AnaCap Financial Europe S.A. SICAV-RAIF

Unaudited Condensed Interim Consolidated Financial Statements For the Period from Incorporation on 28 June 2017 to 30 September 2017

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General Information

Fund

AnaCap Financial Europe S.A. SICAV-RAIF
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Grand Duchy of Luxembourg
R.C.S Luxembourg: B 216080

Board of Directors

- Christopher Ross-Roberts;
- Tim Ayerbe;
  Audrey Lewis;
- Hugo Neuman; and
- Duncan Smith.

AIFM

Carne Global Fund Managers (Luxembourg) S.A.
6b, Route De Trèves
L-2633 Senningerberg
Grand Duchy of Luxembourg

Board of Directors of the AIFM

- John Alldis;
- Kevin Nolan;
- Bill Blackwell; and
- Steve Bernat.

Portfolio Manager

AnaCap Investment Manager Limited
Ground Floor, Cambridge House, Le Truchot
St Peter Port
Guernsey GY1 1WD

Board of Directors of the AIML

- David Copperwaite;
- Gavin Davies;
- Peter Niven;
- Nigel Ward; and
- Jonathan Bridel.

Administrative Agent

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Rue Gabriel Lippmann
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Grand Duchy of Luxembourg

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L-1855 Luxembourg
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Auditor

PricewaterhouseCoopers
2, rue Gerhard Mercator
L-2182 Luxembourg
Grand Duchy of Luxembourg

Investment Advisor

AnaCap Financial Partners LLP
1 Stephen St
Fitzrovia
London W1T 1AL

Directors' Report

The Directors of AnaCap Financial Europe S.A. SICAV-RAIF ("AFE") are pleased to present the Director's Report and unaudited Condensed Interim Consolidated Financial Statements (the "Financial Statements") on the activities and financial performance of AFE and its subsidiaries (together, the "Group") for the period 28 June 2017 ("Incorporation") to 30 September 2017. The Financial Statements incorporate the assets, liabilities, revenue and expenses of the Group. AFE was incorporated on 28 June 2017 in order to acquire a number of direct and indirect subsidiaries (including their interests in several loan portfolios, together the "Portfolio Business") from AnaCap Credit Opportunities II Limited and AnaCap Credit Opportunities III Limited, direct subsidiaries of AnaCap Credit Opportunities II, L.P. and AnaCap Credit Opportunities III, L.P. respectively (the "Acquisition"). The Acquisition completed on 21 July 2017 (see note 7 'Business Combinations' for a detailed background on the Acquisition).

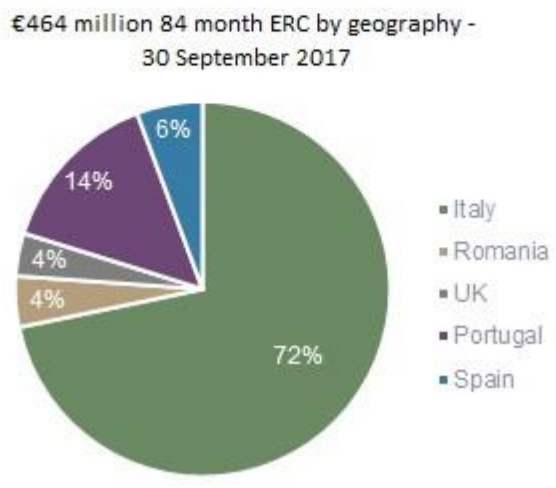
The Financial Statements for the period ended 30 September 2017 have been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the European Union, and should be read in conjunction with financial data included in the Offering Memorandum issued for the €325,000,000 Senior Secured Floating Rate Notes due 1 August 2024 (the "Notes"), which were issued by AFE on 21 July 2017. The principal accounting policies that have been applied to the Financial Statements have been applied consistently throughout the period unless otherwise stated.

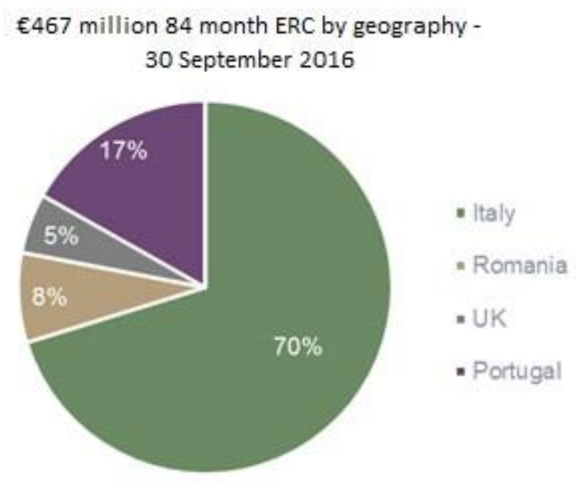
Business Overview

AFE purchases and invests in a diverse range of primarily non-performing debt across Europe. AFE has the capability to price and purchase a wide range of debt, consisting of portfolios of unsecured and secured consumer, SME and mortgage debt, including portfolios that are a mix of these assets. The Directors believe this ability is a key competitive advantage in originating new investment opportunities and further penetrating its current markets, providing it with the opportunity to generate strong returns on an ongoing basis.

AFE has a diverse portfolio of seasoned and granular consumer, SME and mortgage debt which is differentiated among debt purchasers in the level of diversification across borrowers, asset types and geographies. The assets of the Portfolio Business were originally acquired from between 2012 and 2017 from 18 unique sellers, including 4 follow on transactions from previous sellers, and are comprised of debt purchased in Italy, Portugal, Spain, Romania and the UK. There is particular focus in Italy where the Portfolio Business has strong presence and a wealth of experience in debt purchasing.

