that overall, the Board was fit for purpose and that each of the Directors continued to contribute effectively to the Board and its committees.

Review of service providers

During the year, the Management Engagement Committee conducted a formal review of the Company's service providers and concluded that each of the Company's service providers had performed either satisfactorily or well. In the opinion of the Management Engagement Committee and Board, the continued appointment of the Investment Manager and the Company's key service providers would be in the best interests of the Shareholders as a whole, however, due to the Proposals put to shareholders, protective notice has been served on all of the Company's key service providers. However, CACEIS refused to accept the protective notice but the Board noted CACEIS's three month notice period and that the fee was immaterial.

Relations with Shareholders and EGM

The Company encourages two-way communication with both its institutional and private investors and intends to respond quickly to queries raised. Details of the topics discussed with Shareholders during the year can be found on page 25.

All Shareholders have the opportunity to attend and vote, in person or by proxy, at the forthcoming EGM. The notice of the EGM, which will be circulated to all registered Shareholders, sets out the business of the meeting and an explanation of each proposed resolution. Separate resolutions are proposed in respect of each substantive issue.

Shareholders are encouraged to attend the EGM and to participate in the proceedings. The Chairman of the Board and other members of the Board, together with representatives of the Investment Manager, will be available to answer Shareholders' questions at the EGM. Proxy voting figures will be available to Shareholders at the EGM.

Further details of the Proposals for the implementation of the Scheme to be voted on at the EGM will be described in the Circular, which, when finalised, will be made available on the Company's section of the Investment Manager's website (https://axiom-ai.com/web/en/axiom-european-financial-debt-fund-limited-2/).

The Company has engaged the Broker and a public relations firm to monitor media coverage and actively engage with media sources as necessary. The Board receives an update from the Broker and the Investment Manager on a quarterly basis and considers measures to address concerns as they arise. The Investment Manager holds regular discussions with major Shareholders, the feedback from which is provided to, and greatly valued by, the Board. The Directors are available to enter into dialogue and correspondence with Shareholders regarding the progress and performance of the Company.

On behalf of the Board

William Scott
Chairman
21 March 2023

AUDIT COMMITTEE REPORT

Composition

The The Audit Committee comprises all the independent Directors of the Company, all of whom have recent relevant financial and sector experience, and is chaired by John Renouf. John Renouf has substantial business experience together with the necessary experience in accounting and auditing. Both Mr Renouf and Mr Scott are qualified accountants and Mr Hilton has experience in portfolio and risk management.

Responsibilities

The Audit Committee monitors the integrity of the financial statements of the Company, including its annual and half-yearly reports and any other formal announcement relating to its financial performance, reviewing and reporting to the Board on significant financial reporting issues and judgements which they contain, having regards to matters communicated to it by the external auditor.

The Audit Committee monitors potential changes to the UK Code, AIC Code and relevant legislation relating to the appointment of auditors, restrictions on the non-audit services provided by external auditors and the fees they receive.

The key responsibilities and principal activities of the Audit Committee, as identified in its terms of reference and other than as mentioned above, are as follows:

- To review, and challenge where necessary, the consistency of, and any changes to, significant accounting policies both on a year-on-year basis;
- To review, and challenge where necessary, the methods used to account for significant or unusual transactions where different approaches are possible;
- To review, and challenge where necessary, any significant adjustments resulting from the audit;
- To review, and challenge where necessary, the going concern assumption;
- To review, and challenge where necessary, whether the Company has followed applicable regulatory and legal requirements and appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor;
- To review, and challenge where necessary, the clarity and completeness of disclosure in the Company's financial reports and the context in which statements are made;
- To review, and challenge where necessary, any valuations provided in relation to the Company's investments; and
- To review, and challenge where necessary, all material information presented with the financial statements, such as the strategic report and any corporate governance statements relating to audit management.

As the Company has no employees, the Company does not have a whistleblowing policy in place. However, the Audit Committee reviews the whistleblowing procedures of the Investment Manager and the external service providers to ensure that the concerns of their staff may be raised in a confidential manner.

Meetings

The Audit Committee meets at least three times a year at appropriate intervals in the financial reporting and audit cycle. Further meetings take place when the chairman of the Audit Committee or other members deem necessary. Only the Audit Committee members have the right to attend and vote at these meetings. However, other individuals, such as representatives of the Investment Manager, other representatives from the finance function of the Company (including the Administrator), and the external auditor may be invited to attend all or part of any meeting.

Primary areas of judgement in relation to the Annual Report and Financial Statements

The Audit Committee has considered the significant judgements made in the Annual Report and Financial Statements. The Audit Committee pays particular attention to the matters it considers to be important by virtue of size, potential impact, complexity and level of judgement.

AUDIT COMMITTEE REPORT *(continued)*

Primary areas of judgement in relation to the Annual Report and Financial Statements *(continued)*
The Company places reliance on the control environment of its service providers, including its independent administrator and the Investment Manager. The internal controls over financial reporting were considered, together with feedback from the Company's Investment Manager, Company Secretary and the Company's external auditor. The Audit Committee is satisfied with the controls in place.

The Audit Committee has considered the valuation of Level 2 investments at fair value through profit or loss. It is satisfied that the valuations are in accordance with the Company's accounting policies and that the carrying values used in these financial statements represent an appropriate fair value. The Company has no Level 3 investments.

The Audit Committee has also considered the methodology used for revenue recognition and is satisfied that the revenue recognised in these financial statements is in accordance with the Company's accounting policies and the requirements of IFRS.

The Audit Committee met with the audit team during the audit process and, after considering the audit process and various discussions with Grant Thornton, the Investment Manager and the Administrator, are satisfied that the audit was undertaken in an effective manner and addressed the main risks. The Audit Committee received a report and supporting presentation from Grant Thornton on its audit of the financial statements for the financial year ended 31 December 2022.

Fair, balanced and understandable
The Audit Committee read and discussed the Annual Report, with special attention to the considerations included above and the Audit Committee and the Board concluded that it is fair, balanced and understandable. The Audit Committee advised the Board that the Annual Report and Financial Statements are fair, balanced, and understandable and provide the information necessary for Shareholders to assess the Company's performance, position, business model and strategy.

Viability Statement
The Audit Committee reviewed the Viability Statement and supporting workings and recommended to the Board that the Viability Statement included on page 28 should be approved.

Internal audit
The Audit Committee and the Board have considered the need for an internal audit function and they have decided that the procedures employed by the Investment Manager and Administrator give sufficient assurance that a sound system of internal control is maintained. Therefore, an internal audit function is not considered to be necessary. In accordance with the Audit Committee's terms of reference, the requirement has been re-visited annually.

External audit
The Audit Committee met with Grant Thornton twice during the year, firstly on 21 March 2022 to present the audit findings report and discuss the audit of the 31 December 2021 financial statements and then on 12 December 2022 at which Grant Thornton presented the detailed audit plan for the audit of the 31 December 2022 financial statements. No significant issues were noted in the audit findings report presented.

The audit plan sets out the audit scope, the significant audit risks the Company faces, Grant Thornton's position on audit independence, materiality, proposed timetable and audit fee. Following completion of the audit, the Audit Committee reviewed Grant Thornton's effectiveness by:

- Discussing the overall risk-based audit process and the audit procedures taken to address the identified significant audit risks;
- Considering the feedback on the audit provided by the Investment Manager and the Administrator; and
- Considering the experience, involvement of specialists and continuity of the audit team, including the audit partner.

The feedback provided by the Investment Manager and the Administrator regarding the audit team's performance was positive. The Audit Committee acknowledged that the audit team, including the audit partner, comprised staff with appropriate levels of knowledge and experience.

AUDIT COMMITTEE REPORT *(continued)*

External audit *(continued)*

Certain non-audit services may be provided by the external auditor, subject to the level of fees involved, which are not considered to impair the external auditor's independence or objectivity. The Audit Committee considered the safeguards in place to protect the external auditor's independence by taking into account Grant Thornton's report to the Audit Committee that its objectivity had not been compromised. The Audit Committee agreed that the following services are prohibited from being provided by the external auditor: bookkeeping, payroll, administration services, management functions, executive recruiting and human resource services, broker-dealer services, expert services unrelated to their audit function and actuarial services. This list may also include any service that the Audit Committee determines not to be permissible.

For the year ended 31 December 2022, total fees charged by Grant Thornton, together with amounts accrued at 31 December 2022, amounted to £48,000 all of which related to audit services (2021: £40,850, all of which related to audit services).

Having undertaken a formal audit tender process during 2020 and due to the upcoming vote on the Proposals for the implementation of the Scheme, the Audit Committee has no immediate plans to conduct another one, but considers the need for a tender at least annually.

Should Shareholders not vote in favour of the Proposals, a resolution to re-appoint Grant Thornton as Auditor will be proposed at the forthcoming AGM.

On behalf of the Audit Committee

John Renouf
Chairman of the Audit Committee
21 March 2023

DIRECTORS' REMUNERATION REPORT

The Nomination and Remuneration Committee was established to consider the appointment and reappointment of Directors and ensure that the Company maintains fair and appropriate remuneration policies and controls. The Nomination and Remuneration Committee comprises all the independent Directors of the Company and is chaired by Max Hilton.

The Company is not required to present a Directors' Remuneration Report, and this report does not purport to meet all of the requirements of a typical listed UK company's Directors' Remuneration Report, but has been provided as the Directors believe that it may be useful to users of this annual report and financial statements.

The Directors, all of whom are independent non-executive Directors, are the only officers of the Company. Copies of the Directors' letters of appointment are available upon request from the Company Secretary and are available for inspection at each AGM.

Tenure policy
At every AGM any Director:

- who has been appointed by the Board since the previous AGM;
- who held office at the time of the two preceding AGMs and who did not retire at either of them; or
- who has held office with the Company, other than employment or executive office, for a continuous period of nine years or more at the date of the meeting;

shall retire from office and may offer themselves for re-appointment by the holders.

However, in accordance with the requirements of the AIC Code, all Directors retire at each AGM and, if eligible, may offer themselves for re-election.

In accordance with the AIC Code, if and when any Director has been in office (or upon re-election would at the end of that term, be in office) for more than nine years, or in the case of the Chairman ten years, the Company will consider whether there is a risk that such Director might reasonably be deemed to have lost independence through such long service. The term for the Chairman has been deemed to be ten years (not nine years) to help to ensure some continuity within the Board, as all three of the Directors were appointed on the same date.

Termination policy
Should a Director not be re-elected by Shareholders, or retires from office under the Articles of Incorporation, the appointment shall be terminated with immediate effect and without compensation.

A Director may resign at any time by notice in writing to the Board in accordance with the Articles of Incorporation.

The Company may terminate a Director's appointment with immediate effect should the Director have:

- Committed any serious breach or (after warning in writing) any repeated or continued material breach of their obligations to the Company; or
- Been guilty of any act of dishonesty, fraud or serious misconduct or any conduct which (in the reasonable opinion of the Board) tends to bring the Director or Company into disrepute.

Succession policy
The Board gives full consideration to succession planning, including the succession of the Chairman and Directors in the course of its work, taking into account the challenges and opportunities facing the Company, and what skills and expertise are therefore needed on the Board in the future.

Overboarding policy
To ensure that each Director has sufficient time to meet their responsibilities to the Company, the Board has adopted an overboarding policy which outlines its expectations regarding the time commitments of the Directors.

Should a Director wish to take on an additional external directorship of a London listed, or equivalent, company, or is anticipating a significant increase in time commitment of an existing appointment, details must be provided to the Chairman (or, if the Chairman is taking on the external directorship, the Chairman of the Audit Committee) for approval prior to accepting the external directorship or additional time commitment.

DIRECTORS' REMUNERATION REPORT *(continued)*

Overboarding policy *(continued)*
The Director should:

- Confirm that the external directorship or change in time commitment is not in conflict with the Company;
- Provide an estimate of the time commitment required;
- Confirm that they have sufficient surplus capacity to meet their commitments to the Company; and
- Confirm that no commercial conflict of interest is likely to arise or be perceived to arise.

To assist in the Chairman's decision, on an ongoing basis, at each Board meeting, the Directors confirm that they continue to have sufficient time capacity.

Remuneration policy
The Directors shall be paid such remuneration for their services as determined by the Board, save that, unless otherwise determined by the Company by ordinary resolution, the Directors' combined remuneration shall not exceed £200,000 per annum.

In setting the level of each non-executive Director's fee, the Company had regard to: the time commitments expected; the level of skill and experience of each Director; and the current market and levels of companies of similar size and complexity. Following this evaluation, the Board determined that the fees set out in this remuneration policy were appropriate. No external remuneration consultants were appointed during the financial period.

Under the terms of their appointments as non-executive Directors, the Directors are entitled to the following annual fees:

	£
William Scott – *Chairman*	35,000
John Renouf – *Chairman of the Audit Committee*	32,500
Max Hilton	27,500

All of the Directors are also entitled to be paid all reasonable expenses properly incurred by them in attending general meetings, board or committee meetings or otherwise in connection with the performance of their duties. The Board may determine that additional remuneration may be paid, from time to time, to any one or more Directors in the event such Director or Directors are requested by the Board to perform extra or special services on behalf of the Company. The Directors do not participate in any discussions relating to their own fee, which is determined by the other Directors.

The Company does not pay any remuneration to the Directors for loss of office.

On termination of the appointment, Directors shall only be entitled to such fees as may have accrued to the date of termination, together with reimbursement in the normal way of any expenses properly incurred prior to that date.

Annual report on remuneration
Service contracts obligations and payment on loss of office
No Director has a service contract with the Company and, as such, no Director is entitled to compensation payments upon termination of their appointment or loss of office.

