

Registered no. 05344508

European Capital Financial Services Limited
Annual Report and Financial Statements
for the year ended 31 December 2019



European Capital Financial Services Limited

Annual Report and Financial Statements for the year ended 31 December 2019

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European Capital Financial Services Limited

Annual Report and Financial Statements for the year ended 31 December 2019

COMPANY INFORMATION

Directors

Mr Josh Bloomstein

Mr Blair Jacobson

Mr Matthew Michael Theodorakis

Registered office

10 New Burlington Street

London

W1S 3BE

Registration number

05344508

Country of domicile and incorporation

United Kingdom

European Capital Financial Services Limited

Annual Report and Financial Statements for the year ended 31 December 2019

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

The Directors of European Capital Financial Services Limited (the "Company") present their report and financial statements for the year ended 31 December 2019.

Strategic report

The directors have availed of the small companies exemption and as a result do not include a strategic report in the financial statements.

Incorporation

The Company was incorporated in England and Wales on 27 January 2005 as a private company limited by shares.

Principal activities

The principal activity of the Company was to provide investment advisory services to its 100% immediate parent, European Capital Asset Management Limited ("ECAM"). As from January 3, 2017, ECAM is a wholly owned indirect subsidiary of its ultimate parent company, Ares Capital Corporation ("ARCC"). The registered office of ARCC is 245 Park Avenue, New York, NY 10167, The United States of America and ARCC is listed on the NASDAQ stock exchange. Prior to this date, ECAM was wholly owned by American Capital Ltd ("ACAS").

On January 3, 2017, ARCC completed the acquisition of ACAS and its subsidiaries. The combined company remains externally managed by Ares Capital Management LLC. American Capital Asset Management, LLC ("ACAM"), a wholly owned portfolio company of ACAS, merged with and into Ares Capital's portfolio company, Ivy Hill Asset Management, L.P. ("IHAM"), a wholly owned portfolio company of Ares Capital. All current ARCC officers and directors remain in their current roles.

The Company operates in Europe and at the reporting date had a branch registered in France. The Company has been authorised by the FCA since March 2006.

International Financial Reporting Standards

The directors have prepared the financial statements for the Company under EU endorsed International Financial Reporting Standards, IFRIC interpretations ("IFRS") and in accordance with the Companies Act 2006.

Functional currency

The financial statements are denominated in euros ("EUR") and the directors consider euros to be the currency of the primary economic environment in which the Company operates.

Results and dividends

The Company's loss for the year of EUR 55k (2018: EUR 909k) as disclosed on page 7, was transferred to reserves. The directors do not recommend the payment of a dividend (2018: EUR nil).

None of the Directors have received any remuneration during the period.

European Capital Financial Services Limited

Annual Report and Financial Statements for the year ended 31 December 2019

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

Going concern

The financial statements have been prepared on a going concern basis. The Company believes that it has sufficient financial resources to meet its commitments and it is the intention for the Group and Company to continue to be a going concern for the next 12 months following approval of the financial statements.

Directors

The directors who served during the year and up to the date of this report are detailed on page 1.

Directors' interests

None of the directors have held any interest in the shares of the Company during the financial year or to date.

Creditor payment policy

For all trade creditors, it is the Company's policy to:

- * agree the terms of payment at the start of business with that supplier;
- * ensure that suppliers are aware of the terms of payment; and
- * pay in accordance with its contractual and other legal obligations.

Risk Management Policy

The Company's risk management policy and objective are detailed in note 3 of the financial statements.

Events after the reporting period

The directors are not aware of any matters or circumstances, which have arisen that have significantly affected or may significantly affect the operations of the Company, the results of those operations or the state of affairs of the Company in the financial years subsequent to 31 December 2019 not otherwise disclosed in this report.

In March 2020, the long term incentive plans were terminated with the final distribution.

Brexit impact

The directors of the Company have assessed the impact of the United Kingdom's exit from the European Union for the Company's activities and concluded that the Company's activities will remain unaffected.