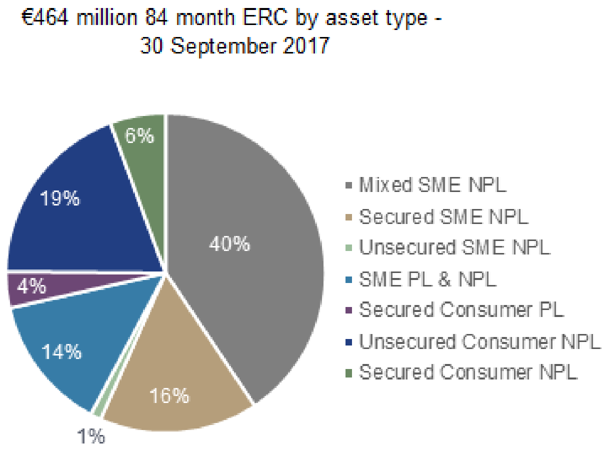
The following charts illustrate the diversification of AFE's 84-month estimated remaining collections ("ERC") from existing purchased loan portfolios and purchased loan notes by asset type and geography as well as the seasoned nature of the debt portfolios as of 30 September 2017. Geographic diversity provides resilience to economic cycles in any one country and local market trends, and combined with the asset diversity provides access to a greater investment opportunity set. The seasoned nature of the debt portfolios gives AFE greater visibility on expected collections.

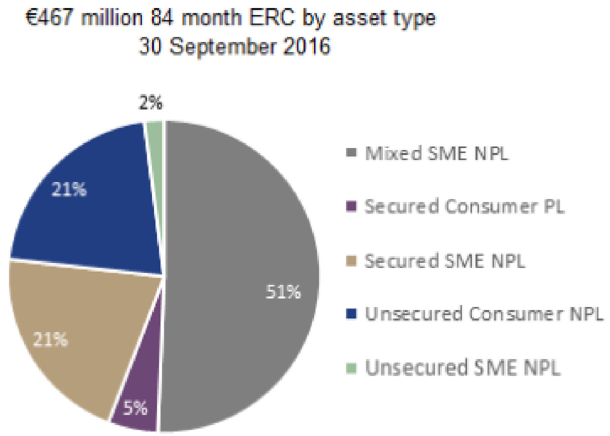




Directors' Report (continued)

Business Overview (continued)





Key Performance Indicators

The Directors use a variety of key performance indicators ("KPI's") in order to monitor, assess and evaluate the performance of the Group, as well as providing the Directors with key financial data to aid with key decision making.

The KPI's included within the Directors Report have been prepared on a basis consistent with the financial data contained in the Offering Memorandum. They therefore include a full nine months of collections, revenues and costs and have not been adjusted to reflect the fact that AFE acquired the Portfolio Business on 21 July 2017. This allows the Directors to monitor performance of the Groups assets more accurately and to help aid in strategic decision making. As such, the data below is based on the Portfolio Business for the nine months ended 30 September 2017 and 30 September 2016. The Directors are satisfied that the financial data in the Financial Statements, and therefore the financial data also used to compute these KPIs, gives a fair and materially accurate reflection of the Group's performance for the period.

		9 months to 30 September 2017	9 months to 30 September 2016	% change
		€000	€000	
84-month ERC	1	464,451	467,655	-0.7%
84-month Gross ERC	2	506,802	470,792	7.6%
Cumulative purchases of loan portfolios and purchased loan notes	3	375,112	296,822	26.4%
Number of debt portfolios	4	15	13	15.4%
Number of accounts	5	210,783	207,628	1.5%
Disposals of purchased loan portfolios and purchased loan notes	6	-	55,264	-100.0%
Total attributable collections	7	75,125	108,930	-31.0%
Total gross collections	8	75,765	113,381	-33.2%
Core collections	9	75,765	58,117	30.4%
Operating expenses	10	20,901	18,616	12.3%
Core collection cost ratio	11	27.6%	32.0%	-13.9%
Adjusted EBITDA	12	53,429	90,866	-41.2%
Normalised Adjusted EBITDA	13	53,429	35,602	50.1%

Directors’ Report (continued)

Key Performance Indicators (continued)

(1) 84-month ERC ("ERC") means AFE's estimated remaining collections on purchased loan portfolios and purchased loan notes over an 84-month period, assuming no additional purchases are made and on an undiscounted basis. ERC excludes any proportionate share of remaining cash collections that may be payable to a co-investor holding secured loan notes. ERC includes estimated collections on sold portfolios where part of the sale proceeds are based on future collections from that underlying portfolio.

(2) 84-month Gross ERC means 84-month ERC plus any proportionate share of remaining cash collections that may be payable to a co-investor holding secured loan notes.

(3) Cumulative purchases of loan portfolios and loan notes includes the original purchase price made by the Portfolio Business of acquired loan portfolios and loan notes, plus the purchase price of acquired portfolio and loan notes acquired by AFE, related capitalised costs (including due diligence, legal and other fees relating to the acquisition but excluding future litigation costs) less pre-determination cash (consisting of collections during the period between pricing of a portfolio and the closing of its acquisition) up to the specified date, less the purchase price for all fully sold portfolios prior to the specified date, including the purchase price attributable to co-investors.

(4) Number of debt portfolios represents the number of individual debt portfolios as of the specified date, including portfolios held by entities which are not under the control of AFE, but give AFE proportionate rights to the cash flows from such portfolios through loan notes.

(5) Number of accounts represents the number of individual accounts acquired at the time of purchase or investment with respect to loan portfolios, including portfolios held by entities which are not under the control of AFE, but give AFE proportionate rights to the cash flows from such portfolios through loan notes.

(6) Disposals of purchased loan portfolios and loan notes represents sale proceeds and deferred consideration, including an estimate of a variable component which is recognised within other receivables at fair value in the Financial Statements.

(7) Total attributable collections represents total gross collections, excluding any share of cash collections that relate to the interests of co-investors holding secured loan notes.

(8) Total gross collections represents cash collected from debtors in connection with purchased loan portfolios and net cash collections (after servicing costs) for purchased loan notes as well as disposals of purchased loan portfolios and loan notes. Total gross collections include any proportionate share of cash collections that relate to the interests of co-investors holdings of secured loan notes.

(9) Core collections represents total gross collections, less disposals of purchased loan portfolios and loan notes.

(10) Operating expenses represents direct costs of collections related to purchased loan portfolios and other operating expenses, excluding impairment of purchased loan portfolios and loan notes, net foreign currency (losses)/gains and non-recurring items.

(11) Core collection cost ratio represents the ratio of operating expenses to core collections.

(12) Adjusted EBITDA represents (loss)/profit before tax adjusted to exclude the effects of finance costs and finance income, share of profit/(loss) in associates, net foreign currency losses/(gains), impairment of purchased loan portfolios and loan notes, disposals and repayments of secured loan notes, and non-recurring items. Revenue on purchased loan portfolios and loan notes and costs on secured loan notes calculated using the effective interest rate method are replaced with total gross collections in the period.