DIRECTORS' REMUNERATION REPORT *(continued)*

Annual report on remuneration *(continued)*

Total remuneration paid to each Director

The total remuneration of the Directors for the year ended 31 December 2022 was:

	Year ended 31 December 2022 £	Year ended 31 December 2021 £
William Scott	35,000	35,000
John Renouf	32,500	32,500
Max Hilton	27,500	27,500
Total	**95,000**	**95,000**

All of the above remuneration relates to fixed annual fees.

Directors are not eligible for bonuses, share options or long-term incentive schemes or other performance-related benefits. There are no pension arrangements in place for the Directors of the Company. Accordingly, there were no other items in the nature of remuneration, pension entitlements or incentive scheme arrangements which were paid or accrued to the Directors during the year.

During the year, no payments were made to persons who had previously been directors of the Company.

Share price total return

The graph below shows the total shareholder return (Published NAV plus dividend) for Shareholders of the Company, measured against the ICE BofAML GBP Financial Index, which the Company believes is the most appropriate comparative index. Both the total shareholder return and index have been rebased to 100 at the Company's launch on 5 November 2015.

DIRECTORS' REMUNERATION REPORT *(continued)*

Directors' shareholdings in the Company
Directors are not required under the Company's Articles of Incorporation or letters of appointment to hold shares in the Company.

As at 31 December 2022, and at the date of this report the Directors did not hold any shares in the Company.

Board diversity
Currently the Board has three male Directors. The Directors consider the current Board structure, size and composition required, taking into account the challenges and opportunities facing the Company. In considering future candidates, the appointments would have been made with regard to a number of different criteria, including diversity of gender, background and personal attributes, alongside the appropriate skills, experience and expertise but given the probable imminent liquidation of the Company, it is not proposed to make any changes at this time.

The Board is committed to diversity at Board level and is supportive of increased diversity but recognises that it may not always be in the best interests of Shareholders to prioritise this above other factors.

On behalf of the Board

Max Hilton
Chairman of the Nomination and Remuneration Committee
21 March 2023

REGULATORY DISCLOSURES

AIFMD disclosures

In accordance with the AIFMD, the Company is classified as an AIF and has appointed the Investment Manager as its AIFM to provide portfolio management and risk management services to the Company in accordance with the investment management agreement.

The Investment Manager is a full-scope AIFM to the Company and therefore must comply with various organisational, operational, reporting, regulatory capital, conduct of business and transparency obligations.

Report on remuneration

The AIFMD requires certain disclosures to be made with regard to the remuneration policy of the Company's AIFM. The total remuneration of the staff of the Investment Manager during the period was £4,804,000 (2021: £4,869,000), comprising £2,790,000 fixed (2021: £2,640,000) and £2,014,000 variable (2021: £2,229,000) remuneration. There were 30 beneficiaries (2021: 30). The aggregate amount of remuneration of senior management and members of staff of the AIFM whose actions have a material impact on the risk profile of the Company during the period was £3,580,000 (2021: £3,831,000).

KID

The Company's KID, which has been prepared in accordance with the requirements of the packaged retail investment products legislation, is available on the Company's section of the Investment Manager's website (http://axiom-ai.com/web/en/axiom-european-financial-debt-fund-limited-2/).

Risk disclosures

The financial risk disclosures relating to the risk framework and liquidity risk, as required by the AIFMD, are set out in note 24.

Pre-investment disclosures

The AIFMD requires certain information to be made available to investors in AIFs before they invest and requires that material changes to this information be disclosed in the annual report of each AIF. The Company's Prospectus, which sets out information on the Company's investment strategy and policies, leverage, risk, liquidity, administration, management, fees, conflicts of interest and Shareholder information, is available on the Company's section of the Investment Manager's website (http://axiom-ai.com/web/en/axiom-european-financial-debt-fund-limited-2/). There have been no changes to this information requiring disclosure. Any information requiring immediate disclosure pursuant to the AIFMD will be disclosed to the London Stock Exchange.

Sustainable Finance Disclosure Regulation ("SFDR") disclosures

In accordance with the SFDR, the Company's ESG policy can be found on page 23.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF AXIOM EUROPEAN FINANCIAL DEBT FUND LIMITED

Opinion

We have audited the financial statements of Axiom European Financial Debt Fund Limited (the 'Company') for the year ended 31 December 2022 which comprise the Statement of Comprehensive Income, the Statement of Changes in Equity, the Statement of Financial Position, the Statement of Cash Flows and Notes to the Financial Statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK-adopted International Accounting Standards.

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2022 and of the Company's loss for the year then ended;
- are in accordance with UK-adopted International Accounting Standards; and
- comply with the Companies (Guernsey) Law, 2008.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Guernsey/Jersey, including the FRC's Ethical Standard as applied to listed entities/ public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter – basis of preparation of the financial statements

We draw attention to Note 2 to the financial statements, which describes the basis of preparation of the financial statements. As described in that note, the Directors are putting forward proposal for liquidations of the Company subject to Shareholders' approval and accordingly the Directors have prepared the financial statements on a basis other than going concern. Our opinion is not modified in this respect of this matter.

Our approach to the audit

Grant Thornton

Materiality

Overall materiality was £835,337, which represents 1% of the Company's Net Asset Value "NAV" as of 30 September 2022, determined at planning stage of the audit.

Audit scope

- We have performed our audit work in Guernsey and conducted our audit of the financial statements based on information provided by the appointed service providers to the Company to whom the directors have delegated the provision of certain functions, including Elysium Fund Management Limited, Administrators of the Company.
- We have performed our audit on a risk-based substantive audit approach and tailored the scope of our audit considering the types of investments within the Company, the accounting processes and controls and the industry in which the Company operates.
- We have identified valuation of level 2 financial instruments at fair value through profit or loss as key audit matters. Refer to the overview of key audit matters for detailed discussion.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF AXIOM EUROPEAN FINANCIAL DEBT FUND LIMITED *(continued)*

Our approach to the audit *(continued)*

Audit scope (continued)

- We have a presumption that the risk of management over-ride of controls is present in the Company, under ISA (UK) 240. We obtained understanding of the oversight given by those charged with governance and took consideration of the effectiveness of management's controls. We reviewed the accounting estimates, judgements and decisions, and reviewed the journal entries for any unusual transactions.
- For this year's audit, it has been determined by the Board that the Company should not be considered a going concern and therefore the financial statements have been prepared under a basis other than going concern. We have obtained confirmation of management's intention to wind down the Company which is subject for shareholders' approval during EGM at the end of May 2023. We have considered the balances and transactions have been appropriately reported in accordance with the non-going concern basis of preparation.

The Company is a Guernsey-incorporated company which is listed on London Stock Exchange.

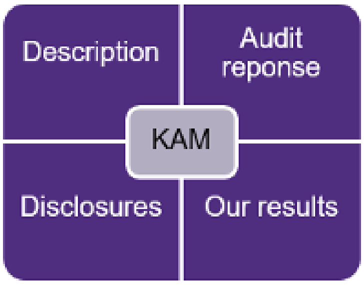
Key audit matters were identified as:

Valuation of level 2 financial instruments at fair value through profit or loss (same as pervious year).

Level 2 financial instruments include broker quoted bonds, credit default swap agreements, foreign currency forward contracts, sale and repurchase agreements and options. We independently obtained prices from Thompson Reuters, Bloomberg, published net asset values per share' figures from independent sources and compared it to the prices within the valuation model. Where this pricing information was not available, we derived an independent mark-to-model valuation based on market inputs for comparable instruments with similar structural and credit characteristics. For credit default swap, we engaged with our valuation expert to challenge the valuations and confirm the appropriateness of the valuation methodology of credit default swap based on market information and industry knowledge and expertise.

Our auditor's report for the year ended 31 December 2022 included no key audit matters that have not been reported as key audit matters in our current year's report.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF AXIOM EUROPEAN FINANCIAL DEBT FUND LIMITED *(continued)*



Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key audit matter

Valuation of Level 2 financial instruments at fair value through profit or loss

Financial Assets 2022: £0.3m (2021: £4.7m)

Financial Liabilities 2022: £1.3m (2021: £10.5m)

Level 2 financial instruments include broker quoted bonds, credit default swap agreements, foreign currency forward contracts, sale and repurchase agreements and options. Each of these financial investments are valued by the Investment Manager using market observable inputs. The fair value of the other investments are based on the market price of the underlying securities.

We identified the valuation of level 2 financial instruments at fair value through profit or loss as one of the significant assessed risks of material misstatement due to fraud or error.

There is a risk that fair values of Level 2 financial instruments may be misstated due to the application of inappropriate valuation methodologies and/or use of incorrect assumptions and market related inputs.

Refer to the accounting policies on pages 58-62, and Note 19, Fair value of financial instruments at fair value through profit or loss, to the Financial Statements.

How the matter was addressed in our audit

In responding to the key audit matter, we performed the following audit procedures:

- Updated and confirmed our understanding of valuation processes, policies, and methodologies implemented by the investment manager relevant to the valuation of financial instruments, and confirmed the valuation process was overseen by those charged with governance;
- Performed a walkthrough of key controls relating to the valuation of the Company's financial instruments to test whether controls are appropriately designed and implemented.

For Investments in Capital Instruments

- Independently obtaining prices from Thompson Reuters and compared it to the prices within the valuation model. Where this pricing information was not available, we derived an independent mark-to-model valuation based on market inputs for comparable instruments with similar structural and credit characteristics;
- Assessing whether valuations had been performed in accordance with the requirements of UK-adopted international accounting standards and in line with the Company's accounting policies;

Our results

Based on our audit work, we are satisfied that the Level 2 financial instruments are fairly stated in accordance with IFRS and the Company's accounting policies.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF AXIOM EUROPEAN FINANCIAL DEBT FUND LIMITED *(continued)*

Our application of materiality

We apply the concept of materiality both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report.

Materiality was determined as follows:

Materiality measure	Company
Materiality for financial statements as a whole	We define materiality as the magnitude of misstatement in the financial statements that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of these financial statements. We use materiality in determining the nature, timing and extent of our audit work.
Materiality threshold	£835,337 (2021: £968,000) which is 1% of Company's NAV as at 30 September 2022, determined at the planning stage of the audit.
Significant judgements made by auditor in determining the materiality	In determining materiality, we made the following significant judgements: • NAV was considered the most appropriate benchmark as the Company's primary performance measures for internal and external reporting are based on NAV; and • We have not updated the materiality to 31 December 2022 NAV as the planning materiality determined was lower and based on our professional judgement, it was appropriate to use the initial materiality for audit purposes; and • Our materiality threshold was set at the lower end of our acceptable range due to the Company being a listed entity and in line with our methodology.
Performance materiality used to drive the extent of our testing	We set performance materiality at an amount less than materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.
Performance materiality threshold	£626,500 (2021: £678,000) which is 75% of financial statement materiality.

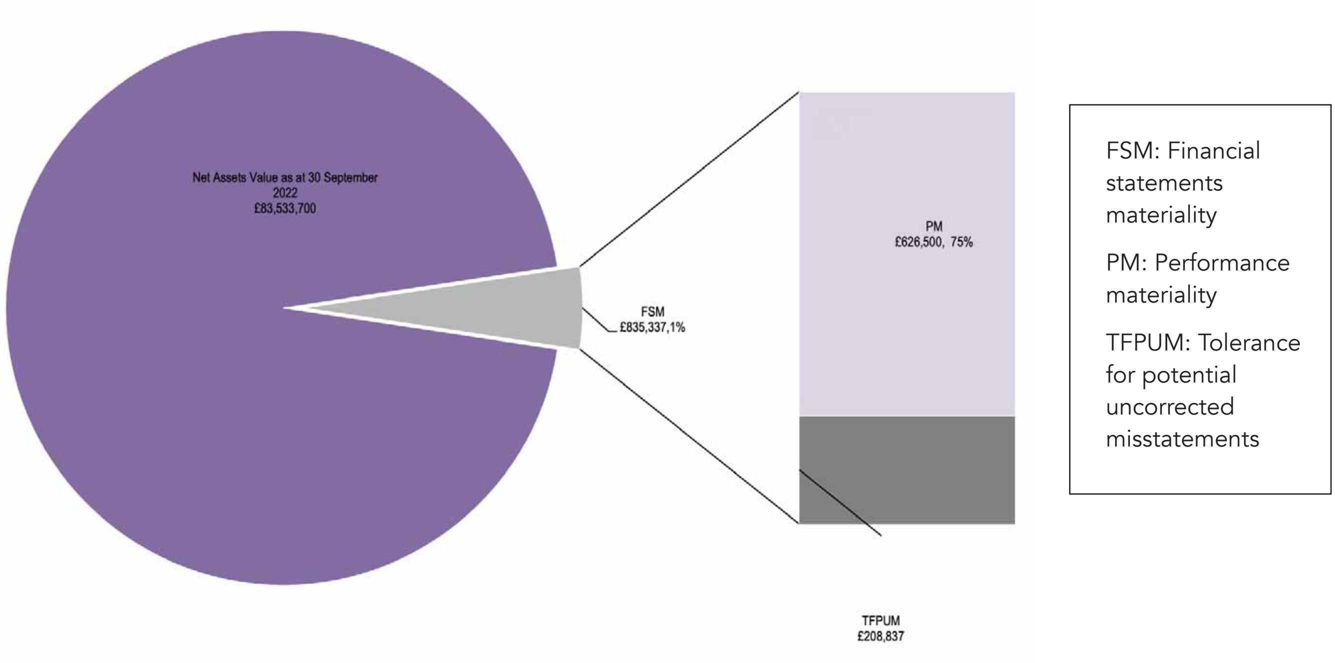
INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF AXIOM EUROPEAN FINANCIAL DEBT FUND LIMITED *(continued)*

Our application of materiality *(continued)*

Materiality measure *(continued)*	**Company *(continued)***
Significant judgements made by auditor in determining the performance materiality	In determining materiality, we made the following significant judgements: Our determination is based on our risk assessments, together with our assessment of the Company's overall control environment, we set performance materiality at 75% (2021: 70%) of our materiality. There is no history of material misstatements, based on which our expectation of the likelihood of misstatement in the future is low and we have a strong understanding of the control environment. Our objective in adopting this approach was to ensure that total uncorrected and undetected audit differences in the Financial Statements did not exceed our materiality level.
Communication of misstatements to the audit committee	We determine a threshold for reporting unadjusted differences to the audit committee.
Threshold for communication	£41,700 (2021: £48,400) and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

The graph below illustrates how performance materiality interacts with our overall materiality and the tolerance for potential uncorrected misstatements.

