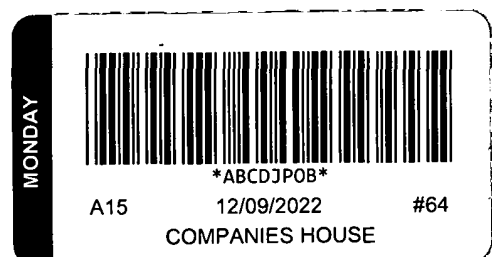


Registered number: 08138649

Monarch Alternative Capital (Europe) Ltd
Directors' report and financial statements
For the year ended 31 December 2021



Monarch Alternative Capital (Europe) Ltd

Company Information

Directors	M Glowasky J Rieger
Registered Number	08138649
Registered Office	1 st Floor 50 - 52 Welbeck Street London W1G 9HL
Independent Auditors	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors 7 More London Riverside London SE1 2RT
Bankers	HSBC Bank 60 Queen Victoria Street London EC4N 4TR

Monarch Alternative Capital (Europe) Ltd

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Monarch Alternative Capital (Europe) Ltd

Strategic report (continued) For the year ended 31 December 2021

The directors present the Strategic report for Monarch Alternative Capital (Europe) Ltd (the 'company') for the year ended 31 December 2021.

Principal activities, review of the business and future developments

The company is authorised by the Financial Conduct Authority ("FCA") to conduct investment related activities. The principal activity of the company continues to be the provision of investment management and advisory services to Monarch Alternative Capital LP, its parent undertaking, for the further benefit of its managed investment funds.

The results for the year and the financial position at the year end were considered satisfactory by the directors.

The directors do not anticipate any change in the nature of the company's principal activity going forward.

Results and dividends

The profit for the financial year amounted to £545,615 (2020: £544,598) as shown on page 7 and the net assets of the company amounted to £1,688,741 (2020: £1,643,126) as shown on page 8. An interim dividend of £500,000 was proposed and paid during the year after careful review of the management accounts and Regulatory Capital Resources Analysis.

Key performance indicators ("KPIs")

Given the straightforward nature of the business, the directors are of the opinion that analysis using KPIs is not necessary for an understanding of the development, performance or position of the business.

Financial risk management

The company is a subsidiary of Monarch Alternative Capital LP and provides its services exclusively to this entity. The company is indirectly exposed to the risks faced by this entity and to the performance of the underlying funds managed by the group. Monarch Alternative Capital LP's legal and compliance departments assist the company on all aspects of its compliance programme, including risk assessment and monitoring.

In addition, the company's Board of Directors (the "Board") also assists with risk assessment and monitoring. The Board meets on a regular basis and discusses current projections for profitability, cash flow, regulatory capital management, business planning and risk management. The Board manages the company's business risks through a framework of policy and procedures having regard to relevant laws, standards, principles and rules (including FCA principles and rules) with the aim to operate a defined and transparent risk management framework.

The company is not exposed to any significant price, credit, liquidity or cash flow risk.

The economic and broader impacts of Russia's campaign in Ukraine may have an effect on the financial statements and operations in the future, though it is not possible to quantify likely impacts at this stage. The financial statements do not include any adjustments as result of this.

This report was approved by the Board of Directors and signed on its behalf by:



.....
M Glowasky
Director
5th April 2022

Monarch Alternative Capital (Europe) Ltd

Directors' report For the year ended 31 December 2021

The directors present their report and the audited financial statements for the company for the year ended 31 December 2021.

Directors

The directors who served during the year and up to the date of signing the financial statements were:

M Maroof (resigned 30 June 2021)
M Glowasky
J Rieger

Pillar 3 disclosure

The unaudited Pillar 3 disclosures of the company, as required by the FCA Prudential Sourcebook for Banks, Building Societies and Investment Firms (BIPRU) Chapter 11 - Disclosure (Pillar 3), are available as an appendix to these financial statements.

Remuneration Code disclosure

The unaudited Remuneration Code disclosures of the company, as required by the FCA Prudential Sourcebook for Banks, Building Societies and Investment Firms (BIPRU) 11.5.18 and the FCA Sourcebook on Senior Management Arrangements, Systems and Controls (SYSC) 19A - Disclosure obligations in relation to the remuneration of Code Staff, are available as an appendix to these financial statements.