(13) Normalised Adjusted EBITDA represents Adjusted EBITDA excluding disposals of purchased loan portfolios and loan notes.

Asset base and returns on portfolios purchased

The table below reflects historical capital deployment of the Portfolio Business from 2012 onwards of €425 million through acquisitions of and investments in 19 portfolios with an aggregate face value of €11.3 billion and over 500,000 accounts. Since 2012, 4 portfolios have been fully sold. As of 30 September 2017, the portfolios held by AFE had an aggregate face value of €8.9 billion following the historical sale of deals with a face value of €2.4 billion, with an 84-month ERC of €464 million.

Directors' Report (continued)

Asset base and returns on portfolios purchased (continued)

Portfolio purchased in the year / period ended	Purchase price (14)	Actual collections to 30 September 2017	84-month ERC	Total estimated collections (15)	Gross money-on-money multiple (16)
	€000	€000	€000	€000	
Year ended 31 December 2012	75,084	156,721	14,514	171,235	2.28x
Year ended 31 December 2013	77,386	90,011	78,048	168,059	2.17x
Year ended 31 December 2014	59,025	86,383	55,179	141,562	2.40x
Year ended 31 December 2015	47,806	22,188	62,137	84,325	1.76x
Year ended 31 December 2016	125,617	55,360	190,641	246,001	1.96x
Period ended 30 September 2017	39,680	11,596	63,931	75,527	1.90x

(14) Purchase price represents the aggregate amount paid plus capitalised costs and net of pre-determination cash for all portfolio purchases in the period indicated.

(15) Total estimated collections represents actual collections to date plus 84-month ERC, meaning actual collections to 30 September 2017 plus forecast collections for the following 84 months.

(16) The Gross money-on-money multiple is total estimated collections divided by purchase price, although collections can extend beyond the period covered for total estimated collections.

Net debt

Net debt represents third-party indebtedness, less cash and cash equivalents, and excluding unamortised debt issue costs, facility fees and amounts due to co-investors under secured loan notes.

			Period to 30 September 2017
			€000
Borrowings:	The Notes		325,000
	Revolving credit facility - amount drawn		-
Less:	Cash at bank		(36,567)
	Cash held on AFE's account at servicers'		(5,355)
Add back:	Cash collected on behalf of secured loan note holders		300
Net debt			**283,378**
LTV ratio at period end		17	61.01%
Normalised Adjusted EBITDA leverage ratio		18	3.64
LTM Adjusted EBITDA		19	77,906
Pro forma net interest expense		20	16,250
Pro forma Fixed charge cover (FCCR)		21	4.79

(17) LTV ratio means the aggregate secured indebtedness of the Group less cash and cash equivalents (including cash and cash equivalents in servicers' accounts or otherwise that are due from servicers but not yet paid by servicers to the Group, less cash collections due to be paid to co-investors under secured loan notes) divided by 84-month ERC.

(18) Normalised Adjusted EBITDA leverage ratio means net debt divided by the Normalised Adjusted EBITDA for the 12 month period to 30 September 2017.

(19) LTM Adjusted EBITDA means Adjusted EBITDA for the 12 month period to 30 September 2017 i.e. the Adjusted EBITDA for the 9 month period to 30 September 2017 plus the Adjusted EBITDA for the 3 month period to 31 December 2016.

(20) Pro forma net interest expense means interest expense incurred on the Notes for a period of 12 months. This is calculated based on a margin of 5.0% on the Notes.

(21) FCCR is calculated as LTM Adjusted EBITDA divided by pro forma net interest expense.

Directors' Report (continued)

Net debt (continued)

Borrowings in calculating net debt can be reconciled to the Financial Statements as follows:

		Period to 30 September 2017
		€000
Borrowings:	The Notes	325,000
	Unamortised discount on issuance of the Notes	(1,625)
	Unamortised transaction fees	(8,524)
	Per Financial Statements (non-current liability)	314,851
	Interest payable at 30 September 2017 (current liability)	3,250
Total borrowings		**318,101**

Christopher Ross-Roberts
Director
27 November 2017

Independent Audit Report on Review of Condensed Interim Consolidated Financial Statements

Independent Audit Report on Review of Condensed Interim Consolidated Financial Statements (continued)

Condensed Interim Consolidated Statement of Comprehensive Income from Incorporation on 28 June 2017 to 30 September 2017

	Notes	Period from Incorporation to 30 September 2017 €000
Revenue		
Income from purchased loan portfolios	10	13,933
Income from purchased loan notes	10	428
Total revenue		**14,361**
Operating expenses		
Collection activity costs		(3,769)
Net foreign currency gains	6	28
Other operating expenses	6	(4,881)
Non-recurring items		(2,378)
Normal operating expenses		(2,503)
Total operating expenses		**(8,622)**
Operating profit		**5,739**
Finance income		33
Finance costs		(4,053)
Interest expense - secured loan notes		(432)
Finance costs - borrowings		(3,621)
Profit before tax		**1,719**
Tax credit on ordinary activities		35
Comprehensive income for the period		**1,754**

The above Condensed Interim Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Condensed Interim Consolidated Statement of Financial Position as at 30 September 2017

	Notes	As at 30 September 2017 €000
Assets		
Non-current assets		
Other receivables	10	295
Investment in associate	9	5,100
Total non-current assets		**5,395**
Current assets		
Cash and cash equivalents		36,567
Trade and other receivables	12	8,273
Purchased loan portfolios	10	287,862
Purchased loan notes	10	11,098
Inventory	11	7,583
Total current assets		**351,383**
Total assets		**356,778**
Liabilities		
Non-current liabilities		
Borrowings	19	314,851
Total non-current liabilities		**314,851**
Current liabilities		
Borrowings	19	3,250
Secured loan notes	19	23,998
Trade and other payables	13	11,208
Tax payable		467
Total current liabilities		**38,923**
Total liabilities		**353,774**
Equity		
Share capital	14	1,250
Retained earnings		1,754
Total equity		**3,004**
Total equity and liabilities		**356,778**