Overall materiality



INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF AXIOM EUROPEAN FINANCIAL DEBT FUND LIMITED *(continued)*

An overview of the scope of our audit

We performed a risk-based audit that requires an understanding of the Company's business and in particular matters related to:

- Assessment of audit risk, our evaluation of materiality and our allocation of performance materiality to determine our audit scope for the Company. We took into account size, risk profile, the organisation of the Company and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed;
- The day-to-day management of the Company's investment portfolio, the custody of its investments and the maintenance of the Company's accounting records is outsourced to third-party service providers. Accordingly, our audit work is focussed on obtaining an understanding of, and evaluating, internal controls at the Company and the third-party service providers, and inspecting records and documents held by these third-party service providers;
- We undertook substantive testing on significant transactions, balances and disclosures, the extent of which was based on various factors such as our overall assessment of the control environment, the effectiveness of controls over individual systems and the management of specific risks; and
- For subjective estimates made by management on valuing credit default swaps, we engaged an external expert to confirm the appropriateness of the valuation methodology used with consideration to valuation techniques routinely used by market participants to value similar instruments and to value 100% of credit default swaps held at year end.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. 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.

Corporate governance statement

The Listing Rules require us to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Company's compliance with the provisions of the UK Corporate Governance Statement specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit:

- the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- the directors' explanation in the annual report as to how they have assessed the prospects of the Company, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet their liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions;

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF AXIOM EUROPEAN FINANCIAL DEBT FUND LIMITED *(continued)*

Corporate governance statement *(continued)*

- the directors' statement that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy;
- the directors' confirmation in the annual report that they have carried out a robust assessment of the principal and emerging risks facing the Company and the disclosures in the annual report that describe the principal risks, procedures to identify emerging risks and an explanation of how they are being managed or mitigated;
- the section of the annual report that describes the review of the effectiveness of Company's risk management and internal control systems, covering all material controls, including financial, operational and compliance controls; and
- the section of the annual report describing the work of the audit committee, including significant issues that the audit committee considered relating to the financial statements and how these issues were addressed.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters in relation to which The Companies (Guernsey) Law, 2008 requires us to report to you if, in our opinion:

- proper accounting records have not been kept by the Company; or
- the financial statements are not in agreement with the accounting records; or
- we have not obtained all the information and explanations, which to the best of our knowledge and belief, are necessary for the purposes of our audit.

Responsibilities of directors for the financial statements
As explained more fully in the directors' responsibilities statement set out on page 32, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the 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 the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements
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 an auditor's 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 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud
Irregularities, including fraud, are instances of non-compliance with laws and regulations. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below:

- We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF AXIOM EUROPEAN FINANCIAL DEBT FUND LIMITED *(continued)*

Auditor's responsibilities for the audit of the financial statements *(continued)*

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud (continued)

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- We obtained an understanding of the legal and regulatory frameworks applicable to the Company and industry in which it operates. We determined that the following laws and regulations were most significant: UK-adopted International Accounting Standards, Companies (Guernsey) Law, 2008, UK Corporate governance code, FCA Listing Rules, FCA Disclosure Guidance and Transparency Rules, Principles and recommendations of the AIC Code of Corporate Governance and the relevant tax compliance regulations in the jurisdictions in which the Company operates. In addition, we concluded that there are certain significant laws and regulations that may have an effect on the determination of the amounts and disclosures in the financial statements and those laws and regulations relating to health and safety, employee matters, and bribery and corruption practices;
- We understood how the Company is complying with those legal and regulatory frameworks by making inquiries to management and those responsible for legal and compliance procedures. We corroborated our inquiries through our review of board minutes and papers provided to the Audit Committee.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur. Audit procedures performed by the engagement team included:
  - identifying and assessing the design effectiveness of controls management has in place to prevent and detect fraud;
  - challenging assumptions and judgements made by management in its significant accounting estimates;
  - utilising a valuation specialist to perform stress testing on managements' valuation calculations;
  - identifying and testing journal entries, in particular any journal entries posted with unusual account combinations; and
  - assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.

No matters regarding non-compliance with laws and regulations and fraud were communicated with the engagement team by management and no key audit matters relating to these have been identified.

- In assessing the potential risks of material misstatement, we obtained an understanding of:
  - the Company's operations, including the nature of its revenue sources, products and services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement;
  - the applicable statutory provisions; and
  - the Company's control environment, including:
  - the policies and procedures implemented to comply with the requirements of its regulator, including the adequacy of the training to inform staff of the relevant legislation rules and other regulations of the regulator;
  - the adequacy of procedures for authorisation of transactions, internal review procedures over Company's compliance with regulatory requirements;
  - the authority of, and resources available to the compliance officer; and
  - procedures to ensure that possible breaches of requirements are appropriately investigated and reported.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF AXIOM EUROPEAN FINANCIAL DEBT FUND LIMITED *(continued)*

Other matters which we are required to address

Following the recommendation of the audit committee, we were appointed by the Board of Directors on 11 August 2020 to audit the financial statements for the year ended 31 December 2020 and subsequent financial periods.

The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 3 years, covering the periods ended 31 December 2020 to 31 December 2022.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company and we remain independent of the Company in conducting our audit.

Our audit opinion is consistent with the additional report to the audit committee.

Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Section 262 of The Companies (Guernsey) Law, 2008. 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.

Cyril Swale
For and on behalf of Grant Thornton Limited
Chartered Accountants
St Peter Port
Guernsey
21 March 2023

STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2022

	Note	Year ended 31 December 2022 £'000	Year ended 31 December 2021 £'000
Income			
Capital instrument income		6,084	5,180
Credit default swap income		713	1,107
Bank interest receivable		73	5
Total income		**6,870**	**6,292**
Investment gains and losses on investments held at fair value through profit or loss			
Realised (losses)/gains on disposal of capital instruments and other investments	*15*	(2,716)	8,269
Movement in unrealised losses on capital instruments and other investments	*15*	(9,358)	(986)
Realised gains on derivative financial instruments	*18*	971	5,223
Movement in unrealised losses on derivative financial instruments	*18*	(579)	(1,294)
Total investment gains and losses		**(11,682)**	**11,212**
Expenses			
Gains/(losses) on foreign currency		552	(721)
Other expenses	*12*	(784)	(296)
Investment management fee	*8a*	(744)	(866)
Interest payable and similar charges	*11*	(150)	(52)
Administration fee	*8b*	(139)	(132)
Directors' fees	*8f*	(95)	(95)
Performance fee	*8a*	–	(596)
Total expenses		**(1,360)**	**(2,758)**
(Loss)/profit for the year attributable to the Owners of the Company		**(6,172)**	**14,746**
(Loss)/earnings per Ordinary Share: basic and diluted	*14*	**(6.72)p**	**16.05p**

The Company does not have any income or expenses that are not included in profit for the year. Therefore, the loss for the year is also the total comprehensive loss for the year.

The accompanying notes on pages 57 to 83 form an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2022

	Note	Distributable reserves £'000	Performance fee reserve £'000	Total £'000
Opening balance at 1 January 2021		87,350	–	87,350
Profit for the year ended 31 December 2021		14,746	–	14,746
50% Performance fee payable in Shares	*8a*	–	298	298
Contributions by and distributions to Owners				
Dividends paid	*6*	(5,511)	–	(5,511)
At 31 December 2021		**96,585**	**298**	**96,883**
Loss for the year ended 31 December 2022		(6,172)	–	(6,172)
Contributions by and distributions to Owners				
Dividends paid	*6*	(5,511)	–	(5,511)
At 31 December 2022		**84,902**	**298**	**85,200**

The share capital has not been presented separately in the above Statement of Changes in Equity as the Ordinary Shares have no par value, and hence the share capital is £nil.
The Performance fee reserve is also distributable.
The accompanying notes on pages 57 to 83 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

as at 31 December 2022

	Note	As at 31 December 2022 £'000	As at 31 December 2021 £'000
Current assets			
Investments in capital instruments at fair value through profit or loss	*15, 19*	77,735	85,449
Cash and cash equivalents		3,356	7,713
Other investments at fair value through profit or loss	*15, 19*	1,836	4,874
Derivative financial assets at fair value through profit or loss	*18*	260	4,506
Collateral accounts for derivative financial instruments at fair value through profit or loss	*16, 18*	4,164	4,119
Other receivables and prepayments	*17*	2,058	2,143
Total assets		**89,409**	**108,804**
Current liabilities			
Derivative financial liabilities at fair value through profit or loss	*18*	(1,314)	(6,555)
Bank overdrafts		(2,234)	(693)
Other payables and accruals	*20*	(661)	(649)
Short position(s) covered by reverse sale and repurchase agreements	*15, 19*	–	(3,932)
Collateral accounts for derivative financial instruments at fair value through profit or loss	*16, 18*	–	(92)
Total liabilities		**(4,209)**	**(11,921)**
Net assets		**85,200**	**96,883**
Share capital and reserves			
Share capital	*21*	–	–
Distributable reserves		84,902	96,585
Performance fee reserve		298	298
Total equity holders' funds		**85,200**	**96,883**
Net asset value per Ordinary Share: *basic and diluted*	*22*	**92.76p**	**105.48p**

These financial statements were approved by the Board of Directors on 21 March 2023 and were signed on its behalf by:

William Scott
Chairman
21 March 2023

John Renouf
Director
21 March 2023

The accompanying notes on pages 57 to 83 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS

for the year ended 31 December 2022

	Note	Year ended 31 December 2022 £'000	Year ended 31 December 2021 £'000
Cash flows from operating activities			
Net (loss)/profit		(6,172)	14,746
Adjustments for:			
Foreign exchange movements		(552)	721
Total investment losses/(gains) at fair value through profit or loss		11,682	(11,212)
Capital instrument income		(6,084)	(5,180)
CDS income		(713)	(1,107)
Interest on sale and repurchase agreements		90	(2)
Performance fee reserve		–	298
Cash flows relating to financial instruments:			
Payment (to)/from collateral accounts for derivative financial instruments	*16*	(137)	1,538
Purchase of investments at fair value through profit or loss		(38,911)	(87,768)
Sale of investments at fair value through profit or loss		37,537	90,710
Premiums received from selling credit default swap agreements	*18*	1,584	274
Premiums paid on buying credit default swap agreements	*18*	–	(83)
Purchase of foreign currency derivatives	*18*	(197,420)	(185,824)
Close-out of foreign currency derivatives	*18*	195,378	189,680
Purchase of bond futures	*18*	(929)	(4,234)
Sale of bond futures	*18*	2,805	4,977
Proceeds from sale and repurchase agreements	*18*	18,156	20,821
Payments to open reverse sale and repurchase agreements	*18*	–	(4,166)
Payments for closure of sale and repurchase agreements	*18*	(24,350)	(26,437)
Proceeds from closure of reverse sale and repurchase agreements	*18*	4,175	3,898
Opening of short position(s)		–	3,844
Closure of short position(s)		(3,418)	(1,932)
Cash paid during the year for interest		(1,937)	(1,404)
Cash received during the year for interest		7,897	7,751
Cash received during the year for dividends		346	363
Net cash (outflow)/inflow from operating activities before working capital changes		(388)	10,272
Decrease/(increase) in other receivables and prepayments		6	(3)
Increase in other payables and accruals		28	336
Net cash (outflow)/inflow from operating activities		**(354)**	**10,605**
Cash flows from financing activities			
Dividends paid	*6*	(5,511)	(5,511)
Net cash outflow from financing activities		**(5,511)**	**(5,511)**
(Decrease)/increase in cash and cash equivalents		**(6,450)**	**5,094**
Cash and cash equivalents brought forward		7,020	2,647
Effect of foreign exchange on cash and cash equivalents		552	(721)
Cash and cash equivalents carried forward*		**1,122**	**7,020**
*Cash and cash equivalents, represented by:			
Cash and cash equivalents		3,356	7,713
Bank overdrafts		(2,234)	(693)
		1,122	**7,020**

The accompanying notes on pages 57 to 83 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2022

1. General information

The Company is domiciled in Guernsey and was incorporated in Guernsey on 7 October 2015 as an authorised closed-ended investment Company, under the Companies (Guernsey) Law, 2008 with registered number 61003. Its Ordinary Shares were admitted to trading on the Premium Segment and to the premium listing segment of the FCA's Official List on 15 October 2018 (prior to this, the Ordinary Shares traded on the SFS).

Proposals for the liquidation of the Company

The Board will shortly put forward proposals for the liquidation of the Company, including the ability for Shareholders to receive shares, in respect of their holdings of the Company's Ordinary Shares, in a new open-ended fund managed by the same management team and with a similar investment mandate to the Company. The Board believes that these proposals will provide continuity for those Shareholders in terms of exposure to a strategy similar to the one currently pursued by the Company and under the same management team. The New Fund, AUFC, which will be a new Compartment of Axiom Lux SICAV, an established Luxembourg SICAV that is registered as a UCITS with the Luxembourg financial regulator, the Commission de Surveillance du Secteur Financier, will be open-ended with daily liquidity. The proposals will also include a mechanism for those Shareholders who do not wish to continue their investment to achieve a cash exit.