Impact of the health crisis linked to Covid-19

As at the end of the Reporting Period, a limited number of cases of an unknown virus had been reported to the World Health Organization. Following the subsequent spread of the virus globally, the World Health Organization declared the COVID-19 outbreak to be a pandemic on 11 March 2020. The identification of the virus after the end of the Reporting Period as a new coronavirus, and its subsequent global outbreak, is considered a non-adjusting subsequent event. At present it is not possible to assess the detailed impact on the activity of the Company but there is growing concern about the impact on the world economy. In the light of significant corrections and heightened volatility in the financial markets over the past few weeks, the impact for the Company might be important, nevertheless the Board continue to observe the efforts of governments to contain the spread of the virus in order to monitor and manage the economic impact on the Company. In addition, there is no indication that the going concern assumption of the Company is inappropriate.

European Capital Financial Services Limited

Annual Report and Financial Statements for the year ended 31 December 2019

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial period. Under that law the Directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- * select suitable accounting policies and then apply them consistently;
- * state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- * make judgements and accounting estimates that are reasonable and prudent; and
- * prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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 Companies Act 2006.

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Signed for and on behalf of the Board



Josh Bloomstein
Director

Date: 23th June 2020

European Capital Financial Services Limited

Annual Report and Financial Statements for the year ended 31 December 2019

STATEMENT OF FINANCIAL POSITION

		31-Dec-19	31-Dec-18
		'000	'000
	Note	EUR	EUR
Assets			
Non-current assets			
Property, plant and equipment	4	-	-
Total non-current assets		-	-
Current assets			
Trade and other receivables	5	52	170
Amounts due from entities under common control	6	-	7
Cash and cash equivalents	7	613	899
Total current assets		665	1,076
Total Assets		665	1,076
Equity and Liabilities			
Capital and reserves			
Share capital	9	39,417	39,417
Accumulated losses		(42,137)	(42,082)
Other reserves		3,288	3,287
Total equity shareholder's funds		568	623
Liabilities			
Creditors - amounts falling due within one year	8		
Trade and other payables		97	453
Total liabilities		97	453
Total equity and liabilities		665	1,076

The notes on pages 10 to 24 form an integral part of these financial statements

All the above activities relate to continuing operations.

The financial statements on pages 6 to 24 were approved and authorised by the Directors of the Company on 23th June 2020 and were signed on its behalf by Josh Bloomstein.

For the financial year in question the company was entitled to exemption under section 477 of the Companies Act 2006 relating to small companies.

No members have required the company to obtain an audit of its accounts for the year in question in accordance with section 476 of the Companies Act 2006.

The directors acknowledge their responsibility for complying with the requirements of the Act with respect to accounting records and for the preparation of accounts.

These accounts have been prepared in accordance with the provisions applicable to companies subject to the small companies's regime.



Director
Josh Bloomstein

European Capital Financial Services Limited

Annual Report and Financial Statements for the year ended 31 December 2019

STATEMENT OF COMPREHENSIVE INCOME

		01-Jan-19 to 31-Dec-19 '000 EUR	01-Jan-18 to 31-Dec-18 '000 EUR
	Note		
Revenue	10	484	237
Administrative expenses	11	(590)	173
Net operating (loss)/profit		(106)	410
Foreign exchange gains/(losses)		51	(17)
Reversal of impairment on Fixed assets	4	1,213	-
Loss on disposal of Fixed assets	4	(1,213)	(861)
Loss before tax		(55)	(469)
Income tax expense	14	-	(440)
Loss attributable to the Company's equity holder		(55)	(909)
Share-based compensation contribution		-	-
Loss and total comprehensive loss for year		(55)	(909)

All above activities relate to continuing operations.

The notes on pages 10 to 24 form an integral part of these financial statements

European Capital Financial Services Limited

Annual Report and Financial Statements for the year ended 31 December 2019

STATEMENT OF CHANGES IN EQUITY

	Share capital '000 EUR	Other reserves '000 EUR	Accumulated losses '000 EUR	Total equity '000 EUR
As at 1 January 2018	39,417	3,287	(41,173)	1,531
Loss and total comprehensive loss for the year	-	-	(909)	(909)
Balance as at 31 December 2018	39,417	3,287	(42,082)	623
As at 1 January 2019	39,417	3,287	(42,082)	623
Loss and total comprehensive loss for the year	-	-	(55)	(55)
Balance as at 31 December 2019	39,417	3,288	(42,137)	568