UK Stewardship Code disclosure

The unaudited UK Stewardship Code disclosures of the company, as required by the FCA Conduct of Business Sourcebook (COBS) 2.2.3. Disclosure of Commitments to the Financial Reporting Council's Stewardship Code, are available on our website <https://monarchlp.com/>.

Financial risk management and future developments

The company's financial risk management and future developments report is outlined in the Strategic report.

Disclosure of information to the auditors

As far as the directors holding office on the date of this report are aware:

- there is no relevant audit information reasonably likely to materially affect the audit of which the company's auditors are unaware; and
- they have taken all the steps that ought to have been taken as directors in order to be aware of any such relevant audit information and to establish that the company's auditors are also aware of that information.

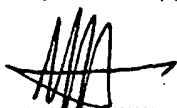
Post balance sheet events

There have been no significant events affecting the company since the year end.

Independent auditors

The auditors, PricewaterhouseCoopers LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the Board of Directors and signed on its behalf by:



.....
M Glowasky

Director

5th April 2022

Monarch Alternative Capital (Europe) Ltd

Directors' responsibilities statement For the year ended 31 December 2021

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law).

Under company law, 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 United Kingdom Accounting Standards comprising FRS 102 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 safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also 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.

Monarch Alternative Capital (Europe) Ltd

Independent auditors' report to the members of Monarch Alternative Capital (Europe) Ltd

Report on the audit of the financial statements

Opinion

In our opinion, Monarch Alternative Capital (Europe) Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2021 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Directors' report and financial statements (the "Annual Report"), which comprise: the statement of financial position as at 31 December 2021; the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

Monarch Alternative Capital (Europe) Ltd

Independent auditors' report to the members of Monarch Alternative Capital (Europe) Ltd

In connection with our audit of the financial statements, 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 an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. 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 based on these responsibilities.

With respect to the Strategic report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 December 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Directors' responsibilities statement, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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.

Auditors' 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 auditors' 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Monarch Alternative Capital (Europe) Ltd

Independent auditors' report to the members of Monarch Alternative Capital (Europe) Ltd

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to breaches of UK regulatory principles, such as those governed by the Financial Conduct Authority, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to the completeness and accuracy of the inputs relating to revenue, which is calculated on a cost-plus basis and the posting of inappropriate journal entries to revenue or expenses. Audit procedures performed by the engagement team included:

- Reviewing correspondence with the Financial Conduct Authority in relation to compliance with laws and regulations
- Discussions with management, and review of relevant directors' meeting minutes, including consideration of known or suspected instances of non-compliance with laws and regulations and fraud
- Understanding of management's internal controls designed to prevent and detect irregularities
- Testing the completeness of inputs into the cost-plus basis revenue calculation
- Testing journal entries, with a focus on journals indicating unusual transactions and account combinations based on our understanding of the business and
- Designing audit procedures to incorporate unpredictability around the nature, timing or extent of our testing

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

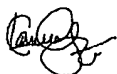
Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.



Laura Casserly (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
5th April 2022

Monarch Alternative Capital (Europe) Ltd

Statement of comprehensive income For the year ended 31 December 2021

	<i>Note</i>	<i>2021</i> £	<i>2020</i> £
Turnover		7,363,722	7,272,446
Gross profit		<u>7,363,722</u>	<u>7,272,446</u>
Administrative expenses		(6,694,291)	(6,611,311)
Finance income		5,923	1,111
Profit before taxation	4	<u>675,354</u>	<u>662,246</u>
Tax on profit	7	(129,739)	(117,648)
Profit for the financial year		<u><u>545,615</u></u>	<u><u>544,598</u></u>
Other comprehensive income for the year		-	-
Total comprehensive income for the year		<u><u>545,615</u></u>	<u><u>544,598</u></u>

All activities of the company relate entirely to continuing operations.

The notes on pages 11 to 20 form part of these financial statements.