Further details of the Proposals for the implementation of the Scheme will be described in the Circular, which, when finalised, will be made available on the Company's section of the Investment Manager's website (https://axiom-ai.com/web/en/axiom-european-financial-debt-fund-limited-2/).

Investment objective

The investment objective of the Company is detailed on page 2 of this report.

Investment policy

The investment policy of the Company is detailed on page 2 of this report.

2. Statement of compliance

a) Basis of preparation

These financial statements present the results of the Company for the year ended 31 December 2022. The comparative figures stated were for the year ended 31 December 2021. These financial statements have been prepared in accordance with UK-adopted international accounting standards.

These financial statements are presented in Sterling, which is also the Company's functional currency (please see notes 3b and 4 for further details). All amounts are rounded to the nearest thousand.

b) Non-going concern

After undertaking prudent and robust enquiries, and assessing all data relating to the Company's liquidity, the Directors have a reasonable expectation that the Company would have adequate resources to continue in operational existence for the foreseeable future if Shareholders were to vote not to liquidate the Company. However, it is expected that Shareholders will vote in favour of the Proposals and that the Company will be liquidated. For this reason, they have not adopted the going concern basis in preparing the financial statements. The effect of this is explained in note 4 to the financial statements.

c) Basis of measurement

The financial statements have been prepared on a historical cost basis, except for certain financial instruments, which are measured at fair value through profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2022 *(continued)*

2. Statement of compliance *(continued)*

d) Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses.

Judgements made by management in the application of IFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustment are discussed in note 4.

3. Significant accounting policies

a) Income and expenses

Bank interest, capital instrument income and credit default swap income is recognised on an accruals basis.

Dividend income is recognised when the right to receive payment is established. Capital instrument income comprises bond interest and dividend income. Revenue from fixed interest securities is recognised on an effective interest rate basis. Accrued interest purchased and sold on interest bearing securities is excluded from the capital cost of these securities and dealt with as part of the revenue of the Company.

All expenses are recognised on an accruals basis. All of the Company's expenses (with the exception of share issue costs, which are charged directly to the distributable reserve and the portion of performance fees that are deemed to be a share-based payment) are charged through the Statement of Comprehensive Income in the period in which they are incurred.

b) Foreign currency

Foreign currency transactions are translated into Sterling using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income.

The exchange rates used by the Company as at 31 December 2022 were £1/€1.1287, £1/US$1.2083, £1/DKK8.3945, £1/CA$1.6377 and £1/SGD1.6185 (2021: £1/€1.1895, £1/US$1.3528, £1/DKK8.8479, £1/CA$1.7096 and £1/SGD1.8249).

c) Taxation

Investment income is recorded gross of applicable taxes and any tax expenses are recognised through the Statement of Comprehensive Income as incurred.

d) Financial assets and liabilities

The financial assets and liabilities of the Company are investments in capital instruments at fair value through profit or loss, other investments at fair value through profit or loss, collateral accounts for derivative financial instruments, cash and cash equivalents, other receivables, derivative financial instruments and other payables.

In accordance with IFRS 9, the Company classifies its financial assets and financial liabilities at initial recognition into the categories of financial assets and financial liabilities as discussed below.

In applying that classification, a financial asset or financial liability is considered to be held for trading if:

- It is acquired or incurred principally for the purpose of selling or repurchasing it in the near term; or
- On initial recognition, it is part of a portfolio of identified financial instruments that are managed together and for which, there is evidence of a recent actual pattern of short-term profit-taking; or
- It is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2022 *(continued)*

3. Significant accounting policies *(continued)*

d) Financial assets and liabilities *(continued)*

Financial assets

The Company classifies its financial assets as subsequently measured at amortised cost or measured at fair value through profit or loss on the basis of both:

- The business model for managing the financial assets; and
- The contractual cash flow characteristics of the financial asset.

A financial asset is measured at fair value through profit or loss if:

- Its contractual terms do not give rise to cash flows on specified dates that are solely payments of principal interest ("SPPI") on the principal amount outstanding; or
- It is not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell; or
- At initial recognition, it is irrevocably designated as measured at fair value through profit or loss when doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

The Company includes in this category:

- *Instruments held for trading*. This category includes equity instruments and debt instruments which are acquired principally for the purpose of generating a profit from short-term fluctuations in price. This category also includes derivative financial assets at fair value through profit or loss.
- *Debt instruments*. These include investments that are held under a business model to manage them on a fair value basis for investment income and fair value gains.

Financial liabilities

A financial liability is measured at fair value through profit or loss if it meets the definition of held for trading.

The Company includes in this category, other payables, derivative contracts in a liability position and equity and debt instruments sold short since they are classified as held for trading.

Derivative financial instruments, including credit default swap agreements, foreign currency forward contracts, bond future contracts and sale and repurchase agreements are recognised initially, and are subsequently measured at, fair value. Sale and repurchase agreements are recognised at fair value through profit or loss as they are generally not held to maturity but incurred principally for the purpose of repurchasing in the near term and on initial recognition are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking. Derivative financial instruments are classified as assets when their fair value is positive or as liabilities when their fair value is negative. Derivative assets and liabilities arising from different transactions are offset only if the transactions are with the same counterparty, a legal right of offset exists, and the parties intend to settle the cash flows on a net basis.

These financial instruments are classified at fair value through profit or loss upon initial recognition on the basis that they are part of a group of financial assets which are managed and have their performance evaluated on a fair value basis, in accordance with investment strategies and risk management of the Company.

Recognition

The Company recognises a financial asset or a financial liability when, and only when, it becomes a party to the contractual provisions of the instrument. Purchases and sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace are recognised on the trade date, i.e. the date that the Company commits to purchase or sell the asset.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2022 *(continued)*

3. Significant accounting policies *(continued)*

d) Financial assets and liabilities *(continued)*

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar assets) is derecognised where:

- The rights to receive cash flows from the asset have expired; or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and
- Either: (a) the Company has transferred substantially all the risks and rewards of the asset; or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset (or has entered into a pass-through arrangement) and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset.

The Company derecognises a financial liability when the obligation under the liability is discharged, cancelled or expires.

Initial measurement

Financial assets and financial liabilities at fair value through profit or loss are recorded in the Statement of Financial Position at fair value. All transaction costs for such instruments are recognised directly in the Statement of Comprehensive Income.

Subsequent measurement

After initial measurement, the Company measures financial assets which are classified at fair value through profit or loss, at fair value. Subsequent changes in the fair value of those financial instruments are recorded in net gain or loss on financial assets and liabilities at fair value through profit or loss. Interest and dividends earned or paid on these instruments are recorded separately in interest income or expense and dividend income or expense.

Net gain or loss on financial assets and financial liabilities at fair value through profit or loss

The Company records its transactions in investments and the related revenue and expenses on a trade date basis. Unrealised gains and losses comprise changes in the fair value of financial instruments at the period end. These gains and losses represent the difference between an instrument's initial carrying amount and disposal amount, or cash payment on, or receipts from derivative contracts.

Offsetting of financial instruments

Financial assets and financial liabilities are reported net by counterparty in the Statement of Financial Position, provided that a legal right of offset exists, and is not offset by collateral pledged to or received from counterparties.

Other receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company includes in this category other short-term receivables. The Company makes use of a simplified approach in accounting for trade and other receivables as well as contract assets and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. In calculating, the Company uses its historical experience to determine the expected credit losses.

e) Collateral accounts for derivative financial instruments at fair value through profit or loss

Collateral accounts for derivative financial instruments at fair value through profit or loss comprise cash balances held at the Company's depositary and the Company's clearing brokers and cash collateral pledged to counterparties related to derivative contracts. Cash that is related to securities sold, not yet purchased, is restricted until the securities are purchased. Financial instruments held within the margin account consist of cash received from brokers to collateralise the Company's derivative contracts and amounts transferred from the Company's bank account.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2022 *(continued)*

3. Significant accounting policies *(continued)*

f) Cash and cash equivalents

Cash in hand and in banks and short-term deposits which are held to maturity are carried at cost. Cash and cash equivalents are defined as cash in hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

g) Share capital

Ordinary Shares are classified as equity. Incremental costs directly attributable to the issue of Ordinary Shares are recognised as a deduction from equity.

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, is recognised as a deduction from equity. Repurchased shares that are classified as Treasury Shares are presented as a deduction from equity. When Treasury Shares are sold or subsequently reissued, the amount received is recognised as an increase in equity and the resulting surplus or deficit is transferred to/from distributable reserves.

Funds received from the issue of Ordinary Shares are allocated to share capital, to the extent that they relate to the nominal value of the Ordinary Shares, with any excess being allocated to distributable reserves.

h) Distributable reserves

All income and expenses, foreign exchange gains and losses and investment gains and losses of the Company are allocated to the distributable reserve.

i) Performance fee reserve

In accordance with IFRS 2, Share-based payments, the portion of the performance fee that is due to be settled in shares is deemed to be an equity-settled share-based payment when the fee is settled. As such, 50% of the performance fee accrual at 31 December 2021 (£298,000) has been allocated to the performance fee reserve until the payment, which will be utilised to purchase the shares, has been made. This accrual remained outstanding for payment at 31 December 2022 and was settled in full on 6 March 2023. There is no vesting period (see note 8a) for further details).

j) NAV per share and earnings per share

The NAV per share disclosed on the face of the Statement of Financial Position is calculated by dividing the net assets by the number of Ordinary Shares in issue at the year end.

Earnings per share is calculated by dividing the earnings for the year by the weighted average number of Ordinary Shares in issue during the year.

k) Changes in accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial period. The Company adopted the following new and amended relevant IFRS in the period:

IFRS 9	Financial Instruments *(amendments resulting from Annual Improvements to IFRS Standards 2018-2020)*
IAS 37	Provisions, Contingent Liabilities and Contingent Assets *(amendments regarding the costs to include when assessing whether a contract is onerous)*

The adoption of these accounting standards did not have any effect on the Company's Statement of Financial Position or equity.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2022 *(continued)*

3. Significant accounting policies *(continued)*

l) Accounting standards issued but not yet effective

The IASB has issued/revised a number of relevant standards with an effective date after the date of these financial statements. Any standards that are not deemed relevant to the operations of the Company have been excluded. The Directors have chosen not to early adopt these standards and interpretations and they do not anticipate that they would have a material impact on the Company's financial statements in the period of initial application.

		Effective date
IAS 1	Presentation of Financial Statements (*amendments regarding the classification of liabilities and the disclosure of accounting policies)*	1 January 2023
IAS 1	Presentation of Financial Statements (*amendments regarding the classification of debt with covenants)*	1 January 2024
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors *(amendments regarding the definition of accounting estimates)*	1 January 2023
IAS 12	Income Taxes *(amendments regarding deferred tax on leases and decommissioning obligations)*	1 January 2023

4. Use of judgements and estimates

The preparation of the Company's financial statements requires the Directors to make judgements, estimates and assumptions that affect the reported amounts recognised in the financial statements and disclosure of contingent liabilities. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability in future periods.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods, if the revision affects both current and future periods.

Judgements

In the process of applying the Company's accounting policies, management has made the following judgement which had a significant effect on the amounts recognised in the financial statements:

i) Determination of functional currency

The performance of the Company is measured and reported to investors in Sterling. Although a significant proportion of the Company's underlying assets are held in currencies other than Sterling, because the Company's capital is raised in Sterling, expenses are paid in Sterling and the Company hedges substantially all of its foreign currency risk back to Sterling, the Directors consider Sterling to be the Company's functional currency.

The Directors do not consider there to be any other judgements that have had a significant impact on the financial statements.

Estimates and assumptions

The Company based its reporting date assumptions and estimates on parameters available when the financial statements were approved. However, existing circumstances and assumptions about future developments may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

i) Valuation of financial assets and liabilities

The Company uses the expertise of the Investment Manager to assess the prices of investments at the valuation date. The majority of the prices can be independently verified with reference to external data sources, however a minority of investments cannot be verified by reference to an external source and the Investment Manager secures an independent valuation with reference to the latest prices traded within the market place. These independent valuations take the form of quotes from brokers.

Credit default swap assets and liabilities are valued by the Investment Manager using market observable inputs. Refer to note 19 for further details.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2022 *(continued)*

4. Use of judgements and estimates *(continued)*

ii) Going concern

The provision for the liquidation costs comprises the costs of the liquidation itself. These estimated expenses of £10,000 are based on an estimate of what future costs will be, in accordance with the expected timeline to wind up, and are included in the restructuring/liquidation fees of £379,000 in note 12.

The preparation of the financial statements on a non-going concern basis, instead of a going concern basis, has reduced the net assets at 31 December 2022 by £10,000 (31 December 2021: £nil).

For further information on the assumptions and inputs used to fair value the financial instruments, please see note 19.

5. Segmental reporting

In accordance with IFRS 8, Operating Segments, it is mandatory for the Company to present and disclose segmental information based on the internal reports that are regularly reviewed by the Board in order to assess each segment's performance.

Management information for the Company as a whole is provided internally for decision making purposes. The Company does compartmentalise different investments in order to monitor compliance with investment restrictions, however the performance of these allocations does not drive the investment decision process. The Directors' decisions are based on a single integrated investment strategy and the Company's performance is evaluated on an overall basis. Therefore, the Directors are of the opinion that the Company is engaged in a single economic segment of business for all decision-making purposes and no segmental reporting is required. The financial results of this segment are equivalent to the results of the Company as a whole.