The above Condensed Interim Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

The Financial Statements for the period ended 30 September 2017 were approved by the Board of Directors and authorised for issue on its behalf by:

Christopher Ross-Roberts
Director
27 November 2017

Condensed Interim Consolidated Statement of Cash Flows from Incorporation on 28 June 2017 to 30 September 2017

	Notes	Period from Incorporation to 30 September 2017 €000
Cash flows from operating activities		
Profit before tax		1,719
Adjustments for:		
Income from purchased loan portfolios	10	(13,933)
Income from purchased loan notes	10	(428)
Finance income		(33)
Finance costs - borrowings		3,621
Interest expense - secured loan notes		432
Operating cash flows before movements in working capital		**(8,622)**
Increase in trade and other receivables*	12	(6,576)
Increase in trade and other payables*	13	10,996
Cash used in operations		**(4,202)**
Collections in the period	10	20,539
Net cash generated from operating activities		**16,337**
Investing activities		
Acquisition of subsidiaries	7	(292,905)
Net cash used in investing activities		**(292,905)**
Cash flows from financing activities		
Share capital issued	14	30
Redemption of share capital	14	(30)
Issue of Senior Secured Notes	19	323,375
Senior Secured Notes transaction fees paid		(8,493)
Revolving credit facility transaction fees paid		(1,105)
Repayment of secured loan notes		(642)
Net cash generated from financing activities		**313,135**
Net movements in cash and cash equivalents		36,567
Cash and cash equivalents at the beginning of the period		-
Cash and cash equivalents at the end of the period		**36,567**

* Movement in working capital is net of accruals and prepayments related to the Notes and the Revolving Credit Facility.

The above Condensed Interim Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

Condensed Interim Consolidated Statement of Changes in Equity from Incorporation on 28 June 2017 to 30 September 2017

	Notes	Share capital €000	Retained earnings €000	Total equity €000
Balance as at 28 June 2017		-	-	-
Issue of share capital	14	1,280	-	1,280
Redemption of shares	14	(30)	-	(30)
Comprehensive income for the period		-	1,754	1,754
Balance as at 30 September 2017		**1,250**	**1,754**	**3,004**

The above Condensed Interim Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Notes to the Condensed Interim Consolidated Financial Statements from Incorporation on 28 June 2017 to 30 September 2017

1. General information

AnaCap Financial Europe S.A. SICAV–RAIF ("AFE", "Fund"), a public limited liability company (société anonyme), was incorporated on 28 June 2017 under the laws of Luxembourg as a reserved alternative investment fund (*fonds d'investissement alternatif réservé)* in the form of an investment company with variable capital (*société d'investissement à capital variable*), with registered office at E Building, Parc d'Activité Syrdall, 6, Rue Gabriel Lippmann, L-5365 Munsbach, Luxembourg, Grand Duchy of Luxembourg.

On 28 June 2017, AFE entered into an alternative investment fund management agreement with Carne Global Fund Managers (Luxembourg) S.A. ("Carne") to appoint Carne to be its alternative investment fund manager ("AIFM"). In its capacity as AIFM Carne will perform functions in accordance with AIFM law and reserved alternative investment fund law. On 28 June 2017, the AIFM entered into a portfolio management agreement with AnaCap Investment Manager Limited (the "Portfolio Manager") to delegate portfolio management functions in accordance with AIFM law and reserved alternative investment fund law. AnaCap Financial Partners LLP acts as investment advisor to the Portfolio Manager.

The principal activity of the Group is to seek risk adjusted investment returns by acquiring, holding, servicing and disposing of portfolio investments comprising of loans, leases or other credit-related obligations, including primarily diversified portfolios of unsecured and secured consumer debts, SME debt, and mortgages.

2. Adoption of new and amended International Financial Reporting Standards

The following new and revised standards and interpretations affecting the Group have been endorsed but are not yet effective for these Financial Statements and have not been early adopted:

IFRS 9, 'Financial Instruments'

IFRS 9 replaces the multiple classification and measurement models in IAS 39 Financial instruments: Recognition and Measurement with a single model that has initially only two classification categories: amortised cost and fair value. Classification of debt assets will be driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. A debt instrument is measured at amortised cost if: a) the objective of the business model is to hold the financial asset for the collection of the contractual cash flows, and b) the contractual cash flows under the instrument solely represent payments of principal and interest.

New reporting requirements under IFRS 9 introduce forward looking credit loss models which will lead to changes in timing of impairment recognition. The new expected credit loss ("ECL") model involves a three stage approach whereby financial assets move through the three stages as their credit quality changes. The stage dictates how an entity measures impairment losses and applies the EIR method. A simplified approach is permitted for financial assets that do not have a significant financing component (i.e. trade receivables). On initial recognition, entities will record a day-1 loss equal to the 12 month ECL (or lifetime ECL for trade receivables), unless the assets are considered credit impaired.

IFRS 15, 'Revenue from Contracts with Customers' and Clarifications to IFRS 15 ("Clarifications")

The core principle of the new standard is for entities to recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the Partnership expects to be entitled to in exchange for those goods or services.

The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements.

The Group continues to assess the impact of IFRS 9 and plans to ensure compliance with the new standard prior to its proposed implementation date of 1 January 2018.

The following new and revised Standards and Interpretations have been issued but are not yet endorsed or effective for these Financial Statements and have not been early adopted:

- *Amendments to IAS 7 - Disclosure initiative* - Going forward, entities will be required to explain changes in their liabilities arising from financing activities. This includes changes arising from cash flows (i.e. changes such as acquisitions, disposals, accretion of interest and unrealised exchange differences. Changes in financial assets must be included in this disclosure if the cash flows were, or will be, included in cash flows from financing activities. This could be the case, for example, for assets that hedge liabilities arising from financing liabilities.
- *Amendments to IAS 12 - Recognition of deferred tax assets for unrealised losses.*
- *Amendments to IFRS 10 and IAS 28 - Sale or contribution of assets between an investor and its associate or joint venture.*

Notes to the Financial Statements (continued)

2. Adoption of new and amended International Financial Reporting Standards (continued)

- *IFRS 16 Leases* – IFRS 16 will affect primarily the accounting by lessees and will result in the recognition of almost all leases on balance sheet. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. An optional exemption exists for short-term and low-value leases. The income statement will also be affected because the total expense is typically higher in the earlier years of a lease and lower in later years. Additionally, operating expense will be replaced with interest and depreciation, so key metrics like EBITDA will change. Operating cash flows will be higher as cash payments for the principal portion of the lease liability are classified within financing activities. Only the part of the payments that reflects interest can continue to be presented as operating cash flows. The accounting by lessors will not significantly change. Some differences may arise as a result of the new guidance on the definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group is assessing the potential impact on its Financial Statements resulting from the new and revised standards and interpretations. So far, no significant impact is expected.