The notes on pages 10 to 24 form an integral part of these financial statements

European Capital Financial Services Limited

Annual Report and Financial Statements for the year ended 31 December 2019

Statement of Cash Flows for the year ended 31 December 2019

		01-Jan-19 to 31-Dec-19 '000 EUR	01-Jan-18 to 31-Dec-18 '000 EUR
	Note		
Cash flow used in operations	15	(1,553)	(772)
Income tax expenses	14	-	(440)
Cash flows generated from / (used in) operating activities		(1,553)	(1,212)
Disposal of property, plant and equipment	4	1,213	509
Disposal of intangible assets		-	352
Interest received		-	-
Cash flows generated from / (used in) investing activities		1,213	861
Proceeds from issue of ordinary shares		-	-
Cash utilised from cancellation of ordinary shares		-	-
Cash flows generated from / (used in) financing activities		-	-
Net (decrease)/increase in cash and cash equivalents		(340)	(351)
Cash and cash equivalents - unrestricted at the beginning of the year		899	1,254
Foreign exchange gain / (loss) on cash and cash equivalents - unrestricted		54	(4)
Cash and cash equivalents - unrestricted at the end of the year		613	899

All above activities relate to continuing operations.

The notes on pages 10 to 24 form an integral part of these financial statements

European Capital Financial Services Limited

Annual Report and Financial Statements for the year ended 31 December 2019

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

1. General information and summary of significant accounting policies

1.1 General information

European Capital Financial Services Limited ("ECFS" or "the Company") provides investment advisory services to its immediate parent, European Capital Asset Management Limited ("ECAM"). ECAM is an indirect subsidiary of Ares Capital Corporation ("ARCC"), a US company listed on the NASDAQ stock exchange. The Company operates in Europe and at the reporting date had a branch registered in France.

The Company is a limited liability company incorporated and domiciled in the United Kingdom. The address of its registered office is 10 New Burlington Street, London, W1S 3BE.

The Company is authorised and regulated by the Financial Conduct Authority ("FCA") (formerly the Financial Services Authority ("FSA")) under reference number 447079. Permissions were granted to the Company on 15 March 2006. The French Branch is regulated by Banque de France under reference number 16443 Y.

1.2 Basis of preparation

The financial statements of the Company have been prepared in accordance with EU Endorsed International Financial Reporting Standards and IFRIC interpretations (together "IFRS") and the Companies Act 2006. The financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

Numbers within the financial statements are in thousands, unless otherwise indicated.

The Company was entitled to take advantage of the small companies exemption from preparing a strategic report.

1.3 Going concern

The financial statements have been prepared on a going concern basis. The Company meets its capital requirements through its share capital. The directors are confident from historic transactions that funds will be available under the shareholder agreement to meet the Company's liabilities as they fall due. The directors believe that it is therefore appropriate to prepare the financial statements on a going concern basis.

European Capital Financial Services Limited

Annual Report and Financial Statements for the year ended 31 December 2019

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

1. General information and summary of significant accounting policies (continued)

1.4 Income

(a) Provision of services

Revenue comprises the fair value of the consideration received or receivable for the provision of services in the ordinary course of the Company's activities. Revenue is shown net of value added tax, returns, rebates and discounts and after eliminating sales within the Company.

The Company recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Company's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Company bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

The Company provides management services to its immediate parent and related parties. Revenue is recognised in agreement with the contracts in place between the Company and the related parties to whom sales are made. The Company also recharges expenditure incurred which is utilised in providing services to ECFM which includes both personnel costs who are seconded to ECFM and for overheads. The recharged amounts are credited against the respective categories within administration expenses.

(b) Interest income

The Company has not made any substantial loans and has not placed any substantial sum on deposit. Interest income is recognised on an accruals basis that materially approximates to the effective interest rate method.

1.5 Foreign currency translation

The results and financial position of the Company are measured in euros. The functional currency of the Company is euros. Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. All monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the year end.

Exchange differences arising from the re-translation of foreign currency denominated assets and liabilities together with other exchange differences arising in the period are included in the Statement of Comprehensive Income.

1.6 Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance costs are charged to the Statement of Comprehensive Income during the financial period in which they are incurred.