6. Dividends

As set out in the Prospectus, the Company intends to distribute all of its income from investments, net of expenses, by way of dividends on a quarterly basis. The Company may retain income for distribution in a subsequent quarter to that in which it arises in order to smooth dividend amounts or for the purposes of efficient cash management.

The Company has declared the following dividends during the year ended 31 December 2022:

	Total dividend declared in respect of earnings £'000	Amount per Ordinary Share
Dividends declared and paid in the year	5,511	6.00p
Less, dividend declared in respect of the prior year that was paid in 2022	(1,378)	(1.50)p
Add, dividend declared out of the profits of the year but paid after the year end:	1,378	1.50p
Dividends declared in respect of the year	5,511	6.00p

The Company declared the following dividends during the year ended 31 December 2021:

	Total dividend declared in respect of earnings £'000	Amount per Ordinary Share
Dividends declared and paid in the year	5,511	6.00p
Less, dividend declared in respect of the prior year that was paid in 2021	(1,378)	(1.50)p
Add, dividend declared out of the profits of the year but paid after the year end:	1,378	1.50p
Dividends declared in respect of the year	5,511	6.00p

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2022 *(continued)*

6. Dividends *(continued)*

In accordance with IFRS, dividends are only provided for when they become a present obligation of the Company. Therefore, during the year a total of £5,511,000 (2021: £5,511,000) was incurred in respect of dividends, none of which was outstanding at the reporting date. The fourth dividend declared out of the profits for the year of £1,378,000 had not been provided for at 31 December 2022 (2021: £1,378,000) as, in accordance with IFRS, it was not a liability of the Company at that date.

7. Related parties

Details of the relationships between the Company and its related parties, being the Investment Manager and the Directors, are disclosed in notes 8a and 8f.

Details of the relationships between the Company and its other advisors and service providers (the Administrator, the Broker, the Registrar and the Depositary) are also disclosed in note 8.

As at 31 December 2022, the Company had holdings in the following investments, which were managed by the Investment Manager:

	31 December 2022			31 December 2021		
	Units held	Cost £'000	Value £'000	Units held	Cost £'000	Value £'000
Axiom Alternative Liquid Rates Z Cap Scv	2,000	1,705	1,836	2,000	1,705	1,691
Axiom Global CoCo UCIT ETF USD-hedged	–	–	–	35	2,984	3,183

During the year, the Company:

- purchased 1,900 units in Axiom Sustainable Financial Bonds Class Z for £2,130,000;
- sold 1,900 units in Axiom Sustainable Financial Bonds Class Z for £2,131,000, realising a gain of £1,000; and
- sold 35 units in Axiom Global CoCo UCIT ETF USD-hedged for £3,120,000, realising a gain of £136,000.

During the year ended 31 December 2021, the Company:

- sold 10 units in Axiom Global CoCo UCIT ETF GBP-hedged for £1,106,000, realising a gain of £106,000;
- sold 500 units in Axiom Equity Class Z for £1,035,000, realising a gain of £568,000; and
- purchased 2,000 units in Axiom Alternative Liquid rates Z Cap Scv for £1,705,000.

The Directors are not aware of any ultimate controlling party.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2022 *(continued)*

8. Key contracts

a) Investment Manager

The Company has entered into an Investment Management Agreement with Axiom AI under which the Company receives investment advice and management services. As part of the Proposal process, the Company served protective notice on the Investment Manager on 12 August 2022.

Management fee

Under the terms of the Investment Management Agreement, a management fee is paid to the Investment Manager quarterly in arrears. The quarterly fee is calculated by reference to the following sliding scale:

i. where NAV is less than or equal to £250 million, 1% per annum of NAV;

ii. where NAV is greater than £250 million but less than or equal to £500 million, 1% per annum of NAV on the first £250 million and 0.8% per annum of NAV on the balance; and

iii. where NAV is greater than £500 million, 0.8% per annum of NAV, in each case, plus applicable VAT.

In respect of the management fee calculation above, any related party holdings are deducted from the NAV.

If in any quarter (other than the final quarter) of any accounting period the aggregate expenses of the Company (excluding performance fees, interest charged on sale and repurchase agreements, bank charges and withholding tax) during such quarter exceed an amount equal to one-quarter of 1.5% of the average NAV of the Company during such quarter (such amount being a "Quarterly Expenses Excess"), then the management fee payable in respect of that quarter shall be reduced by the amount of the Quarterly Expenses Excess, provided that the management fee shall not be reduced to an amount that is less than zero and no sum will be payable by the Investment Manager to the Company in respect of the Quarterly Expenses Excess.

If in the final quarter of any accounting period the aggregate expenses of the Company during such accounting period exceed an amount equal to 1.5% of the average NAV of the Company during such accounting period (such amount being an "Annual Expenses Excess"), then the management fee payable in respect of that quarter shall be reduced by the amount of the Annual Expenses Excess. If such reduction would not fully eliminate the Annual Expenses Excess (the amount of any such shortfall being a "Management Fee Deduction Shortfall"), the Investment Manager shall pay to the Company an amount equal to the Management Fee Deduction Shortfall (a "Management Fee Deduction Shortfall Payment") as soon as is reasonably practicable.

During the year, a total of £744,000 (2021: £866,000) was incurred in respect of Investment Management fees, of which £182,000 was payable at the reporting date (2021: £213,000).

Under the terms of the Investment Management Agreement, if at any time there has been any deduction from the management fee as a result of the Quarterly Expenses Excess or Annual Expenses Excess (a "Management Fee Deduction"), and during any subsequent quarter:

i. all or part of the Management Fee Deduction can be paid; and/or

ii. all or part of the Management Fee Deduction Shortfall payment can be repaid,

by the Company to the Investment Manager without:

iii. in any quarter (other than the final quarter) of any accounting period the aggregate expenses of the Company during such quarter exceeding an amount equal to one-quarter of 1.5% of the average NAV of the Company during such quarter; or

iv. in the final quarter of any accounting period the aggregate expenses of the Company during such accounting period exceeding an amount equal to 1.5% of the average NAV of the Company during such accounting period, then such payment and/or repayment shall be made by the Company to the Investment Manager as soon as is reasonably practicable.

The Quarterly Expenses Excess and Annual Expenses Excess for the year was £103,000 (2021: £40,000), and at 31 December 2022 the Quarterly Expenses Excess and Annual Expenses Excess, which could be payable to the Investment Manager in future periods, was £880,000 (2021: £777,000) (see note 27).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2022 *(continued)*

8. Key contracts *(continued)*

a) Investment Manager *(continued)*

Performance fee

The Investment Manager is entitled to receive from the Company a performance fee subject to certain performance benchmarks.

The fee is payable as a share of the Total Shareholder Return ("TSR") where TSR for this purpose is defined as:

i. the NAV (on a per share basis) at the end of the relevant accounting period; plus

ii. the total of all dividends and other distributions made to Shareholders since 5 November 2015 (being the date of the Company's original admission to the SFS) divided by the average number of shares in issue during the period from 5 November 2015 to the end of the relevant accounting period.

The performance fee, if any, is equal to 15% of the TSR in excess of a weighted average hurdle equal to a 7% per annum return. The performance fee is subject to a high water mark. The fee, if any, is payable annually and calculated on the basis of audited accounts of the Company.

50% of the performance fee will be settled in cash. The balance will be satisfied in shares, subject to certain exceptions where settlement in shares would be prohibited by law or would result in the Investment Manager or any person acting in concert with it incurring an obligation to make an offer under Rule 9 of the City Code, in which case the balance will be settled in cash.

Assuming no such requirement, the balance of the performance fee will be settled either by the allotment to the Investment Manager of such number of new shares credited as fully paid as is equal to 50% of the performance fee (net of VAT) divided by the most recent practicable NAV per share (rounded down to the nearest whole share) or by the acquisition of shares in the market, as required under the terms of the Investment Management Agreement. All shares allotted to (or acquired for) the Investment Manager in part satisfaction of the performance fee will be subject to a lock-up until the date that is 12 months from the end of the accounting period to which the award of such shares related. A lock-up termination event is a disposal of shares pursuant to a takeover or sale of the Company or where the Investment Manager is required by law to dispose of such shares, or a termination of the Investment Management agreement by the Company.

At 31 December 2022, a performance fee of £298,000 (2021: £596,000) was payable by the Company in respect of the year ended 31 December 2021, of which £nil was payable in cash (2021: £298,000). During the year, the Company paid the Investment Manager £298,000, relating to the cash settlement element of the 2021 performance fee.

The remaining performance fee payable by the Company as at 31 December 2022 (£298,000) was settled through the purchase of Ordinary Shares in the market by the Investment Manager and the Company reimbursed the Investment Manager in cash on 6 March 2023. As such, the performance fee was allocated to the performance fee reserve until the payment, which was utilised to purchase the shares, was made. This treatment has resulted in an increase to the NAV originally announced to the market on 4 January 2023 of 0.33p per Ordinary Share (see note 22).

b) Administrator and Company Secretary

Elysium has been appointed by the Company to provide day to day administration services to the Company, to calculate the NAV per share as at the end of each calendar month and to provide company secretarial functions required under the Law.

Under the terms of the Administration Agreement, the Administrator is entitled to receive an annual fee of £126,794 (2021: £121,450), which is subject to an annual increase in line with Guernsey RPI. In addition, the Company pays the Administrator a fee for work undertaken in connection with the daily NAV, subject to a maximum aggregate amount of £10,000 per annum.

During the year, a total of £139,000 (2021: £132,000) was incurred in respect of Administration fees of which £34,000 (2021: £33,000) was payable at the reporting date.

As part of the Proposal process, the Company served protective notice on the Administrator on 22 August 2022.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2022 *(continued)*

8. Key contracts *(continued)*

c) Broker

Winterflood has been appointed to act as Broker for the Company, in consideration for which the Company pays Winterflood an annual retainer fee of £35,000 per annum.

For the year to 31 December 2022, the Company incurred Broker fees of £40,000 (2021: £37,000) of which £7,000 was payable at 31 December 2022 (2021: £6,000).

As part of the Proposal process, the Company served protective notice on the Broker on 10 February 2023.

d) Registrar

Link Market Services (Guernsey) Limited is Registrar of the Company. Under the terms of the Registrar Agreement, the Registrar is entitled to receive from the Company certain annual maintenance and activity fees, subject to a minimum fee of £5,500 per annum.

During the year, a total of £22,000 (2021: £18,000) was incurred in respect of Registrar fees, of which £1,000 was payable at 31 December 2022 (2021: £1,000).

As part of the Proposal process, the Company served protective notice on the Registrar on 23 August 2022.

e) Depositary

CACEIS Bank France has been appointed by the Company to provide depositary, settlement and other associated services to the Company.

Under the terms of the Depositary Agreement, the Depositary is entitled to receive from the Company:

i. an annual depositary fee of 0.03% of NAV, subject to a minimum annual fee of €25,000;

ii. a safekeeping fee calculated using a basis point fee charge based on the country of settlement and the value of the assets; and

iii. an administration fee on each transaction, together with various other payment/wire charges on outgoing payments.

As part of the Proposal process, the Company has served protective notice on the Depositary, however, CACEIS refused to accept the protective notice but the Board noted CACEIS's three month notice period and that the fee was immaterial.

During the year, a total of £47,000 (2021: £37,000) was incurred in respect of depositary fees, of which £26,000 was payable at the reporting date (2021: £22,000).

CACEIS Bank Luxembourg is entitled to receive a monthly valuation agent fee from the Company in respect of the provision of certain accounting services which will, subject to a minimum monthly fee of €2,500, be calculated by reference to the following tiered sliding scale:

i. where NAV is less than or equal to €50 million, 0.05% per annum of NAV;

ii. where NAV is greater than €50 million but less than or equal to €100 million, 0.04% per annum of NAV; and

iii. where NAV is greater than €100 million, 0.03% per annum of NAV, in each case, plus applicable VAT.

During the period, a total of £38,000 (2021: £43,000) was incurred in respect of valuation agent fees paid to CACEIS Bank Luxembourg, of which £7,000 was payable at 31 December 2022 (2021: £11,000).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2022 *(continued)*

8. Key contracts *(continued)*

f) Directors' remuneration

William Scott (Chairman) is paid £35,000 per annum (2021: £35,000), John Renouf (Chairman of the Audit Committee) is paid £32,500 per annum (2021: £32,500), and Max Hilton is paid £27,500 per annum (2021: £27,500).

The Directors are also entitled to reimbursement of all reasonable travelling and other expenses properly incurred in the performance of their duties.

During the year, a total of £95,000 (2021: £95,000) was incurred in respect of Directors' fees, none of which was payable at the reporting date (2021: £nil). No bonus or pension contributions were paid or payable on behalf of the Directors.

9. Key management and employees

Other than the Non-Executive Directors, the Company has had no employees since its incorporation.

10. Auditor's remuneration

Grant Thornton was appointed to act as the Company's external auditor with effect from 19 August 2020.

For the year ended 31 December 2022, total fees charged by Grant Thornton, together with amounts accrued at 31 December 2022, amounted to £48,000 (2021: £40,850), all of which related to audit services. As at 31 December 2022, £36,000 was due to Grant Thornton (2021: £21,000).