Monarch Alternative Capital (Europe) Ltd
Registered number: 08138649

Statement of financial position
As at 31 December 2021

	Note	2021 £	2020 £
Fixed assets			
Tangible assets	8	<u>324,393</u>	<u>389,795</u>
		324,393	389,795
Current assets			
Debtors	9	5,123,645	5,184,716
Cash and cash equivalents	10	<u>445,580</u>	<u>203,281</u>
		5,569,225	5,387,997
Creditors: amounts falling due within one year	11	<u>(4,204,877)</u>	<u>(4,134,666)</u>
Net current assets		<u>1,364,348</u>	<u>1,253,331</u>
Total assets less current liabilities		<u>1,688,741</u>	<u>1,643,126</u>
Net assets		<u>1,688,741</u>	<u>1,643,126</u>
Capital and reserves			
Called up share capital	13	675,012	675,012
Retained earnings		<u>1,013,729</u>	<u>968,114</u>
Total Equity		<u>1,688,741</u>	<u>1,643,126</u>

The financial statements on pages 7 to 20 were approved and authorised for issue by the Board of Directors and were signed on its behalf by:



.....
M Glowasky
Director
5th April 2022

The notes on pages 11 to 20 form part of these financial statements.

Monarch Alternative Capital (Europe) Ltd

Statement of changes in equity For the year ended 31 December 2021

	<i>Called up share capital</i> £	<i>Retained earnings</i> £	<i>Total equity</i> £
At 1 January 2021	675,012	968,114	1,643,126
Profit for the financial year	-	545,615	545,615
Dividends declared	-	(500,000)	(500,000)
At 31 December 2021	675,012	1,013,729	1,688,741

Statement of changes in equity For the year ended 31 December 2020

	<i>Called up share capital</i> £	<i>Retained earnings</i> £	<i>Total equity</i> £
At 1 January 2020	675,012	923,516	1,598,528
Profit for the financial year	-	544,598	544,598
Dividends declared	-	(500,000)	(500,000)
At 31 December 2020	675,012	968,114	1,643,126

The notes on pages 11 to 20 form part of these financial statements.

Monarch Alternative Capital (Europe) Ltd

Statement of cash flows For the year ended 31 December 2021

	2021 £	2020 £
Cash flows from operating activities		
Profit for the financial year	545,615	544,598
Adjustments for:		
Depreciation of fixed assets	70,625	48,266
Taxation	129,739	117,648
Decrease/(increase) in debtors	76,576	(534,822)
Increase in creditors	83,351	5,308
Corporation tax paid	(158,384)	(163,604)
Net cash generated from operating activities	<u>747,522</u>	<u>17,394</u>
Cash flows from investing activities		
Purchase of fixed assets	(5,223)	(107,677)
Net cash outflow from investing activities	<u>(5,223)</u>	<u>(107,677)</u>
Cash flows from financing activities		
Dividends paid	(500,000)	(500,000)
Net cash outflow from financing activities	<u>(500,000)</u>	<u>(500,000)</u>
Net increase/(decrease) in cash and cash equivalents	242,299	(590,283)
Cash and cash equivalents at beginning of year	203,281	793,564
Cash and cash equivalents at the end of year	<u>445,580</u>	<u>203,281</u>
Cash at bank and in hand	<u>445,580</u>	<u>203,281</u>

The Company had no net debt as at 31 December 2021 (2020: £nil).

The notes on pages 11 to 20 form part of these financial statements.

Monarch Alternative Capital (Europe) Ltd

Notes to the financial statements For the year ended 31 December 2021

1. General information

Monarch Alternative Capital (Europe) Ltd is a private company limited by shares incorporated in England and Wales. The address of its registered office and principal place of business is 1st Floor, 50-52 Welbeck Street, London, England, W1G 9HL.

2. Accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention and in accordance with Financial Reporting Standard 102 ('FRS 102'), the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the company's accounting policies (note 3).

The accounting policies adopted are described below and have been applied consistently.

2.2 Going concern

The financial statements have been prepared on a going concern basis, as stated in the Directors' responsibilities statement. Based on the directors' assessment, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to apply the going concern basis.

2.3 Turnover

Turnover represents fees earned for investment management services provided to Monarch Alternative Capital LP, arising from continuing activities in the United Kingdom. Management fees are recognised when the company obtains the right for consideration received in exchange for its performance of services. Turnover is measured at the fair value of the consideration received, excluding VAT.

Interest income has been recognised on an effective interest rate basis.

2.4 Fixed assets

Fixed assets are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditures that are directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

The estimated useful lives range as follows:

Leasehold improvements	-	straight line over remainder of lease
Furniture and fixtures	-	3 years
Computer and office equipment	-	3 years
Artwork	-	No depreciation

Monarch Alternative Capital (Europe) Ltd

Notes to the financial statements For the year ended 31 December 2021

2. Accounting policies (continued)

2.5 Operating leases

Leases in which a substantial portion of the risks and rewards incidental to ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are recognised as an expense in the Statement of comprehensive income on a straight-line basis over the lease term.