NOTES TO THE FINANCIAL STATEMENTS - (continued)
FOR THE YEAR ENDED 31 DECEMBER 2019

1. General information and summary of significant accounting policies (continued)

1.6 Property, plant and equipment (continued)

Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Leasehold improvements	7 - 10 years
Computer equipment	3 years
Fixtures and fittings	7 -10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within administrative expenses.

1.7 Financial instruments

(a) Recognition and initial measurement of financial instruments

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(b) Classification and subsequent measurement of financial instruments

Financial instruments are classified at inception into one of the following categories which then determines the subsequent measurement methodology:

Financial assets are classified into one of the following three categories:

- financial assets at amortised cost;
- financial assets at fair value through other comprehensive income (FVOCI); and
- financial assets at fair value through profit or loss (FVTPL).

**NOTES TO THE FINANCIAL STATEMENTS - (continued)
FOR THE YEAR ENDED 31 DECEMBER 2019**

1. General information and summary of significant accounting policies (continued)

1.7 Financial instruments (continued)

(b) Classification and subsequent measurement of financial instruments (continued)

Financial liabilities are classified into one of the following two categories:

- financial liabilities at amortised cost; and
- financial liabilities at fair value through profit and loss (FVTPL).

Loans receivable are carried at amortised cost using the effective interest method less any allowance for estimated impairments. A provision is established for impairments when there is objective evidence that the Company will not be able to collect all amounts due under the original terms of the loan. Interest income, together with losses when the loans are impaired, is recognised using the effective interest method in the income statement.

Borrowings, which include interest-bearing loans, are recorded at their initial fair value which normally reflects the proceeds received, net of direct issue costs less any repayments. Subsequently these are stated at amortised cost, using the effective interest method. Any difference between proceeds and the redemption value is recognised over the term of the borrowing in the income statement using the effective interest method.

Accretion on inflation linked borrowings is accounted for on an accrual basis to the income statement, and are added to the carrying value of the debt instrument to the extent that they are not settled in the period in which they arise.

Derivative financial instruments ('derivatives') are recorded at fair value. Where the fair value of a derivative is positive, it is carried as a derivative asset and where negative, as a liability.

Assets and liabilities on different transactions are only netted if the transactions are with the same counterparty, a legal right of set off exists and the cash flows are intended to be settled on a net basis. Gains and losses arising from changes in fair value are included in the income statement in the period they arise, unless hedge accounting applies.

The fair value of financial derivatives is calculated by discounting all future cash flows by the market yield curve at the reporting date and adjusting for own and counterparty credit. The market yield curve for each currency is obtained from external sources for interest and foreign exchange rates.

For financial assets carried at amortised cost, the amount of the impairment is the differences between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

(c) Derecognition of financial instruments

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

NOTES TO THE FINANCIAL STATEMENTS - (continued)
FOR THE YEAR ENDED 31 DECEMBER 2019

1. General information and summary of significant accounting policies (continued)

1.7 Financial instruments (continued)

(c) Derecognition of financial instruments (continued)

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

(d) Impairment of financial assets

Financial assets are impaired by calculating the probability of default and the estimated recoverable amount given default, which is used to calculate the expected credit loss. The Company has taken default to be defined as a counterparty that has entered administration.

The Company recognises loss allowances for expected credit losses (ECL) on financial instruments that are not measured at FVTPL, namely:

- trade receivables;
- loan receivables; and
- other receivables.

The Company measures the loss allowances at an amount equal to the expected credit loss. The way this is calculated is based on the applied impairment methodology, as described below:

Stage 1: For financial assets where there has not been a significant increase in credit risk since initial recognition, and were not credit impaired on recognition, the Company recognises a loss allowance based on the 12 month expected credit loss.

Stage 2: For financial assets where there has been a significant increase in credit risk since initial recognition, and were not credit impaired, the Company recognises a loss allowance for lifetime expected credit loss.

Stage 3: For financial assets which are credit impaired, the Company recognises the lifetime expected credit loss.

A significant increase in credit risk would be as a result of any change in circumstances specific to the counterparty or to the wider economic environment whereby the risk of default could be said to have been significantly increased within reasonable thresholds.