11. Interest payable and similar charges

	Year ended 31 December 2022 £'000	Year ended 31 December 2021 £'000
Bank interest	56	42
Commission	4	11
Interest payable on sale and repurchase agreements	90	(1)
	150	**52**

	Year ended 31 December 2022 £'000	Year ended 31 December 2021 £'000
Restructuring/liquidation fees	379	–
PR expenses	68	61
Audit fees *(note 10)*	48	41
Legal fees	48	13
Withholding tax on bond interest	48	–
Depositary fees *(note 8e)*	47	37
Other expenses	46	46
Broker fees *(note 8c)*	40	37
Valuation agent fees *(note 8e)*	38	43
Registrar fees *(note 8d)*	22	18
	784	**296**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2022 *(continued)*

12. Other expenses

	Year ended 31 December 2022 £'000	Year ended 31 December 2021 £'000
Restructuring/liquidation fees	379	–
PR expenses	68	61
Audit fees *(note 10)*	48	41
Legal fees	48	13
Withholding tax on bond interest	48	–
Depositary fees *(note 8e)*	47	37
Other expenses	46	46
Broker fees *(note 8c)*	40	37
Valuation agent fees *(note 8e)*	38	43
Registrar fees *(note 8d)*	22	18
	784	**296**

13. Taxation

The Company is exempt from taxation in Guernsey, and it is the intention to conduct the affairs of the Company to ensure that it continues to qualify for exempt company status for the purposes of Guernsey taxation. The Company pays a fixed fee of £1,200 per annum to maintain exempt company status.

14. (Loss)/earnings per Ordinary Share

The loss per Ordinary Share of 6.72p (2021: earnings of 16.05p) is based on a loss attributable to owners of the Company of £6,172,000 (2021: profit of £14,746,000) and on a weighted average number of 91,852,904 (2021: 91,852,904) Ordinary Shares in issue since 1 January 2022. There are no dilutive shares and there is no difference between the basic and diluted earnings per share.

15. Investments at fair value through profit or loss

Movements in gains/(losses) in the year

	31 December 2022			31 December 2021		
	Unrealised £'000	Realised £'000	Total £'000	Unrealised £'000	Realised £'000	Total £'000
Investments in capital instruments	(9,392)	(3,279)	(12,671)	(781)	7,659	6,878
Other investments	(53)	137	84	(130)	674	544
Short position covered by reverse sale and repurchase agreements	87	426	513	(75)	(64)	(139)
	(9,358)	**(2,716)**	**(12,074)**	**(986)**	**8,269**	**7,283**

Closing valuations

	31 December 2022 £'000	31 December 2021 £'000
Investments in capital instruments	77,735	85,449
Other investments	1,836	4,874
Short position(s) covered by reverse sale and repurchase agreements	–	(3,932)
Investments at fair value through profit or loss	**79,571**	**86,391**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2022 *(continued)*

15. Investments at fair value through profit or loss *(continued)*

Investments in capital instruments at fair value through profit or loss comprise mainly of investments in bonds, and also preference shares, structured notes and other securities that have a similar income profile to that of bonds. The other investments at fair value through profit or loss consist of investments in open ended funds managed by the Investment Manager (see note 7) to obtain diversified exposure on bank equities.

As at 31 December 2022, the Company had no open sale and repurchase agreements (2021: eight open sale and repurchase agreements, one of which was a reverse sale and repurchase agreement) (see note 18). In 2021, the reverse sale and repurchase agreement was open ended and was used to cover the sale of capital instruments (the short position noted above).

The fair value of the capital instruments subject to sale and repurchase agreements (excluding any short positions) at 31 December 2022 was nil (2021: £9,349,000). There were no short positions at 31 December 2022. The fair value net of the short position at 31 December 2021 was £5,417,000.

16. Collateral accounts for derivative financial instruments at fair value through profit or loss

	31 December 2022 £'000	31 December 2021 £'000
JP Morgan	2,689	3,495
Goldman Sachs International	1,200	207
CACEIS Bank France	275	305
Credit Suisse	–	112
	4,164	4,119
CACEIS Bank France – *negative balance*	–	(92)
Net balance on collateral accounts held by brokers	**4,164**	**4,027**

With respect to derivatives, the Company pledges cash and/or other liquid securities ("Collateral") to third parties as initial margin and as variation margin. Collateral may be transferred either to the third party or to an unaffiliated custodian for the benefit of the third party. In the case where Collateral is transferred to the third party, the third party pursuant to these derivatives arrangements will be permitted to use, reuse, lend, borrow, hypothecate or re-hypothecate such Collateral. The third parties will have no obligation to retain an equivalent amount of similar property in their possession and control, until such time as the Company's obligations to the third party are satisfied. The Company has no right to this Collateral but has the right to receive fungible, equivalent Collateral upon the Company's satisfaction of the Company's obligation under the derivatives.

17. Other receivables and prepayments

	31 December 2022 £'000	31 December 2021 £'000
Accrued capital instrument income receivable	1,432	1,064
Due from sale of capital instruments	585	1,034
Interest due on credit default swaps	23	21
Prepayments	9	24
Bank interest receivable	9	–
	2,058	**2,143**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2022 *(continued)*

18. Derivative financial instruments

Credit default swap agreements

A credit default swap agreement represents an agreement that one party, the protection buyer, pays a fixed fee, the premium, in return for a payment by the other party, the protection seller, contingent upon a specified credit event relating to an underlying reference asset. If a specified credit event occurs, there is an exchange of cash flows and/or securities designed so the net payment to the protection buyer reflects the loss incurred by holders of the referenced obligation in the event of its default. The ISDA establishes the nature of the credit event and such events include bankruptcy and failure to meet payment obligations when due.

	Year ended 31 December 2022 £'000	Year ended 31 December 2021 £'000
Opening balance	(128)	448
Premiums received from selling credit default swap agreements	(1,584)	(274)
Premiums paid on buying credit default swap agreements	–	83
Movement in unrealised losses in the year	(143)	(782)
Realised gains in the year	1,001	397
Outstanding liability due on credit default swaps	**(854)**	**(128)**
Credit default swap assets at fair value through profit or loss	–	180
Credit default swap liabilities at fair value through profit or loss	(854)	(308)
Outstanding liability due on credit default swaps	**(854)**	**(128)**

Interest paid or received on the credit default swap agreements has been accounted for in the Statement of Comprehensive Income as it has been incurred or received. At the year end, £23,000 (2021: £21,000) of interest on credit default swap agreements was due to the Company.

Collateral totalling £3,890,000 (2021: £3,328,000) was held in respect of the credit default swap agreements.

Foreign currency forwards

Foreign currency forward contracts are used for trading purposes and are used to hedge the Company's exposure to changes in foreign currency exchange rates on its foreign portfolio holdings. A foreign currency forward contract is a commitment to purchase or sell a foreign currency on a future date and at a negotiated forward exchange rate.

	Year ended 31 December 2022 £'000	Year ended 31 December 2021 £'000
Opening balance	7	775
Purchase of foreign currency derivatives	197,420	185,824
Closing-out of foreign currency derivatives	(195,378)	(189,680)
Movement in unrealised losses in the year	(209)	(768)
Realised (losses)/gains in the year	(2,042)	3,856
Fair value of net (liabilities)/assets on foreign currency forwards	**(202)**	**7**
Foreign currency forward assets at fair value through profit or loss	259	132
Foreign currency forward liabilities at fair value through profit or loss	(461)	(125)
Fair value of net (liabilities)/assets on foreign currency forwards	**(202)**	**7**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2022 *(continued)*

18. Derivative financial instruments *(continued)*

Bond futures

A bond future contract involves a commitment by the Company to purchase or sell bond futures for a predetermined price, with payment and delivery of the bond future at a predetermined future date.

	Year ended 31 December 2022 £'000	Year ended 31 December 2021 £'000
Opening balance	(12)	–
Purchase of bond futures	929	4,234
Sale of bond futures	(2,805)	(4,977)
Movement in unrealised gains/(losses) in the year	–	(66)
Realised gains in the year	1,888	797
Balance payable on bond futures	**–**	**(12)**

Bond future assets at fair value through profit or loss	–	–
Bond future liabilities at fair value through profit or loss	–	(12)
Balance payable on bond futures	**–**	**(12)**

Sale and repurchase agreements

Under the terms of a sale and repurchase agreement one party in the agreement acts as a borrower of cash, using a security held as collateral, and the other party in the agreement acts as a lender of cash. Almost any security may be employed in the sale and repurchase agreement. Interest is paid by the borrower for the benefit of having funds to use until a specified date on which the effective loan needs to be repaid.

When a transfer of assets that are not derecognised in their entirety does not result in derecognition, it is viewed as a secured financing transaction, with any consideration received resulting in a corresponding liability. The Company is not entitled to use these financial assets for any other purposes.

Under the sale and repurchase agreements, the Company may sell securities subject to a commitment to repurchase them. The securities are retained on the balance sheet as the Company retains substantially all the risks and rewards of ownership. The consideration received is accounted for as a financial liability at fair value through profit or loss.

	Year ended 31 December 2022 £'000	Year ended 31 December 2021 £'000
Opening balance	(1,916)	(8,304)
Opening of sale and repurchase agreements	(18,156)	(20,821)
Opening of reverse sale and repurchase agreements	–	4,166
Closing-out of sale and repurchase agreements	24,350	26,437
Closing-out of reverse sale and repurchase agreements	(4,175)	(3,898)
Movement in unrealised (losses)/gains in the year	(227)	301
Realised gains in the year	124	203
Total liabilities on sale and repurchase agreements	**–**	**(1,916)**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2022 *(continued)*

18. Derivative financial instruments *(continued)*

Sale and repurchase agreements (continued)

	Year ended 31 December 2022 £'000	Year ended 31 December 2021 £'000
Sale and repurchase assets at fair value through profit or loss	–	4,194
Sale and repurchase liabilities at fair value through profit or loss	–	(6,110)
Total liabilities on sale and repurchase agreements	**–**	**(1,916)**

Interest paid on sale and repurchase agreements has been accounted for in the Statement of Comprehensive Income as it has been incurred. At 31 December 2022 £nil (2021: £nil) interest on sale and repurchase agreements was payable by the Company.

Options

An option offers the buyer the opportunity to buy or sell an underlying asset at a stated price within a specified timeframe.

	Year ended 31 December 2022 £'000	Year ended 31 December 2021 £'000
Opening balance	–	7
Movement in unrealised gains in the year	–	22
Realised losses in the year	–	(29)
Balance receivable on options	**–**	**–**
Option assets at fair value through profit or loss	–	–
Option liabilities at fair value through profit or loss	–	–
Balance receivable on options	**–**	**–**

Offsetting of derivative financial instruments

The Company presents the fair value of its derivative assets and liabilities on a gross basis, no such assets or liabilities have been offset in the Statement of Financial Position. Certain derivative financial instruments are subject to enforceable master netting arrangements, such as ISDA master netting agreements, or similar agreements that cover similar financial instruments.

The similar agreements include derivative clearing agreements, global master repurchase agreements, global master securities lending agreements, and any related rights to financial collateral. The similar financial instruments and transactions include derivatives, sale and repurchase agreements, reverse sale and repurchase agreements, securities borrowing, and securities lending agreements.

The Company's agreements allow for offsetting following an event of default, but not in the ordinary course of business, and the Company does not intend to settle these transactions on a net basis or settle the assets and liabilities on a simultaneous basis.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2022 *(continued)*

18. Derivative financial instruments *(continued)*

Offsetting of derivative financial instruments (continued)

The table below sets out the carrying amounts of recognised capital instruments and short position(s) which could be offset under the applicable derivative agreements (as described above) as at 31 December 2022:

	Gross carrying amount before offsetting £'000	Amounts offset in accordance with offsetting criteria £'000	Net amount presented in Statement of Financial Position £'000	Effect of remaining rights of offset that do not meet the criteria for offsetting in the Statement of Financial Position – Cash held as collateral £'000	Net exposure £'000
Financial assets					
Derivatives	260	–	260	–	260
Collateral accounts for derivative financial instruments *(note 16)*	4,164	–	4,164	(1,128)	3,036
Total assets	**4,424**	**–**	**4,424**	**(1,128)**	**3,296**
Financial liabilities					
Derivatives	(1,315)	–	(1,315)	–	(1,315)
Collateral accounts for derivative financial instruments *(note 16)*	(1)	–	(1)	–	(1)
Total liabilities	**(1,316)**	**–**	**(1,316)**	**–**	**(1,316)**

The table below sets out the carrying amounts of recognised capital instruments and short position(s) which could be offset under the applicable derivative agreements (as described above) as at 31 December 2021:

	Gross carrying amount before offsetting £'000	Amounts offset in accordance with offsetting criteria £'000	Net amount presented in Statement of Financial Position £'000	Effect of remaining rights of offset that do not meet the criteria for offsetting in the Statement of Financial Position – Cash held as collateral £'000	Net exposure £'000
Financial assets					
Derivatives	4,506	–	4,506	(3,932)	574
Collateral accounts for derivative financial instruments *(note 16)*	4,119	–	4,119	(320)	3,799
Total assets	**8,625**	**–**	**8,625**	**(4,252)**	**4,373**
Financial liabilities					
Derivatives	(6,555)	–	(6,555)	5,727	(828)
Collateral accounts for derivative financial instruments *(note 16)*	(92)	–	(92)	–	(92)
Total liabilities	**(6,647)**	**–**	**(6,647)**	**5,727**	**(920)**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2022 *(continued)*

19. Fair value of financial instruments at fair value through profit or loss

The following table shows financial instruments recognised at fair value, analysed between those whose fair value is based on:

- Quoted prices in active markets for identical assets or liabilities (Level 1);
- Those involving inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and
- Those with inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

At 31 December 2022, the financial assets and liabilities designated at fair value through profit or loss were as follows:

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Traded/listed capital instruments at fair value through profit or loss	77,735	–	–	77,735
Other investments at fair value through profit or loss *(note 7)*	1,836	–	–	1,836
Credit default swap liabilities *(note 18)*	–	(853)	–	(853)
Other derivative financial assets	–	260	–	260
Other derivative financial liabilities	–	(461)	–	(461)
	79,571	**(1,054)**	**–**	**78,517**

At 31 December 2021, the financial assets and liabilities designated at fair value through profit or loss were as follows:

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Traded/listed capital instruments at fair value through profit or loss	85,208	241	–	85,449
Other investments at fair value through profit or loss *(note 7)*	4,874	–	–	4,874
Credit default swap assets *(note 18)*	–	180	–	180
Credit default swap liabilities *(note 18)*	–	(308)	–	(308)
Other derivative financial assets	–	4,326	–	4,326
Other derivative financial liabilities	(12)	(6,223)	–	(6,235)
Short position covered by sale and repurchase agreements	–	(3,932)	–	(3,932)
	90,070	**(5,716)**	**–**	**84,354**

Level 1 financial instruments include listed capital instruments at fair value through profit or loss, unlisted open-ended funds and bond future contracts, which have been valued at fair value by reference to quoted prices in active markets. No unobservable inputs were included in determining the fair value of these investments and, as such, alternative carrying values for ranges of unobservable inputs have not been provided.