3. Summary of significant accounting policies

Basis of preparation

The Financial Statements have been prepared in accordance with IAS 34 Interim Financial Reporting. The principal accounting policies that have been applied in the Financial Statements are set out below. This is the first set of Financial Statements prepared for the Group and therefore contain no comparative amounts.

The preparation of consolidated Financial Statements in conformity with IFRS as adopted by EU requires the use of certain critical accounting estimates. It also requires the Board of Directors to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Financial Statements are disclosed in Note 4.

The Financial Statements are presented in thousands of Euro ('€000') and are prepared on a historical cost and going concern basis.

Going concern

The forecasts and projections of the Group, taking into account possible changes in trading performance show that the Group will be able to operate at adequate levels of both liquidity and capital for a period of 12 months from the date of approval of the Financial Statements. AFE also entered into a Super Senior Revolving Credit Facility Agreement (the "Facility") on 7 July 2017 which provides a facility of €45.0m, and can be increased up to an amount equal to the higher of €90m or 17.5% of ERC. As at the date the Financial Statements were approved, €32.6m was available to draw from the Facility. Accordingly, the Directors continue to adopt the going concern basis in preparing the Financial Statements.

Investment Entity

As AFE does not manage its investments on a fair value basis, it does not meet the definition of an investment entity and therefore is required to consolidate the entities that it controls.

Consolidation and accounting for subsidiary entities within the Group

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between the Group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

AFE has control over and therefore has consolidated the entities listed in Note 16 in these Financial Statements. None of these entities have any employees.

Notes to the Financial Statements (continued)

3. Summary of significant accounting policies (continued)

Investments in associates

AFE has significant influence over Phoenix Asset Management SpA via ownership of potential voting rights and through the provision of directional guidance to the management of Phoenix Asset Management SpA. Therefore this investment is accounted for as an investment in associate under the equity method of accounting. Significant influence is defined as having between 20 per cent and 50 per cent of the voting power of the investee, or, when the investor holds less than 20 per cent of the voting power of the investee, it is presumed that the investor does not have significant influence, unless such influence can be clearly demonstrated. The existence of significant influence by an investor is usually evidenced by such activities as representation on the board of directors, participation in policy-making processes, including participation in decisions about dividends or other distributions, material transactions between the investor and the investee, interchange of managerial personnel, or provision of essential technical information.

Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the change in net assets of the investee after the date of acquisition. AFE's share of post-acquisition profit or loss is recognised in the Consolidated Statement of Comprehensive Income, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment.

AFE determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, AFE calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises this amount in the Consolidated Statement of Comprehensive Income.

Business Combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of an entity comprises:

- fair value of the assets transferred,
- liabilities incurred to the former owner of the acquired business,
- equity interest issued by the Group,
- fair value of any assets or liabilities resulting from a contingent consideration agreement, and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in the business combination are measured initially at fair value at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date, and is subject to a maximum of one year from the date of acquisition.

The excess of the consideration transferred, combined with any non-controlling interest in the entity being acquired, over the fair value of net identifiable assets is recorded as goodwill. If those amounts are less than the fair value of net identifiable assets of the entity being acquired, the difference is recognised directly in the Consolidated Statement of Comprehensive Income as a gain on bargain purchase. No goodwill arose on completion of the Acquisition.

Initial recognition of financial instruments

The Group recognises a financial asset or a financial liability at the time it becomes a party to a contract because that is the point at which it has contractual rights or obligations. Financial assets and liabilities are initially recognised in the Consolidated Statement of Financial Position at fair value in accordance with IFRS, being the purchase price plus transaction costs directly attributable to the acquisition.

<u>Purchase price of portfolio</u>
The purchase price of a portfolio is the sale price by the vendor less any cash received between the cut-off date for pricing an asset and the completion date of the purchase (pre-determination cash), and warranty or put back claims plus any external deal costs in purchasing the portfolio. The purchase price of a portfolio is equal to its fair value on the date of purchase.

<u>Put back warranty claims</u>
Under the terms of portfolio purchase agreement warranties are provided by the counterparty whereby the Group has a period of time during which to dispute specific assets within the portfolio and put these underlying assets back to the counterparty as a breach of warranty. Where such rights have been exercised, these have been recognised as a reduction in the initial carrying value of the asset.

Notes to the Financial Statements (continued)

3. Summary of significant accounting policies (continued)

Purchased loan notes

The Group invests in portfolios held by entities which are not under the control of the Group via loan notes, which gives the Group proportionate rights to the cash flows from the underlying portfolios. These non-derivative purchased loan notes have been classified as loans and receivables within the Financial Statements. Under IFRS 12 Disclosure of Interests in Other Entities these represent "structured entities".

Purchased loan portfolios

The Group's purchased loan portfolios are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Each portfolio asset is a group of homogenous items and as such is treated as single asset. Such assets are classified as loans and receivables and are measured at amortised cost using the EIR method less any impairment. Purchased loan portfolios are acquired at a deep discount to their principal outstanding and as a result the carrying values at initial recognition reflect incurred credit losses within each portfolio. The portfolio investments are initially recorded at their fair value, being their acquisition price, and are subsequently measured at amortised cost using the EIR method. As part of the Group's litigation strategy to recover customer balances the Group incurs legal costs; these costs are expensed as they are incurred. Expected recoveries are included within the estimated forecasts of future cash flows within the purchased loan portfolios balance.

Purchased loan notes and purchased loan portfolios (together the "Group Assets") are categorised as current in the Consolidated Statement of Financial Position because 1) the underlying loans and receivables within each of the portfolios are, for most part, "past due" on their contractual payment obligations; and 2) as part of the Group's normal operating cycle, each of the portfolios is evaluated every 3-6 months, and where necessary, the strategy to recover the maximum value from each portfolio is re-visited.