Evidence that the financial asset is credit impaired includes the following:

- significant financial difficulties of the counterparty; or
- a breach of contract such as default or past due event; or
- the restructuring of the loan or advance by the Company that the Company would not consider otherwise; or
- it is probable that the counterparty will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for an associated security because of financial difficulties.

1.8 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

NOTES TO THE FINANCIAL STATEMENTS - (continued)
FOR THE YEAR ENDED 31 DECEMBER 2019

1. General information and summary of significant accounting policies (continued)

1.9 Financial liabilities

The Company's policy is to classify its financial liabilities into one of two categories, 'fair value through profit or loss' and 'measured at amortised cost' but since inception the Company is yet to classify a financial liability as fair value through profit or loss.

1.10 Trade and other payables

These are recognised initially at fair value and subsequently measured at amortised cost. Trade and other payables represent amounts owed to third parties, including related parties. They are non-interest bearing and are normally settled within 30 days.

1.11 Share Capital

Financial instruments issued by the Company are treated as equity only to the extent they do not meet the definition of a financial liability. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds received.

For the purposes of the disclosures given in note 3, the Company considers its capital to comprise of its ordinary share capital, other reserves and accumulated comprehensive loss. No financial liabilities are considered capital and no capital items are considered financial liabilities for capital management purposes. There have been no changes in what the Company considers to be capital since the previous period.

The Company is subject to externally imposed capital requirements as it is deemed a "BIPRU €50K investment firm" under FCA classifications. The Company ensures that it remains compliant with these requirements as described in note 3.

1.12 Current and deferred Tax

(a) Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

(b) Deferred tax

Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

**NOTES TO THE FINANCIAL STATEMENTS - (continued)
FOR THE YEAR ENDED 31 DECEMBER 2019**

1. General information and summary of significant accounting policies (continued)

1.12 Current and deferred Tax (continued)

(b) Deferred tax (continued)

Deferred tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for any deferred tax liability where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future. Generally, the Company is unable to control the reversal of the temporary difference for associates. Only where there is an agreement in place that gives the Company the ability to control the reversal of the temporary difference is the deferred tax liability not recognised.

Deferred tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities and there is an intention to settle the balances on a net basis.

1.13 Share-based payments

The Company has made share-based payments to employees in which employees purchased redeemable shares in a fellow subsidiary company within the group of companies headed by the ultimate parent company. All employees were invited to participate in the Long-Term Incentive Plan 1 (LTIP1) in 2010 whereby restricted shares in a fellow subsidiary company, European Capital Limited (ECL), were purchased under the scheme. The difference between the purchase price and the accounting fair value, calculated by reference to the value of ECL and certain of its investments, is accounted for as an equity-settled share based payment and expensed on a straight-line basis over the vesting period.

At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

1.14 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases, net of any incentives received from the lessor, are charged to the Statement of Comprehensive Income on a straight-line basis over the expected period of the lease.

NOTES TO THE FINANCIAL STATEMENTS - (continued)
FOR THE YEAR ENDED 31 DECEMBER 2019

1. General information and summary of significant accounting policies (continued)

1.15 Taxation

The Company is deemed to have a permanent establishment and be subject to corporate income taxes in the UK and the territories that it has branches in. Please see note 2 for further information.

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities.

2. Critical accounting estimates and judgments

Estimates and judgments are regularly evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, approximate to the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below:

Income Taxes

During the year, the Company was subject to income taxes in two jurisdictions, the UK and France. Judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company fully recognises tax-related liabilities based on estimates made at the end of the reporting period about whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

3. Financial risk management

In common with other businesses, the Company is exposed to risks that arise from its use of financial instruments. The Company's activities expose it to a variety of financial risks, such as market risk (including currency risk and price risk), credit risk and liquidity risk. The Company's financial risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance.

The principal financial instruments and financial assets from which financial risk arises are:

- trade and other receivables
- unrestricted cash at bank
- trade and other payables

(a) Foreign exchange risk

The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar and pounds Sterling. Foreign exchange risk may arise from future commercial transactions and recognised assets and liabilities.

Other foreign exchange risks affecting the Company are due to the Company purchasing services and assets in currencies other than euros. These services and assets are predominately denominated in pounds Sterling but a reasonably possible movement in the exchange rate at reporting date would not have a material effect on the Company's profit after tax.