2.6 Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

2.7 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours.

2.8 Financial instruments

The company only enters into basic financial instrument transactions that result in the recognition of financial assets and liabilities such as trade and other accounts receivable and payable, loans from banks and other third parties and loans to related parties and these are measured at amortised cost.

2.9 Creditors

Short term creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

2.10 Foreign currency translation

The company's functional and presentational currency is pound sterling.

Foreign currency transactions are translated into the functional currency using the spot exchange rates on the dates of the transactions.

At each period end, foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Monarch Alternative Capital (Europe) Ltd

Notes to the financial statements For the year ended 31 December 2021

2. Accounting policies (continued)

2.11 Pensions

The company operates a defined contribution scheme for its employees. A defined contribution scheme is a pension plan under which the company pays fixed contributions into a separate entity. Once the contributions have been paid, the company has no further payment obligations.

The contributions are recognised as an expense in the Statement of comprehensive income when they fall due. Amounts not paid are shown in accruals as a liability in the Statement of financial position. The assets of the scheme are held separately from the company in independently administered funds.

2.12 Current and deferred taxation

The tax expense for the year comprises current and deferred tax and is recognised in the Statement of comprehensive income.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the company operates and generates income.

Deferred balances are recognised in respect of all timing differences that have originated but not reversed by the Statement of financial position date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

2.13 Deferred compensation

The company operates a remuneration policy whereby a portion of the total compensation for eligible employees and directors is deferred up to a period of two and a half years and is subject to forfeiture. The deferred compensation payments and related liability which is measured at fair value are linked to the performance of a certain fund managed by the company's direct U.S. parent, Monarch Alternative Capital LP, and a deferred compensation expense is recognised in the financial statements on a straight line basis over the vesting period. Unvested amounts are disclosed as a contingent liability.

Monarch Alternative Capital (Europe) Ltd

Notes to the financial statements For the year ended 31 December 2021

3. Judgements in applying accounting policies and key sources of estimation uncertainty

In applying the company's accounting policies, the directors are required to make judgements, estimates and assumptions in determining the carrying amounts of assets and liabilities. The directors' judgements, estimates and assumptions are based on the best and most reliable evidence available at the time when the decisions are made, and on historical experience and other factors that are considered to be applicable. Due to the inherent subjectivity involved in making such judgements, estimates and assumptions, the actual results and outcomes may differ.

The directors are of the opinion that due to the nature of the business, there are no material accounting estimates or judgements used in the preparation of these financial statements, other than those relating to the staff costs which include an estimate of the liability for staff bonuses payable (notes 2.13 and 15) in the future.

4. Profit before taxation

The profit before taxation is stated after charging:

	2021 £	2020 £
Depreciation of fixed assets	70,625	48,266
Fees payable to the company's auditors and their associates for the audit of the company's annual financial statements	34,427	36,438
Difference on foreign exchange	<u>1,275</u>	<u>539</u>

Monarch Alternative Capital (Europe) Ltd

Notes to the financial statements For the year ended 31 December 2021

5. Employees

Staff costs, including directors' remuneration, were as follows:

	2021 £	2020 £
Wages and salaries	4,855,878	5,084,536
Social security costs	549,373	385,156
Other pension costs	16,013	21,384
	<u>5,421,264</u>	<u>5,491,076</u>

The average monthly number of employees during the year, including both secondees and directors (whether or not employees), and analysed by activity was as follows:

	2021 No.	2020 No.
Administration	3	4
Investment management	6	7
	<u>9</u>	<u>11</u>

6. Directors' remuneration

	2021 £	2020 £
Directors' emoluments	<u>2,917,990</u>	<u>2,833,147</u>

The highest paid director received remuneration of £1,522,269 (2020: £1,501,798).

During the year, 1 (2020: 1) director participated in the company pension scheme, and there were contributions of £1,870 (2020: £2,217) paid on his behalf by the company.