Derivative financial instruments

All derivative financial instruments are initially recognised at the fair value on the date a derivative contract is entered into and are subsequently re-measured at each reporting date at their fair value. The Group does not currently use derivative financial instruments to manage risks arising from the Group's underlying business operations and no transactions of a speculative nature are undertaken.

Secured loan notes

External parties invest in portfolios held by entities which are under the control of the Group via secured loan notes and shares issued by entities within the Group, which give the respective investors proportionate rights to the cash flows from the underlying portfolios.

Secured loan notes issued by the Group are non-derivative financial liabilities and are measured at amortised cost using the EIR method. Shares to co-investors are classified as liabilities within secured loan notes in accordance with IAS 32 and are measured at amortised cost using the EIR method.

The secured loan note liabilities are categorised as current in the Consolidated Statement of Financial Position as part of the Group's normal operating cycle.

Interest income and expense and the effective interest rate method

The effective interest rate ("EIR") is the rate that exactly discounts estimated future cash receipts of the acquired portfolio asset to the net carrying amount at initial recognition, (i.e. the purchase price paid to acquire the asset, plus the related transaction fees less any pre-determination cash). These estimated future cash receipts are reflective of the conditions within the markets which the Group operates and range for a period of 84 months. An initial EIR is determined at the acquisition of the portfolio investment. All portfolios acquired in a year are grouped into a single vintage of assets as long as they are non-performing loans and held as purchased loan portfolios. Performing loans, non-euro held assets and assets held through purchased loan notes are held in separate groups. At the end of the year, a weighted average EIR is calculated and applied to that year's vintage.

The calculation of the EIR includes all fees integral to the EIR (such as transaction costs) and contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. In most cases, financial assets are acquired at a deep discount that reflects incurred credit losses. Such incurred credit losses are included in the estimated cash flows when computing the EIR as this is consistent with the incurred loss method of impairment under IAS 39.

EIR is calculated, and revenue recognised, on a grouped portfolio level.

Notes to the Financial Statements (continued)

3. Summary of significant accounting policies (continued)

Interest income and expense and the effective interest rate method (continued)

When there is a change to the expected amount or timing of cash flows for financial assets and liabilities held at amortised cost, the Group recalculates the carrying amount of the financial instrument by computing the present value of estimated future cash flows at the financial instrument's original EIR. Corresponding gains and losses are recognised in the Income from purchased loan portfolios line within Revenue, with any subsequent reversals to increases in carrying value also recorded in this line. If these reversals of increases in carrying value exceed the previously recognised cumulative increases in carrying value, then impairment is recognised as a separate line in the Consolidated Statement of Comprehensive Income.

Impairment of purchased loan portfolios and loan notes

The portfolios are reviewed for indications of impairment at the Consolidated Statement of Financial Position date in accordance with IAS 39. This is considered on a group basis. Where a group of portfolios exhibit objective evidence of impairment, an adjustment, being the difference between the current carrying value and the net present value of future estimated cash flows discounted at the original EIR, is recorded to the carrying value of the portfolio.

Derecognition of financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of:

(i) the consideration received (including any new asset obtained less any new liability assumed) and
(ii) any cumulative gain or loss that had been recognised in other comprehensive income.

is recognised in the Consolidated Statement of Comprehensive Income. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

Financial liabilities and equity instruments

Debt and equity are classified as either financial liabilities, such as secured loan notes, or as equity in accordance with the substance of the contractual arrangement and in conjunction with the application of IFRS. In accordance with IAS 32 Financial Instruments: Presentation, the Group only recognises financial instruments as equity when they do not include a contractual obligation to deliver a financial asset or exchange a financial asset or liability to another entity and when the financial instrument can be settled in the Groups' own equity instruments.

Financial liabilities are held at amortised cost using the EIR method. The EIR is calculated by estimating the cash flows arising from the contractual terms of the instrument over its expected life. Transaction costs are included within the EIR and deducted from the initial carrying value of the debt instrument.

Derecognition of financial liabilities

Financial liabilities are derecognised when the Group obligation is discharged, cancelled or expires. A financial liability (or part of it) is extinguished when the Group either:

- discharges the liability (or part of it) by paying the creditor; or
- is legally released from primary responsibility for the liability (or part of it) either by process of law or by the creditor

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that the Group will be required to settle that obligation. Provisions are measured at the Group's best estimate of the consideration required to settle that obligation at the date of the Financial Statements and are discounted to present value where the effect is material.

Operating expenses

Operating expenses relate to administration and costs associated with collection activities.

Collection activity costs

Fees for managing the servicing of the portfolio are incurred as the services are provided to the Group and are expensed as incurred in the Consolidated Statement of Comprehensive Income.

The Group enters into incentive arrangements (promote fees) with portfolio servicing providers. These arrangements provide the service providers with an incentive fee in addition to their servicing fee if specific collections targets are met.

Notes to the Financial Statements (continued)

3. Summary of significant accounting policies (continued)

Collection activity costs (continued)

These fees are charged as the incentive targets are met and are expensed as incurred in the Consolidated Statement of Comprehensive Income.

Other operating expenses

Other operating expenses include administration fees, audit, legal and professional fees, management fees and other expenses.

Functional currency

The Directors consider the Euro to be the currency that most faithfully represents the economic effect of the underlying transactions, events and conditions. The Euro is the currency in which the Group measures its performance and reports its results, as well as the currency in which it receives capital funding from its investors.

The Financial Statements are presented in Euro, being the primary economic currency in which the Group operates and are rounded to the nearest thousand Euro (€'000).

Foreign currency translation

Transactions in currencies other than the Group's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At each Consolidated Statement of Financial Position date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences are recognised in comprehensive income in the year in which they arise.

Non-recurring items

Non-recurring items are those which are separately identified by virtue of their size and nature (i.e. outside of the normal underlying operating activities of the Group) to allow a full understanding of the underlying performance of the business. These are disclosed separately on the face of the Combined Statement of Comprehensive Income. Current year non-recurring items are explained in Note 6. The identification of these items has significance as the resulting underlying profit is one of the key determinants of distributions payable.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, and deposits held at call with banks.