NOTES TO THE FINANCIAL STATEMENTS - (continued)
FOR THE YEAR ENDED 31 DECEMBER 2019

3. Financial risk management (continued)

(b) Price risk

The Company is not exposed to any price risk as it does not hold any financial instruments that are traded on an active market and therefore is subject to fluctuations in prices.

(c) Credit risk

The Company has one major customer, its immediate parent ECAM. The Company has not mitigated its credit risk with this customer; however, as the customer is the immediate parent, the directors do not believe that this exposure causes significant concern for the Company. The Company has other credit risk associated with its cash and cash equivalents. All deposits and accounts are held with major banks and therefore this risk is considered minimal. The Company's banker has a Moody's credit rating of Aa2 (2018: Aa3).

The Company's maximum exposure to credit risk, by class of financial instrument, is shown in the table below:

	Carrying value	2019 Maximum exposure	Carrying value	2018 Maximum exposure
	€' 000	€' 000	€' 000	€' 000
Trade receivables:				
Third parties	2	2	2	2
Other debtors and prepayments	50	50	168	168
Total trade receivables	52	52	170	170
Deferred cost due from entities under common control	-	-	7	7
Cash and cash equivalents				
Held for operating purposes	613	613	899	899
	613	613	899	899
Maximum credit risk exposures	665	665	1,076	1,076

None of the above amounts have been discounted due to the short term nature of the receivables. Any discounting would be immaterial.

(d) Cash flow and fair value interest rate risk

The Company has no significant interest-bearing liabilities and although cash balances do attract interest income the Group's income and operating cash flows are substantially independent of changes in market interest rates.

(e) Fair value estimation

The carrying values less impairment provisions of trade receivables and payables are considered to approximate their fair values due to the short-term nature of trade receivables.

(f) Liquidity risk

The Company aims to mitigate liquidity risk in various ways, including maintaining high levels of liquid resources, reviewing contingency funding arrangements and incorporating tight credit control processes.

European Capital Financial Services Limited

Annual Report and Financial Statements for the year ended 31 December 2019

**NOTES TO THE FINANCIAL STATEMENTS - (continued)
FOR THE YEAR ENDED 31 DECEMBER 2019****3. Financial risk management (continued)****(f) Liquidity risk (continued)**

The Company monitors expected cash flows for future periods. Excess cash identified in managing liquidity is invested in financial instruments exposed to insignificant risk of changes in market value, being placed on interest-bearing deposit with maturities that will allow the Company to meet its expected future cash needs.

Capital resources

The Company considers its overall capital to comprise of its ordinary share capital, other reserves less accumulated comprehensive loss. No financial liabilities are considered capital.

In managing its capital, the Company's primary objective is to ensure its ability to provide a consistent return for its equity shareholder through distributions and the possible orderly unwinding of its business if this were to happen. In order to achieve this, the Company has established a capital adequacy assessment process, whereby the Company reviews the total risks that face the Company and considers an appropriate amount of capital that should be held to meet these risks.

4. Property, plant and equipment

	Leasehold improvements	Total
	€' 000	€' 000
Cost		
At 1 January 2019	-	-
Additions	-	-
Disposals	-	-
At 31 December 2019	-	-
Depreciation		
At 1 January 2019	(1,213)	(1,213)
Charge of the year	-	-
Disposals	1,213	1,213
At 31 December 2019	-	-
Net book value		
At 31 December 2019	-	-

European Capital Financial Services Limited

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**NOTES TO THE FINANCIAL STATEMENTS - (continued)
FOR THE YEAR ENDED 31 DECEMBER 2019****4. Property, plant and equipment (continued)**

	Leasehold improvements	Office equipment	Total
	€' 000	€' 000	€' 000
Cost			
At 1 January 2018	1,213	509	1,722
Additions	-	-	-
Disposals	-	(509)	(509)
At 31 December 2018	1,213	-	1,213
Depreciation			
At 1 January 2018	(1,213)	(509)	(1,722)
Charge of the year	-	-	-
Disposals	-	509	509
At 31 December 2018	(1,213)	-	(1,213)
Net book value			
At 31 December 2018	-	-	-

In 2019, the lease agreement has been terminated (more details can be found in note 16).