Monarch Alternative Capital (Europe) Ltd

Notes to the financial statements For the year ended 31 December 2021

7. Tax on profit

	2021 £	2020 £
Corporation tax		
Current tax on profits for the year	145,244	152,588
Total current tax	<u>145,244</u>	<u>152,588</u>
Deferred taxation (note 12)		
Origination and reversal of timing differences	(15,505)	(25,515)
Adjustment in respect of previous periods	-	(9,425)
Total deferred tax	<u>(15,505)</u>	<u>(34,940)</u>
Tax on profit	<u>129,739</u>	<u>117,648</u>

Factors affecting tax charge for the year

The tax assessed for 2021 is higher (2020: lower) than the standard rate of corporation tax in the UK of 19% (2020: 19%). The differences are explained below:

	2021 £	2020 £
Profit before taxation	<u>675,354</u>	<u>662,246</u>
Profit multiplied by the standard rate of corporation tax in the UK of 19% (2020: 19%)	128,317	125,827
Effects of:		
Expenses not deductible for tax purposes	1,422	933
Other timing differences leading to an increase in taxation	-	(9,112)
Total tax charge for the year	<u>129,739</u>	<u>117,648</u>

Factors affecting future tax charges

As at the reporting date, the UK corporation tax rate was 19%. However, during the Budget in March 2021, the Chancellor of the Exchequer announced that the Government would legislate to keep the corporation tax rate at 19% until 2023 at which point it would increase to 25%. This will taper from 19% for businesses with profits for less than £50,000 to 25% for businesses with profits over £250,000. The Finance Bill achieved Royal Assent during June 2021.

Monarch Alternative Capital (Europe) Ltd

Notes to the financial statements For the year ended 31 December 2021

8. Tangible assets

	<i>Leasehold improvements</i>	<i>Artwork</i>	<i>Furniture and fixtures</i>	<i>Computer and office equipment</i>	<i>Total</i>
	£	£	£	£	£
Cost					
At 1 January 2021	316,439	68,667	82,392	366,794	834,292
Additions	-	-	-	5,223	5,223
At 31 December 2021	316,439	68,667	82,392	372,017	839,515
Accumulated depreciation					
At 1 January 2021	99,158	-	82,276	263,063	444,497
Charge for the year	32,193	-	116	38,316	70,625
At 31 December 2021	131,351	-	82,392	301,379	515,122
Net book value					
At 31 December 2021	185,088	68,667	-	70,638	324,393
At 31 December 2020	217,281	68,667	116	103,731	389,795

9. Debtors

	2021 £	2020 £
Due after more than one year		
Other debtors	474,496	126,554
Due within one year		
Amounts owed by group undertakings	4,267,707	4,773,085
Other debtors	147,979	37,116
Deferred taxation (note 12)	127,904	112,399
Prepayments and accrued income	105,559	135,562
	4,649,149	5,058,162
	5,123,645	5,184,716

Amounts owed by group undertakings are unsecured, interest free and repayable on demand.

Monarch Alternative Capital (Europe) Ltd

Notes to the financial statements For the year ended 31 December 2021

10. Cash and cash equivalents

	2021 £	2020 £
Cash at bank and in hand	<u>445,580</u>	<u>203,281</u>

11. Creditors: amounts falling due within one year

	2021 £	2020 £
Trade creditors	134,979	14,936
Corporation tax	35,571	48,711
Other creditors	2,950	3,126
Accruals and deferred income	<u>4,031,377</u>	<u>4,067,893</u>
	<u>4,204,877</u>	<u>4,134,666</u>

12. Deferred taxation asset

	£
At 1 January 2021	112,399
Credit to the profit or loss	15,505
At 31 December 2021	<u>127,904</u>

The deferred tax asset is made up as follows:

	2021 £	2020 £
Unpaid deferred compensation	154,322	148,942
Accelerated capital allowances	<u>(26,418)</u>	<u>(36,543)</u>
	<u>127,904</u>	<u>112,399</u>

Monarch Alternative Capital (Europe) Ltd

Notes to the financial statements For the year ended 31 December 2021

13. Called up share capital

	2021 £	2020 £
Allotted, called up and fully paid		
675,002 (2020: 675,002) Ordinary shares of £1 each	675,002	675,002
10 (2020: 10) Ordinary B shares of £1 each	10	10
	<u>675,012</u>	<u>675,012</u>

The Ordinary shares have full voting rights and full rights to participate on any distribution, including on winding up.

The Ordinary B shares have no voting rights and no rights to participate in a return of capital on winding up. The Ordinary B shares have full rights to participate in any dividend unless specifically excluded.