Level 2 financial instruments include broker quoted bonds, credit default swap agreements, foreign currency forward contracts, sale and repurchase agreements and options. Each of these financial investments are valued by the Investment Manager using market observable inputs. The fair value of the other investments are based on the market price of the underlying securities.

The model used by the Company to fair value credit default swap agreements prices a credit default swap as a function of its schedule, deal spread, notional value, credit default swap curve and yield curve. The key assumptions employed in the model include: constant recovery as a fraction of par, piecewise constant risk neutral hazard rates and default events being statistically independent of changes in the default-free yield curve.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2022 *(continued)*

19. Fair value of financial instruments at fair value through profit or loss *(continued)*

The Company used a 20% correlation parameter when valuing the credit default swap agreements at 31 December 2022. The Investment Manager believes this to be conservative as the underlying basket on the instrument is made up of only financial companies which would have a higher correlation as they are of the same sector. It is estimated that a 10% increase in the correlation factor for the credit default swap agreement subject to valuation by reference to the underlying basket would increase the Company's valuation by approximately £35,000 to £62,000.

The fair values of other derivative financial assets and liabilities are based on the forward foreign exchange rate curve.

The sale and repurchase agreements have been valued by reference to the notional amount, expiration dates and rates prevailing at the valuation date.

The options were valued using the relevant options prices curve.

Transfers between levels

Transfers between levels during the year are determined and deemed to have occurred at each financial reporting date. There were no investments classified as Level 3 during the year, and no transfers between levels in the year. See notes 15, 16 and 18 for movements in instruments held at fair value through profit or loss.

20. Other payables and accruals

	31 December 2022 £'000	31 December 2021 £'000
Restructuring related fees	356	–
Investment management fee *(note 8a)*	182	213
Audit fees *(note 10)*	36	21
Administration fee *(note 8b)*	34	33
Depositary fees *(note 8e)*	26	22
Other accruals	12	13
Valuation agent fees *(note 8e)*	7	11
Broker fee *(note 8c)*	7	6
Registrar fees *(note 8d)*	1	1
Performance fee *(note 8a)*	–	298
Accrued interest payable on capital instrument short position(s)	–	17
Share issue costs	–	14
	661	**649**

21. Share capital

	31 December 2022		31 December 2021	
	Number	£'000	Number	£'000
Authorised:				
Ordinary Shares of no par value	Unlimited	–	Unlimited	–
Allotted, called up and fully paid:				
Ordinary Shares of no par value	91,852,904	–	91,852,904	–

The Ordinary Shares carry the right to receive all dividends declared by the Company. Shareholders are entitled to all dividends paid by the Company and, on a winding up, provided the Company has satisfied all of its liabilities, the Shareholders are entitled to all of the surplus assets of the Company. Shareholders will be entitled to attend and vote at all general meetings of the Company and, on a poll, will be entitled to one vote for each Ordinary Share held.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2022 *(continued)*

22. NAV per Ordinary Share

The NAV per Ordinary Share is based on the net assets attributable to owners of the Company of £85,200,000 (2021: £96,883,000), and on 91,852,904 (2021: 91,852,904) Ordinary Shares in issue at the year end.

The NAV of 92.76p (2021: 105.48p) per Ordinary Share disclosed in these financial statements is 0.33p (2021: 0.33p) higher than the NAV of 92.43p (2021: 105.15p) per Ordinary Share announced on 4 January 2023 (2021: 5 January 2022) as a result of 50% of the accrued performance fee, which is due to be settled through the purchase of shares in the Company, being allocated to the performance fee reserve (see note 8a for further details of the performance fee).

23. Changes in liabilities arising from financing activities

The Company did not raise any capital from the placing of new shares in the year ended 31 December 2022 or 31 December 2021. Therefore, there were no cash flows in relation to share issue costs in 2022 or 2021.

24. Financial instruments and risk management

The Company invests its assets with the aim of spreading investment risk.

Risk is inherent in the Company's activities, but it is managed through a process of ongoing identification, measurement and monitoring. The Company is exposed to market risk (which includes currency risk, interest rate risk and price risk), credit risk and liquidity risk from the financial instruments it holds. Risk management procedures are in place to minimise the Company's exposure to these financial risks, in order to create and protect Shareholder value.

Risk management structure

The Investment Manager is responsible for identifying and controlling risks. The Board of Directors supervises the Investment Manager and is ultimately responsible for the overall risk management approach within the Company.

The Company has no employees and is reliant on the performance of third party service providers. Failure by the Investment Manager, Administrator, Depositary, Registrar or any other third party service provider to perform in accordance with the terms of its appointment could have a significant detrimental impact on the operation of the Company.

Risk concentration

Concentration indicates the relative sensitivity of the Company's performance to developments affecting a particular industry or geographical location. Concentrations of risk arise when a number of financial instruments or contracts are entered into with the same counterparty, or where a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of liquidity risk may arise from the repayment terms of financial liabilities, sources of borrowing facilities or reliance on a particular market in which to realise liquid assets. Concentrations of foreign exchange risk may arise if the Company has a significant net open position in a single foreign currency, or aggregate net open positions in several currencies that tend to move together.

Within the aim of maintaining a diversified investment portfolio, and thus mitigating concentration risks, the Company has established the following investment restriction in respect of the general deployment of assets:

Concentration

No more than 15% of NAV, calculated at the time of investment, will be exposed to any one financial counterparty. This limit will increase to 20% where, in the Investment Manager's opinion (having informed the Board in writing of such increase) the relevant financial institution investment instrument is expected to amortise such that, within 12 months of the date of the investment, the expected exposure (net of any hedging costs and expenses) will be equal to or less than 15% of NAV, calculated at the time of the investment.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2022 *(continued)*

24. Financial instruments and risk management *(continued)*

Market risk

i. Price risk

Price risk exposure arises from the uncertainty about future prices of financial instruments held. It represents the potential loss that the Company may suffer through holding positions in the face of price movements. The investments in capital instruments, unlisted open-ended funds, and bond futures at fair value through profit or loss (notes 15, 18 and 19) are exposed to price risk and it is not the intention to mitigate the price risk.

At 31 December 2022, if the valuation of these investments at fair value through profit or loss had moved by 5% with all other variables remaining constant, the change in net assets would amount to approximately +/– £3,979,000 (2021: +/– £4,319,000). The fair value of financial instruments exposed to price risk at 31 December 2022 was £79,571,000 (2021: £86,384,000).

ii. Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign currency exchange rates. Currency risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the Company's functional currency. The Company invests in securities and other investments that are denominated in currencies other than Sterling. Accordingly, the value of the Company's assets may be affected favourably or unfavourably by fluctuations in currency rates and therefore the Company will necessarily be subject to foreign exchange risks.

In order to limit the exposure to foreign currency risk, the Company entered into hedging contracts during the year. At the year end, the Company held the following foreign currency forward contracts:

31 December 2022 Maturity date	**Amount to be sold**	**Amount to be purchased**
9 February 2023	€51,534,000	£45,610,000
9 February 2023	US$6,469,000	£5,366,000

31 December 2021 Maturity date	**Amount to be sold**	**Amount to be purchased**
27 January 2022	€47,498,000	£40,124,000
27 January 2022	US$7,887,000	£5,711,000

At the year end a proportion of the net financial assets of the Company were denominated in currencies other than Sterling as follows:

31 December 2022	**Investments at fair value through profit or loss £'000**	**Receivables £'000**	**Cash and cash equivalents £'000**	**Exposure £'000**	**Foreign currency forward contract £'000**	**Net exposure £'000**
Euro	46,979	–	(2,234)	44,745	(45,610)	(865)
US Dollars	4,518	2	931	5,451	(5,366)	85
Swiss Francs	–	–	43	43	–	43
	51,497	**2**	**(1,260)**	**50,239**	**(50,976)**	**(737)**
31 December 2021						
Euro	40,361	1,593	(693)	41,261	(39,991)	1,270
US Dollars	4,952	11	371	5,334	(5,835)	(501)
	45,313	**1,604**	**(322)**	**46,595**	**(45,826)**	**769**

Other future foreign exchange hedging contracts may be employed, such as currency swap agreements, futures contracts and options. There can be no certainty as to the efficacy of any hedging transactions.

At 31 December 2022, if the exchange rates had strengthened/weakened by 5% against Sterling with all other variables remaining constant, net assets at 31 December 2022 would have decreased/increased by £37,000 (2021: £38,000).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2022 *(continued)*

24. Financial instruments and risk management *(continued)*

Market risk (continued)

iii. Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The Company is exposed to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial instruments and cash flow. A large number of the capital instruments bear interest at a fixed rate, but capital instruments to the value of £62,650,000 (2021: £54,572,000), cash and cash equivalents, net of overdrafts, of £1,122,000 (2021: £7,020,000) and collateral account balances of £4,164,000 (2021: £4,027,000) were the only interest-bearing financial instruments subject to variable interest rates at 31 December 2022. Therefore, if interest rates had increased/decreased by 50 basis points, with all other variables remaining constant, the change in the value of interest cash flows of these assets in the year would have been +/–£351,000 (2021: +/–£344,000).

31 December 2022	**Fixed interest £'000**	**Variable interest £'000**	**Non-interest bearing £'000**	**Total £'000**
Financial assets				
Investments at fair value through profit or loss	11,754	62,650	5,167	79,571
Cash and cash equivalents	–	3,356	–	3,356
Collateral accounts for derivative financial instruments at fair value through profit or loss	–	4,164	–	4,164
Derivative financial assets at fair value through profit or loss	–	–	260	260
Other receivables	–	–	2,058	2,058
Total financial assets	**11,754**	**70,170**	**7,485**	**89,409**
Financial liabilities				
Bank overdrafts	–	(2,234)	–	(2,234)
Derivative financial liabilities at fair value through profit or loss	(853)	–	(461)	(1,314)
Other payables and accruals	–	–	(661)	(661)
Total financial liabilities	**(853)**	**(2,234)**	**(1,122)**	**(4,209)**
Total interest sensitivity gap	**10,901**	**67,936**	**6,363**	**85,200**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2022 *(continued)*

24. Financial instruments and risk management *(continued)*

Market risk (continued)

iii. Interest rate risk (continued)

31 December 2021	Fixed interest £'000	Variable interest £'000	Non-interest bearing £'000	Total £'000
Financial assets				
Investments at fair value through profit or loss	18,363	54,572	17,388	90,323
Cash and cash equivalents	–	7,713	–	7,713
Collateral accounts for derivative financial instruments at fair value through profit or loss	–	4,119	–	4,119
Derivative financial assets at fair value through profit or loss	4,374	–	132	4,506
Other receivables	–	–	2,143	2,143
Total financial assets	**22,737**	**66,404**	**19,663**	**108,804**
Financial liabilities				
Bank overdrafts	–	(693)	–	(693)
Collateral accounts for derivative financial instruments at fair value through profit or loss	–	(92)	–	(92)
Derivative financial liabilities at fair value through profit or loss	(6,418)	–	(137)	(6,555)
Short position covered by sale and repurchase agreements	–	(3,932)	–	(3,932)
Other payables and accruals	–	–	(649)	(649)
Total financial liabilities	**(6,418)**	**(4,717)**	**(786)**	**(11,921)**
Total interest sensitivity gap	**16,319**	**61,687**	**18,877**	**96,883**

It is estimated that the fair value of the fixed interest and non-interest bearing capital instruments of £16,921,000 (2021: £35,751,000) at 31 December 2022 would increase/decrease by +/–£272,000 (0.34%) (2021: +/–£551,000 (0.61%)) if interest rates were to change by 50 basis points.

The Investment Manager manages the Company's exposure to interest rate risk, paying heed to prevailing interest rates and economic conditions, market expectations and its own views as to likely movements in interest rates.

Although it has not done so to date, the Company may implement hedging and derivative strategies designed to protect investment performance against material movements in interest rates. Such strategies may include (but are not limited to) interest rate swaps and will only be entered into when they are available, in a timely manner, and on terms acceptable to the Company. The Company may also bear risks that could otherwise be hedged where it is considered appropriate. There can be no certainty as to the efficacy of any hedging transactions.

Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company, resulting in a financial loss to the Company.