5. Trade and other receivables

	Year ended 31 December 2019 €' 000	Year ended 31 December 2018 €' 000
VAT receivable	50	1
Other debtors	2	2
Prepayments	-	167
	52	170

Trade debtors are non-interest bearing and generally receivable on receipt of invoice.

6. Amounts due from entities under common control

	Year ended 31 December 2019 €' 000	Year ended 31 December 2018 €' 000
Due from European Capital Private Debt LP	-	7
	-	7

All amounts due from entities under common control are interest free, unsecured, and repayable on demand.

7. Cash and Cash equivalents

	Year ended 31 December 2019 €' 000	Year ended 31 December 2018 €' 000
Unrestricted cash	613	899

European Capital Financial Services Limited

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**NOTES TO THE FINANCIAL STATEMENTS - (continued)
FOR THE YEAR ENDED 31 DECEMBER 2019****8. Creditors - amounts falling due within one year**

	Year ended 31 December 2019 €' 000	Year ended 31 December 2018 €' 000
Trade and other payables	-	-
Amount owed to affiliated undertakings	-	14
Other taxation and social security	97	439
Deferred income	-	-
	<u>97</u>	<u>453</u>

As at 31 December 2019, Amount owed to affiliated undertakings is nil (2018: €14k from the immediate parent company). Also as at year end, the Company accrued in its books a provision of €97k in relation to tax liabilities due by French branch.

9. Share capital

	Year ended 31 December 2019		Year ended 31 December 2018	
	Number	€	Number	€
Authorised				
Ordinary shares of £1 each	31,400,000		31,400,000	
Issued				
At beginning of the year	31,400,000	39,416,674	31,400,000	39,416,674
Additions	-	-	-	-
Reduction	-	-	-	-
As at year end	<u>31,400,000</u>	<u>39,416,674</u>	<u>31,400,000</u>	<u>39,416,674</u>

Holders of the Company's ordinary shares have no restrictions over their rights to the distribution of capital or over receipt of dividends. All shares have equal voting rights.

10. Revenue

Revenue and the profit on ordinary activities before taxation are wholly attributable to the Company's principal activity. All revenue has been generated within Europe.

11. Administrative expenses

	Year ended 31 December 2019 €' 000	Year ended 31 December 2018 €' 000
Administrative expenses is composed as follow		
(Reversal of) Depreciation of tangible assets	-	(509)
Amortisation of intangible assets	-	(352)
Provision for doubtful receivables	-	-
Staff costs excluding directors' costs	336	(153)
Directors' costs	-	-
Operating lease charges	254	841
	<u>590</u>	<u>(173)</u>

European Capital Financial Services Limited

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**NOTES TO THE FINANCIAL STATEMENTS - (continued)
FOR THE YEAR ENDED 31 DECEMBER 2019****12. Staff costs**

Staff costs excluding directors	Year ended 31 December 2019 €' 000	Year ended 31 December 2018 €' 000
Wages and salaries	-	-
Severance	336	-
Social security costs	-	(153)
	<u>336</u>	<u>(153)</u>

13. Share-based compensation

The figures in this note are not in thousands.

The Company has the following share-based compensation arrangements:

Long Term Incentive Plans

Long Term Incentive Plan 1 (LTIP1) scheme was launched in 2010 whereby employees purchased restricted shares in ECL. These shares vest over five years, with one fifth of the shares vesting each year and the grant date back dated to 1 January 2009. Vested shares are redeemed at each anniversary date by ECL with the redemption price being calculated by reference to the realisations on certain investments held by ECL and its subsidiaries.

During the year there were no shares purchased by employees under this scheme (2018: no shares). The weighted average fair value of the shares at grant date was €1.45 which was calculated using the investment value of the shares at the grant date. The investment value being the present value of the shares based on the relevant underlying investments within ECL and its subsidiaries with discounts applied for equity risk, liquidity risk, credit risk, minority interests, lack of marketability, a forfeiture rate and the total offset by the payments made by employees for the shares. There are no adjustments for dividends as these are not dividend earning shares.

As the LTIP1 shares were fully vested in 2014, there was no expense recognised arising from equity-settled share-based payment transactions during the year (2018: €nil).