14. Dividends

During the year ended 31 December 2021 the company declared and paid an interim dividend of £500,000 (2020: £500,000). No further dividends were proposed for the year ended 31 December 2021.

15. Contingent liabilities

As part of the company's remuneration policy, a portion of the total compensation for eligible employees and directors will be deferred and subject to forfeiture. The company will recognise this expense over a vesting period of up to two and a half years. The terms of the agreements with the eligible employees and directors state that payments will be dependent on whether the employees and directors remain in the employment of the company.

For awards in respect of the year ended 31 December 2021, the company awarded approximately £839,895 of deferred bonus compensation to employees (including secondees) in 2021.

The current value of unvested employee deferred compensation payable as of 31 December 2021, which is subject to forfeiture and not reflected in these financial statements, is as follows:

Payable within one year	£ 1,269,272
Payable between two to five years	£ 1,654,751
Total	£ 2,924,023

16. Pension commitments

The company participates in a salary sacrifice pension plan. The pension cost charged to the profit and loss during the year amounted to £16,013 (2020: £21,834). At 31 December 2021, £2,950 (2020: £3,126) was outstanding and included in creditors on the Statement of financial position.

Monarch Alternative Capital (Europe) Ltd

Notes to the financial statements For the year ended 31 December 2021

17. Commitments under operating leases

Future minimum rentals under non-cancellable operating leases are as follows:

	2021 £	2020 £
Not later than 1 year	206,879	281,232
Later than 1 year and not later than 5 years	562,464	628,727
Later than 5 years	70,308	210,924
	<u>839,651</u>	<u>1,120,883</u>

18. Related party transactions

During the year, the company charged management fees of £7,363,722 (2020: £7,272,446) to Monarch Alternative Capital LP, the company's parent undertaking. These fees were offset by funding provided by Monarch Alternative Capital LP. In addition, during the year, the company declared a dividend of £500,000 (2020: £500,000) on Ordinary shares owned by Monarch Alternative Capital LP. As at 31 December 2021, Monarch Alternative Capital LP owed the company £4,267,707 (2020: £4,773,085) which is included in debtors in the Statement of financial position.

Key management personnel who have authority and responsibility for planning, directing and controlling the activities of the company are considered to be the directors. Total remuneration in respect of these individuals is £2,917,990 (2020: £2,833,147).

On 2 June 2021, the company issued a loan of £231,097 to M Glowasky, a director of the company. The loan has a term of 5 years, and is repayable on an annual basis. Interest is charged at 2% per annum, and the final repayment is due on 1 February 2026. At the balance sheet date, the total amount due to the company was £233,794, and is included in debtors (note 9).

On 2 June 2021, the company issued a loan of £140,804 to J Rieger, a director of the company. The loan has a term of 5 years, and is repayable on an annual basis. Interest is charged at 2% per annum, and the final repayment is due on 1 February 2026. At the balance sheet date, the total amount due to the company was £142,447, and is included in debtors (note 9).

19. Controlling party

The company's immediate parent undertaking is Monarch Alternative Capital LP, a limited partnership registered in the USA.

The largest and smallest group of undertakings for which financial statements have been drawn up is headed by Monarch Alternative Capital LP.

The company's ultimate controlling party is Monarch GP LLC, an entity registered in the USA.

Appendix 1

Unaudited Pillar 3 disclosure

The Capital Requirements Directive ('the Directive') of the European Union establishes a revised regulatory capital framework across Europe governing the amount and nature of capital that credit institutions and investment firms must maintain. In the United Kingdom, the Directive has been implemented by the Financial Conduct Authority ('FCA') in its regulations through the General Prudential Sourcebook ('GENPRU') and the Prudential Sourcebook for Banks, Building Societies and Investment Firms ('BIPRU').

The FCA framework consists of three 'Pillars':

- Pillar 1 sets out the minimum capital amount that meets the company's credit, market and operational risk capital requirement;
- Pillar 2 requires the company to assess whether its Pillar 1 capital reserves, processes, strategies and systems are adequate to meet Pillar 1 requirements and further determine whether it should apply additional capital, processes, strategies or systems to cover any other risks that it may be exposed to and is subject to annual review by the FCA; and
- Pillar 3 requires disclosure of specified information about the underlying risk management controls and capital position to encourage market discipline.