Deal specific transaction fees

Legal transaction fees associated with the purchase of the portfolios are allocated to the purchase price of the portfolio and included within the EIR applied against the asset value. Any costs incurred on investment opportunities that do not complete are expensed to the Consolidated Statement of Comprehensive Income as an abort deal fee.

Finance income

Finance income in the Consolidated Statement of Comprehensive Income represents the unwinding of the computed interest calculated on any deferred consideration receivable on the disposal of the Group's Assets.

Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost.

Senior Secured Notes

Senior Secured Notes issued by the Fund are non-derivative financial liabilities. Senior Secured Notes are recognised at the time the Fund becomes party to the contracts as this is the point at which it assumes contractual obligation. The financial liabilities are initially recognised in the Consolidated Statement of Financial Position at fair value plus transaction costs that are directly attributable to the issue of Senior Secured Notes. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the Consolidated Statement of Comprehensive Income over the period of the borrowings using the EIR.

Notes to the Financial Statements (continued)

3. Summary of significant accounting policies (continued)

Borrowings (continued)

Revolving Credit Facility ("the Facility")

The Facility is recognised at the time of drawdown because that is the point at which AFE assumes the contractual provision of repayment. The Facility is initially recognised at fair value and subsequently measured at amortised costs using the straight line method. Any fees paid on establishment of the Facility are recognised as transaction costs of the loan to the extent that it is probable that some or all of the Facility will be drawn down. In this case, the fee is deferred until the draw down occurs. Where it is not probable that the Facility will be drawn upon, the fees are capitalised as a prepayment for services and amortised over the period of the Facility to which it relates using the straight line method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer the settlement of the liability for the last 12 months after the reporting period.

Taxation

Tax charges or credits in the Financial Statements have been determined based on the tax charges or credits recorded in the legal entities comprising the Group. Taxable profit differs from the net profit as reported in the Consolidated Statement of Comprehensive Income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Current taxation is charged or credited in the Consolidated Statement of Comprehensive Income, except when it relates to items charged or credited to equity, in which case the corporation taxation is also dealt with in equity.

Intercompany transactions

Intercompany transactions and assets and liabilities between entities included in the Financial Statements have been eliminated. The Financial Statements include AFE's transactions and Statement of Financial Position items. Intercompany transactions and Statement of Financial Position items with other entities in the Group which were previously considered as transactions with related parties have been treated as intercompany transactions.

Inventory

Inventory represents property assets where the Group holds legal title to the assets as a result of repossessing properties as part of the management of certain portfolios. Inventory is valued at the lower of cost and net realisable value.

Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Board of Directors and AnaCap Investment Manager Limited in their capacity as Portfolio Manager. Portfolios are grouped in the year of acquisition into a single portfolio as long as they meet common criteria.

Offsetting financial instruments

Financial instruments are offset and the net amount reported in the Consolidated Statement of Financial Position only when there is currently a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability instantaneously.

Related party transactions

Related parties include parties which have the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions, parent entities, and entities under common control.

4. Critical accounting judgments and estimates

In the application of the Group's accounting policies, the Board of Directors is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. These estimates and assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised.

Notes to the Financial Statements (continued)

4. Critical accounting judgments and estimates (continued)

Critical judgments in applying accounting policies

The following are the critical judgments that have been made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognised in the Financial Statements.

The carrying values of non-derivative financial assets and financial liabilities are derived using the forecasted cash flows over the expected life of the underlying instruments. Due to the nature of the business, the expected cash flows are measured using an 84-month rolling expected life from the date of the Consolidated Statement of Financial Position. An expected life of 84 months has been used as this most appropriately reflects the period over which cash flows are expected to be received based on management experience.

In relation to non-paying accounts, judgments will be made as to which operational strategy is the most appropriate to move the account to paying status, which may include placing these accounts into litigation. Operational factors, that may impact future estimated cash flows, are also considered such as improved collections processes and systems. The Board of Directors also review the model on a portfolio basis to take into account external factors, which have impacted historical or will impact future performance and, where necessary, portfolios are calibrated to take into account these known factors.

More complex judgments are required in relation to the carrying value and EIR of purchased loan portfolios and associated revenue recognition, and impairment of the loan portfolios amongst others.

Critical estimates

The following are the key sources of assumption and estimation uncertainty that have been made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the Financial Statements.

Due to the nature of the business, the expected cash flows on financial assets are measured using an 84-month rolling expected life from the date of the Consolidated Statement of Financial Position. 84-month cash flow forecasts are prepared for each portfolio on an account basis. For larger balances, these forecasts are manually evaluated and underwritten based on the expected cash flows from reviews of underlying detailed loan documentation and the availability of security against the balance. For smaller balances, these forecasts are generated using statistical models incorporating a number of factors, including predictions of payments, which are informed by customer and account level data, credit agency data and historic experience with accounts which have similar key attributes. A further key model input is previous payments made by a customer. The assumptions and estimates made are specific to the particular characteristics of each portfolio.

The expected cash flows created from the forecasting models are regularly benchmarked at a portfolio level against actual performance; this informs the decision as to whether a change in carrying value of the portfolio may be required. The estimated future cash flows generated by the above process are the key estimate and judgment in the Financial Statements. A change in the expected future cash flows by +1% would increase the carrying value of financial assets as at 30 September 2017 by €2,969K. A change in the expected future cash flows by -1% would reduce the carrying value of financial assets as 30 September 2017 by €3,085K.

Changes in estimates

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

Notes to the Financial Statements (continued)

5. Segmental reporting

The Group represents a single reportable segment. The Group entities are all managed through Luxembourg with subsidiaries and portfolio investments across Europe. The below tables summarise the information in line with the internal reporting.