The Long Term Incentive Plan 2 (LTIP2) was launched in 2012 whereby certain employees purchased 300,000 restricted shares in ECL. These shares vest over five years, with one fifth of the shares vesting each year and the grant date was 1 January 2012. Vested shares are redeemed at each anniversary date by ECL with the redemption price being calculated by reference to the aggregate return of investments made after 1 January 2012.

The Company has not recognised an equity-settled share based payment in respect of LTIP2 as the payments made by employees for the restricted shares equated to the accounting fair value at grant date. See Note 18 for a subsequent event relating to the long term incentive plans.

14. Taxation on profit on ordinary activities

There is no current or deferred tax charge in the year.

The tax assessed for the year is lower than the standard effective rate of corporation in the UK for the year ended 31 December 2019 at 19% (2018: 19%).

European Capital Financial Services Limited

Annual Report and Financial Statements for the year ended 31 December 2019

**NOTES TO THE FINANCIAL STATEMENTS - (continued)
FOR THE YEAR ENDED 31 DECEMBER 2019****14. Taxation on profit on ordinary activities (continued)**

The tax assessed on the profit before tax on ordinary activities is explained below:

	Year ended 31 December 2019 €' 000	Year ended 31 December 2018 €' 000
Current tax		
Current tax on loss for the year	-	-
Total current tax	-	-
Loss on ordinary activities before taxation	(55)	(469)
Profit on ordinary activities before taxation multiplied by effective rate in the UK of 19% (2018: 19%)	(11)	(89)
Tax effects of		
- Disallowable expenses	-	-
- Disallowable income	-	-
Carried forward losses	11	89
Total tax charge	-	-

The main rate of UK corporation tax from 1 April 2016 was 20%. This was reduced to 19% from 1 April 2017 and no change is expected in the foreseeable future.

15. Cash generated from / (used in) operations

	Year ended 31 December 2019 €' 000	Year ended 31 December 2018 €' 000
Loss before tax	(55)	(469)
Adjustment for:		
Depreciation of tangible assets	(1,213)	(509)
Amortisation of intangibles	-	(352)
Foreign exchange movements	51	(17)
Changes in working capital		
Trade and other receivables	7	738
Trade and other payables	(343)	(164)
Cash generated from / (used in) operations	(1,553)	(773)

16. Significant leases

During the year, the Company occupied leased office accommodation in the UK and France. The UK offices had rent free periods at commencement of the lease, which have been recognised on the balance sheet and are being amortised over the expected life of the lease.

The London office lease was renewed in September 2015 for 5 years.

The French lease runs until September 2019 and has no rent review; however, the cost of the lease is indexed in October of each year, according to the quarterly index on construction cost published by the National Institute for Statistics and Economic Studies.

The Company had no onerous operating lease provision reported within Creditors – amounts falling due within one year at reporting date (2018: €nil).

European Capital Financial Services Limited

Annual Report and Financial Statements for the year ended 31 December 2019

**NOTES TO THE FINANCIAL STATEMENTS - (continued)
FOR THE YEAR ENDED 31 DECEMBER 2019****16. Significant leases (continued)**

In 2019, both UK and French leases have been terminated by the Company.

17. Related party transactions**Revenue, administrative expenses and year end balances with related parties**

During the year, there were no related party transactions and there were no outstanding balances at the reporting date.

	Revenue	Admin expenses	2018 Payable at year end	Receivable at year end
	€' 000	€' 000	€' 000	€' 000
Immediate parent	-	-	14	-
Entities under common control	-	-	-	7

18. Events after the reporting period

The directors has evaluated subsequent events through the date of issuance of this report. There have been no subsequent events that occurred during such period that would require disclosure in this report or would be required to be recognized in this report as of and for the year ended December 31, 2019, except as discussed below.

In March 2020, the long term incentive plans were terminated with the final distribution.

19. Immediate and ultimate parent and controlling parties

The immediate parent and smallest group that the Company is part of is European Capital Asset Management Limited, a company registered in Guernsey. Since January 3, 2017, the ultimate parent and controlling party is Ares Capital Corporation ("ARCC"). The combined company is managed by Ares Capital Management LLC.

Copies of these accounts may be obtained from

Ares Capital Management LLC
245 Park Avenue
44th Floor
New York, NY10167
US