The rules in BIPRU 11 set out the provision for Pillar 3 disclosure. This document is designed to meet our Pillar 3 obligations.

We are permitted to omit required disclosures if we believe that the information is immaterial and would not be likely to change or influence the decision of a reader relying on that information.

In addition, we may omit required disclosures where we believe that the information is regarded as proprietary or confidential. In our view, proprietary information is that which, if it were shared, would undermine our competitive position. Information is considered to be confidential where there are obligations binding us to confidentiality with our customers, suppliers and counterparties.

Please note that we have made no omissions on the grounds that it is proprietary or confidential. Any omissions on grounds of materiality are on the basis that having such information would not change or influence the assessment or decision of a user relying on that information for the purpose of making economic decisions.

Scope and application of the requirements

Monarch Alternative Capital (Europe) Ltd (the "company" or "Monarch") is authorised and regulated by the Financial Conduct Authority (the "FCA") and as such is subject to minimum regulatory capital requirements. The company is categorised as a BIPRU firm by the FCA for capital purposes. It is an investment management firm.

Risk management

The company is governed by its directors (the "Board") who meet on a regular basis and determine its business strategy and risk appetite. They are also responsible for establishing and maintaining the company's governance arrangements along with designing and implementing a risk management framework that recognises the risks that the business faces.

Appendix 1

Unaudited Pillar 3 disclosure (continued)

On an annual basis, the Board formally review the risks, controls and other risk mitigation arrangements and assesses their effectiveness. Where the Board identifies material risks, it considers the financial impact of these risks as part of business planning and capital management and concludes whether the amount of regulatory capital is adequate. The general objective is to develop systems and controls to mitigate risk to a level that does not require the allocation of Pillar 2 capital.

The Board also determines how the risks the business faces may be mitigated and assesses on an on-going basis the arrangements to manage those risks. The Board meets on a regular basis and discusses current projections for profitability, cash flow, regulatory capital management and business planning and risk management. The Board manages the company's business risks through a framework of policies and procedures having regard to relevant laws, standards, principles and rules (including FCA principles and rules) with the aim to operate a defined and transparent risk management framework. These policies and procedures are updated as determined necessary.

Specific risks applicable to the company are considered below, including for each category of risk, a description of the strategies and processes to manage those risks:

Business risk

The company's revenue is reliant on the economic strength of its client, which is ultimately reliant on the performance of its funds under management. Accordingly, the risk posed to the company relates to underperformance resulting in a decline in revenue and ultimately the risk of redemptions from the funds managed by the company's client. This risk is mitigated by the redemption terms in place, by the staggered life cycles of its closed-end funds and by implementing effective strategies and internal controls.

Operational risks

The company places strong reliance on the operational procedures and controls that it has in place in order to mitigate risk and seeks to ensure that all personnel are aware of their responsibilities in this respect. The more significant operational risks managed by the company relate to minimising the risk of trade errors or improper market activity occurring, ensuring effective disaster recovery procedures are in place and the ability to retain and recruit suitably qualified investment management personnel.

Credit risk

The company does not trade on its own account; however certain counterparties treat the company as Principal. The company has an indemnity from its client, which in turn has an indemnity from its clients (i.e. the funds) in respect of counterparty obligations, among other things. The company's exposure to credit risk is in respect of investment management and advisory fees earned and surplus funds held at banks. Fees are collected on a monthly basis and the company considers that there is little risk of default. All surplus funds are held at a large international bank with a high credit rating. Given the nature of the company's exposures, no specific policy for hedging and mitigating credit risk is in place.

Appendix 1

Unaudited Pillar 3 disclosure (continued)

Regulatory capital

The capital resources of the company are made up of equity shareholder's funds, which qualifies as Tier 1 capital.

The main features of the company's capital resources for regulatory purposes as at 31 December 2021 are as follows:

Capital item	
Tier 1 capital less innovative tier 1 capital	£1,643,127
Total tier 2, innovative tier 1 and tier 3 capital	£0
Deductions from tier 1 and tier 2 capital	£0
Total capital resources, net of deductions	£1,643,127

The company is small with a simple operational infrastructure. The company follows the standardised approach to market risk and the simplified standard approach to credit risk. The company is subject to the Fixed Overhead Requirement and is not required to calculate an operational risk capital charge though it considers this as part of its process to identify the level of risk based capital required.