At 31 December 2022, credit risk arose principally from investment in capital instruments of £77,735,000 (2021: £85,449,000), cash and cash equivalents of £3,356,000 (2021: £7,713,000), balances held as collateral for derivative financial instruments at fair value through profit or loss of £4,164,000 (2021: £4,119,000), foreign currency forward assets of £260,000 (2021: assets of £132,000) and investments in sale and repurchase assets of £nil (2021: £4,194,000). The Company seeks to trade only with reputable counterparties that the Investment Manager believes to be creditworthy. The credit rating of cash and collateral counterparties is sufficient that no expected credit loss or provision for impairment is considered necessary.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2022 *(continued)*

24. Financial instruments and risk management *(continued)*

Credit risk (continued)

The Investment Manager manages the Company's credit risk by investing in a diverse portfolio of capital instruments, in line with the Prospectus. At 31 December 2022, the capital instrument rating profile of the portfolio was as follows:

	31 December 2022 Percentage	31 December 2021 Percentage
BBB	2.80	7.93
BB	34.54	19.34
B	23.60	16.90
Below B	3.20	9.89
No rating	35.86	45.94
	100.00	**100.00**

The investments without a credit rating correspond to issuers that are not rated by an external rating agency. Although no external rating is available, the Investment Manager considers and internally rates the credit risk of these investments, along with all other investments. The internal risk score is based on the Investment Manager's fundamental view (stress test, macro outlook, solvency, liquidity risk, business mix, and other relevant factors) and is determined by the Investment Manager's risk committee. The risk grades are mapped to an external Baseline Credit Assessment, and any discrepancy of more than two notches is monitored closely.

The cash pending investment may be held without limit with a financial institution with a credit rating of A-1 (Standard & Poor's) or P-1 (Moody's) or better to protect against counterparty failure.

The Company may implement hedging and derivative strategies designed to protect against credit risk. Such strategies may include (but are not limited to) credit default swaps and will only be entered into when they are available in a timely manner and on terms acceptable to the Company. The Company may also bear risks that could otherwise be hedged where it is considered appropriate. There can be no certainty as to the efficacy of hedging transactions.

Due to the Company's investment in credit default swap agreements, the Company is exposed to additional credit risk as a result of possible counterparty failure. The Company has entered into ISDA contracts with Credit Suisse (A-), JP Morgan (A+) and Goldman Sachs (A+) (2021: all rated A+ with Standard & Poor's). At 31 December 2022, the overall net exposure to these counterparties was 4.56% (2021: 3.62%) of NAV. The collateral held at each counterparty is disclosed in note 16.

Liquidity risk

Liquidity risk is defined as the risk that the Company will encounter difficulties in realising assets or otherwise raising funds to meet financial commitments. The principal liquidity risk is contained in unmatched liabilities. The liquidity risk at 31 December 2022 was low since the ratio of cash and cash equivalents (net of overdrafts) to unmatched liabilities was 3:1 (2021: 11:1).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2022 *(continued)*

24. Financial instruments and risk management *(continued)*

Liquidity risk (continued)

In addition, the Company diversifies the liquidity risk through investment in capital instruments with a variety of maturity dates, as follows:

	31 December 2022 Percentage	31 December 2021 Percentage
Less than 1 year	1.48	15.99
1 to 3 years	33.28	26.88
3 to 5 years	30.82	24.75
5 to 7 years	7.91	1.59
7 to 10 years	9.53	2.92
More than 10 years	16.98	27.87
	100.00	**100.00**

As at 31 December 2022, the Company's liquidity profile was such that 74.5% of capital instruments were realisable within one day (2021: 63.6%), 20.1% was realisable between two days and one week (2021: 32.3%) and 5.4% was realisable between eight days and one month (2021: 4.1%).

As at the year end, the Company's liabilities fell due as follows:

	31 December 2022 Percentage	31 December 2021 Percentage
1 to 3 months	60.40	71.52
3 to 6 months	18.04	–
6 to 12 months	–	–
1 to 3 years[1]	–	28.48
3 to 5 years	21.56	–
	100.00	**100.00**

[1] This classification assumes that derivative liabilities are held to maturity. However, they have been included as current liabilities in the Statement of Financial Position as they are not always held to maturity but are incurred principally for the purpose of repurchasing in the near term and, on initial recognition, are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking.

25. Capital management policy and procedures

The Company's capital management objectives are:

- to ensure that it will be able to meet its liabilities as they fall due; and
- to maximise its total return primarily through the capital appreciation of its investments.

Pursuant to the Company's Articles of Incorporation, the Company may borrow money in any manner. However, the Board has determined that the Company should borrow no more than 20% of direct investments.

The Company uses sale and repurchase agreements to increase the gearing of the Company. As at 31 December 2022 the Company had no open sale and repurchase agreements (2021: eight open sale and repurchase agreements, one of which was a reverse sale and repurchase agreement, committing the Company to make a total repayment of £6,110,000 post the year end). As a result of the reverse sale and repurchase agreement(s) held by the Company as at 31 December 2021, the Company was due to receive £4,194,000 after the year end.

The raising of capital through the placing of shares forms part of the capital management policy. See note 21 for details of the Ordinary Shares issued since incorporation.

As disclosed in the Statement of Financial Position, at 31 December 2022 the total equity holders' funds were £85,200,000 (2021: £96,883,000).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2022 *(continued)*

26. Capital commitments

The Company holds a number of derivative financial instruments, which, by their very nature, give rise to capital commitments post 31 December 2022. These are as follows:

- At 31 December 2022, the Company had sold two (2021: six) credit default swap agreements for a total of £316,000 (2021: £457,000), each receiving quarterly interest. The exposure of the Company in relation to these agreements at the year end date was £853,000 (2021: £86,000). Collateral of £3,890,000 for these agreements was held at 31 ecember 2022 (2021: £3,328,000).
- At 31 December 2022, the Company had committed to two foreign currency forward contracts dated 9 February 2023 to buy £50,774,000 (2021: two foreign currency forward contracts dated 27 January 2022 to buy £45,834,000). At 31 December 2022, the Company could have effected the same trades and purchased £50,976,000 (2021: £45,827,000), giving rise to a loss of £202,000 (2021: gain of £7,000).
- At 31 December 2022, the Company held no (2021: six (this excludes the one open reverse sale and repurchase agreement)) open sale and repurchase agreements (2021: committing the Company to make a total repayment of £6,310,000).

27. Contingent assets and contingent liabilities

In line with the terms of the Investment Management Agreement, as detailed in note 8a, should the Company's NAV reach a level at which the TER reduced to less than 1.5% of the average NAV in a future accounting period then the Quarterly Expenses Excess and Annual Expenses Excess totalling £880,000 at 31 December 2022 (2021: £777,000) would become payable to the Investment Manager, to the extent that the total expenses including any repayment did not exceed 1.5% of the average NAV for that period.

For a significant amount of the £880,000 (2021: £777,000) Expenses Excess to become payable within the foreseeable future, the Company's NAV would have to increase considerably from the 31 December 2022 NAV. The Directors consider that it is possible, but not probable, that an increase in the NAV leading to a significant payment of the Expenses Excess will be achieved in the foreseeable future. Accordingly, the possible payment to the Investment Manager has been treated as a contingent liability in the financial statements.

There were no other contingent assets or contingent liabilities in existence at the year end.

28. Events after the financial reporting date

On 25 January 2023, the Company declared a dividend of 1.50p per Ordinary Share relating to the period from 1 January 2022 to 31 December 2022, which (in accordance with IFRS) was not provided for at 31 December 2022, out of the retained profits as at 31 December 2022 (note 6). This dividend was paid on 24 February 2023.

The Board will shortly put forward proposals for the liquidation of the Company, including the ability for Shareholders to receive shares, in respect of their holdings of the Company's Ordinary Shares, in a new open-ended fund managed by the same management team and with a similar investment mandate to the Company. The Board believes that these proposals will provide continuity for those Shareholders in terms of exposure to a strategy similar to the one currently pursued by the Company and under the same management team. The New Fund, AUFC, which will be a new Compartment of Axiom Lux SICAV, an established Luxembourg SICAV that is registered as a UCITS with the Luxembourg financial regulator, the Commission de Surveillance du Secteur Financier, will be open-ended with daily liquidity. The proposals will also include a mechanism for those Shareholders who do not wish to continue their investment to achieve a cash exit.

Further details of the Proposals for the implementation of the Scheme will be described in the Circular, which, when finalised, will be made available on the Company's section of the Investment Manager's website (https://axiom-ai.com/web/en/axiom-european-financial-debt-fund-limited-2/).

GLOSSARY

Defined terms	
Administrator	Elysium
AGM	Annual General Meeting
AIB	Allied Irish Bank
AIC	Association of Investment Companies
AIC Code	AIC Code of Corporate Governance
AIF	Alternative Investment Fund
AIFM	Alternative Investment Fund Manager
AIFMD	Alternative Investment Fund Managers Directive
APM	Alternative Performance Measures
AT1	Additional T1
Axiom AI	Axiom Alternative Investments Sarl
BACA	Bank Austria UniCredit
BBVA	Banco Bilbao Vizcaya Argentaria
Broker	Corporate Broker
BRRD II	Bank Recovery and Resolution Directive II
CDS	Credit Default Swap
CET1	Common Equity T1
CFO	Chief Financial Officer
CIB	Cash In Bank
CMS	Constant Maturity Swap
Committees	The Company's Audit Committee, Management Engagement Committee and Nomination and Remuneration Committee
Company	Axiom European Financial Debt Fund Limited
COO	Chief Operating Officer
CPI	Consumer Price Index
CRR	Capital Requirements Regulation
CSAM	Credit Suisse Asset Management
CVA	Credit Valuation Adjustment
EBA	European Banking Authority
EC	European Commission
ECB	European Central Bank
Elysium	Elysium Fund Management Limited
ESG	Environmental, Social and Governance
FCA	The Financial Conduct Authority
Fed	Federal Reserve System
FICC	Fixed Income Clearing Corporation
FX	Foreign exchange
GDP	Gross Domestic Product
GFSC	Guernsey Financial Services Commission
Grant Thornton	Grant Thornton Limited
IASB	International Accounting Standards Board
IFRS	UK-adopted international accounting standards
IG	Investment Grade
Investment Manager	Axiom AI
IPO	Initial Public Offering
ISDA	International Swaps and Derivatives Association
KID	Key Information Document
KPIs	Key Performance Indicators
Law	Companies (Guernsey) Law, 2008
LSE	London Stock Exchange
M&A	Mergers and Acquisitions
MIFIR	Markets in Financial Instruments Regulation
MREL	Minimum Requirement for own funds and Eligible Liabilities

GLOSSARY *(continued)*

NAV	Net asset value
New Fund or AUFC	Axiom Unconstrained Financial Credit, a newly established Compartment of Axiom Lux SICAV
NPL	Non-Performing Loan
P&C	Property and Casualty
PIBS	Permanent Interest Bearing Shares
POI Law	The Protection of Investors (Bailiwick of Guernsey) Law, 2020
PRA	Prudential Regulatory Authority
Premium Segment	The Premium Segment of the Main Market of the LSE
Proposals	Proposals for the implementation of the Scheme as described in the Circular
Published NAV	The NAV published on the LSE on 4 January 2023, prior to the adjustments required for these financial statements under IAS 2 (see note 22)
Published net assets	The net assets used to calculate the Published NAV, prior to the adjustments required for these financial statements under IAS 2 (see note 22)
RT1	Restricted T1
Scheme	The proposed scheme of reconstruction pursuant to which the Company will be placed into voluntary liquidation and the Transfer will be effected
SFDR	Sustainability-related disclosures in the financial services sector
SFS	The Specialist Fund Segment of the LSE
SME	Small and Medium-sized Entities
SPAC	Special Purpose Acquisition Company
SPPI	Solely payments of principal interest
SPV	Special Purpose Vehicle
SREP	Supervisory Review and Evaluation Process
SubFin	Markit iTraxx Europe Subordinated Financial Index
SX7R	STOXX Europe 600 Banks Index
SXXR	STOXX Europe 600 Index
T1	Tier 1
T2	Tier 2
TBV	Total Book Value
TCFD	Task Force on Climate-Related Financial Disclosures
TISE	The International Stock Exchange
TLTRO	Targeted Longer-Term Refinancing Operations
TMO	Taux Moyen des Obligations
Transfer	The proposed transfer of substantially all of the assets of the Company to the New Fund in exchange for the issue by the New Fund of the Issue Shares to Shareholders pursuant to the Transfer Agreement, as further described in the Circular
TRIM	Targeted Review of Internal Models
UK-adopted international accounting standards	International Accounting Standards, International Financial Reporting Standards and interpretations issued by the International Financial Reporting Standards Interpretations Committee, as adopted by the UK
UK Code	UK Corporate Governance Code 2018
Winterflood	Winterflood Securities Limited

ALTERNATIVE PERFORMANCE MEASURES

Cash (%)	Total cash held, including overdrafts, expressed as a percentage of Published net assets.
Collateral (%)	Total collateral held, including negative balances, expressed as a percentage of Published net assets.
Gross assets (%)	Total assets, expressed as a percentage of Published net assets.
Modified duration	The percentage impact on the fair value of investments of a 100bps increase in risk free rates.
Net gearing	Total assets, less collateral, expressed as a percentage of Published net assets.
Published NAV/Published net assets	Please see the Glossary.
Running yield	Expected annualised coupons, expressed as a percentage of the fair value of investments.
Sensitivity to credit	The percentage impact on the fair value of investments of a 100bps increase in credit spreads.
Share price premium/discount	The amount by which the Ordinary Share price is higher/lower than the Published NAV per Ordinary Share, expressed as a percentage of the Published NAV per Ordinary Share.
Total return per Ordinary Share	Total return per Ordinary Share has been calculated by comparing the NAV or share price, as applicable, at the start of the year with the NAV or share price, as applicable, plus dividends paid, at the year end, assuming that dividends are reinvested.
Yield to call	The yield of the portfolio, converted into GBP at the anticipated reimbursement date of the bonds.
Yield to perpetuity	The yield of the portfolio, converted into GBP, with the hypothesis that securities are not reimbursed and kept to perpetuity.

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