As discussed above, the company is a BIPRU firm and as such its capital requirements are the greater of:

- Its base capital requirement of €50,000; or
- The sum of its market and credit risk capital requirements; or
- Its Fixed Overheads Requirement ("FOR").

We have not identified credit risk exposure classes or the minimum capital requirements for market risk as we believe that they are immaterial. As a result, the company establishes its capital requirements based on its FOR.

The FOR is calculated in accordance with FCA rules, based on twelve months of expected trading expenditure net of variable costs deducted. The company monitors its expenditure on a monthly basis and takes into account any material fluctuations in order to determine whether the FOR remains appropriate to the size and nature of the business or whether any adjustments need to be made intra-year.

At 31 December 2021, the company's capital resources represent 241% of its regulatory requirement.

Appendix 2

Unaudited Remuneration Code disclosure

General Requirements

Pursuant to applicable rules and regulations, Monarch Alternative Capital (Europe) Ltd (the "company" or "Monarch") is required to establish, implement and maintain remuneration policies, procedures and practices that are consistent with and promote sound and effective risk management.

This policy covers all aspects of the company's remuneration and is subject to the company's general organisation requirements under the Financial Conduct Authority's ("FCA") systems and control requirements. As such, the company's policy has been agreed upon by Senior Management in line with the Remuneration Code principles laid down by the FCA.

In 2014, the company established a remuneration committee to ensure that remuneration policies, procedures and practices promote sound and effective risk management. As at 31st December 2021, the remuneration committee consists of Lisa Penza, Senior Controller of Monarch Alternative Capital LP and Matthew Glowasky, a director of the company.

The company's remuneration policy is reviewed annually, or following a significant change to the business requiring an update to its internal capital adequacy assessment.

The company is a BIPRU firm and its business is to provide investment management services to its sole client, an offshore affiliated manager, in respect of funds managed by that manager.

The company's policy is designed to ensure that the company complies with the Remuneration Code and that the company's compensation arrangements:

1. are consistent with and promote sound and effective risk management;
2. do not encourage excessive risk taking;
3. include measures to avoid conflicts of interest; and
4. are in line with the company's business strategy, objectives, values and long-term interests.

Proportionality

Enshrined in the FCA's remuneration requirements is the principle of proportionality. The FCA has sought to apply proportionality in the first instance by categorising firms into 3 levels. Monarch falls within the FCA's third proportionality tier and as such this disclosure is made in line with the requirements for a Level 3 Firm.

Application of the requirements

The company is required to disclose certain information on at least an annual basis regarding its remuneration policy and practices for those staff whose professional activities have a material impact on the risk profile of the company. The company's disclosure is made in accordance with its size, internal organisation and the nature, scope and complexity of its activities.

The day-to-day implementation of the company's remuneration policies has been delegated to the company's directors, who have appointed a remuneration committee that acts in consultation with senior management of the company's U.S. parent affiliate.

Appendix 2

Unaudited Remuneration Code disclosure (continued)

The remuneration of the company's staff is generally made up of an annual salary and an annual discretionary bonus, a portion of which may be deferred. Salary levels are market driven and not strongly affected by individual performance. Individual performance during the year is critical, however, in determining an individual's bonus award for that year. Those Code Staff who are also directors of the company receive remuneration in the form of a salary. There is a US group level bonus scheme under which company staff (i.e., certain eligible directors, employees and secondees) receive a deferred amount linked to the performance of the funds managed by the company's direct U.S. parent, Monarch Alternative Capital LP, an SEC registered investment manager. Some more flexible discretionary bonuses may also be awarded at the US group level, based on overall group performance.

Variable remuneration is discretionary and the exact amount paid to any employee in any year will be determined in the company's sole discretion, in consultation with its U.S. parent affiliate, based on a number of factors, including, but not limited to, the company's financial performance, the employee's individual performance and quality of work, the employee's role, position and career track at the company and the contributions the employee is expected to make to the company in the future, among other things. The receipt of variable remuneration in any one-year is not a guarantee of variable remuneration or any specific amount of variable remuneration in any subsequent year.

The only "business area" of the company is the provision of investment management services to offshore funds through a sub-advisory agreement with its U.S. parent affiliate. In line with SYSC 19C.3.6(b), the company's Code Staff are all senior managers. The total remuneration awarded to the company's Code Staff during the 2021 financial year was £2,917,990.