	Period from Incorporation to 30 September 2017
	€000
Total revenue	**14,361**
Collection activity costs	(3,769)
Net foreign currency gains	28
Other operating expenses	(2,503)
Non-recurring items	(2,378)
Operating profit	**5,739**
Finance income	33
Finance costs	(4,053)
Profit before tax	**1,719**
Taxation	35
Comprehensive income for the period	**1,754**

	As at 30 September 2017
	€000
Investment in associate	5,100
Purchased loan portfolios	287,862
Purchased loan notes	11,098
Inventory	7,583
Statement of Financial Position	
Total segment assets	356,778
Total segment liabilities	(353,774)
Segment net assets	**3,003**

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

	Period from Incorporation to 30 September 2017
	€000
- United Kingdom	566
- Romania	428
- Italy, Spain, Portugal	13,367
Total revenue	**14,361**

The table below represents the carrying value of the Group's Assets (including investment in associate and inventory) by geography:

	As at 30 September 2017
	€000
- United Kingdom	12,744
- Romania	10,848
- Italy, Spain, Portugal	288,051
Total	**311,643**

Notes to the Financial Statements (continued)

5. Segmental reporting (continued)

The table below represents the 84-month Gross ERC and the 84-month ERC of the Group Assets by geography:

	Gross ERC 30 September 2017	ERC 30 September 2017
	€000	€000
- United Kingdom	17,124	17,124
- Romania	20,402	20,402
- Italy, Spain, Portugal	469,277	426,925
Total	**506,803**	**464,451**

6. Other operating expenses, foreign exchange gains and losses and impairments of the Group's Assets

Other operating expenses, foreign exchange gains and losses and impairments of the Group's Assets are as follows:

	Period from Incorporation to 30 September 2017
	€000
Management fees	1,315
Directors' fees	51
Legal and professional fees	491
Administration and audit fees	215
Abort deal fees	269
Other expenses	162
Non-recurring items: professional fees incurred in connection with the Acquisition	2,378
Other operating expenses	**4,881**
Realised foreign currency gains	(2)
Unrealised foreign currency gains	(26)
Net foreign currency gains	**(28)**

7. Business Combinations

Introduction

On 28 June 2017, AFE was established as a reserved alternative investment fund ("RAIF") under Luxembourg law.

On 21 July 2017, AFE entered into an agreement with AnaCap Credit Opportunities II, LP and AnaCap Credit Opportunities III, LP and their directly owned subsidiaries AnaCap Credit Opportunities II Limited and AnaCap Credit Opportunities III Limited respectively (the "Funds Group") to acquire the equity ownership interests in certain of their subsidiaries and associates ("the Portfolio Business"), which gives AFE the benefit of ownership of several underlying loan portfolios and groups of loan notes. AFE acquired 100% of the ordinary shares of Prime Credit 6 S.à r.l., Prime Credit 7 S.à r.l., ACOF II Portugal Limited, Alpha Credit Holdings S.à r.l. and Alpha Credit Holdings 3 S.à r.l., resulting in the subsidiaries listed out in Note 16 being consolidated with AFE.

Nature of the business

The Portfolio Business was acquired to give AFE the benefit of ownership of investments in certain pools of performing, under-performing and/or non-performing loans and loan notes pursuant to the terms of each specific purchase agreement (the "Portfolio Business Assets"). In addition, certain entities within the Portfolio Business and/or entities which are subsidiaries or associates of the Portfolio Business enter into contractual servicing agreements with other third parties to collect the receivables, administer and disburse the proceeds of the receivables.

Financial assets acquired by AFE include a range of asset classes and geographies and the Portfolio Business turns these into a mixture of regular, predictable and long term cash flows and work out solutions for larger balances; this involves high volumes of low value collections from customers and larger single settlements or series of settlements, some of which are dependent on collateral claims.

Notes to the Financial Statements (continued)

7. Business Combination (continued)

Nature of the business (continued)

Due to the nature of the Portfolio Business, actual collections on portfolios and loan notes may not perform exactly as initially forecast, and expected cash flows are formally reviewed against collections experience, with a full revaluation for each portfolio performed every June and December, and a review for material changes every March and September. As collections are received, the carrying value of the portfolio and loan note assets and related income received decreases over time. The fair value of future cash flows at the acquisition date reflects the best estimate of the contractual cash flows expected to be collected.

The issuance of the Notes and use of proceeds of the Notes, the entering into the Facility agreement and the intercreditor agreement ("ICA"), the transfer of the Italian securitisation notes (see ii) below) and the granting of the guarantees and of the security described below are referred to as the "Transaction", which completed on 5 September 2017.

On 21 July 2017, AFE completed the Acquisition and issued the Notes, the proceeds of which were used to:

- pay the consideration for the Portfolio Business; and
- pay certain fees and expenses in relation to the Transaction, including the offering of the Notes.

On 21 July 2017 consideration was paid to the Funds Group in the amount of €297,217k upon the issuance of the Notes, being the estimated fair value of the Portfolio Business as at 30 June 2017. A further distribution was paid to the Funds Group on 14 August 2017, representing collections attributable to the Funds Group for the three months ended 30 June 2017 and a 'true-up' of the initial consideration, which ensured that AFE acquired the Portfolio Business at its fair value as at the acquisition date. This distribution was made for an amount of €19,593k.

No goodwill arose on completion of the Acquisition.

Purchase consideration

	€000
Purchase price of acquisition (net of true-up)	297,979
Pre-determination cash from 1 July 2017- 20 July 2017	(3,824)
Total purchase consideration*	**294,155**

*€1,250K of the total purchase consideration was non-cash in the form of the Class A shares issued (see note 14).

Transactions recognised separately from the Acquisition

AFE entered into the Facility agreement dated 7 July 2017 to provide €45.0m for future working capital/liquidity needs. In connection with the Notes and the Facility and to govern certain rights of creditors, AFE also entered into an inter-creditor agreement (ICA), dated 10 July 2017.

i) Notes issued by AFE

The Notes are guaranteed on a senior secured basis (the "Guarantees") by ACOF II Portugal Limited, AFE Spain Limited, Alpha Credit Holdings S.à r.l., Alpha Credit Solutions 4 S.à r.l., Prime Credit 3 S.à r.l., Prime Credit 6 S.à r.l. and Prime Credit 7 S.à r.l. (together, the "Guarantors") and the Facility is guaranteed by the Guarantors and by AFE. AFE granted its guarantee of the Facility on 7 July 2017. The Guarantors granted their Guarantees in respect of the Notes and the Facility and acceded to the ICA on 5 September 2017.

AFE's and the Guarantors' obligations are secured on a first-ranking basis, from 21 July 2017, by (i) the outstanding capital stock of AFE that is held by its direct parent, AnaCap Financial Europe Holdings SCSp SICAV-RAIF (which was also incorporated to facilitate the Transaction), and from 5 September 2017 by (ii) all capital stock of each of the Guarantors that is owned by AFE or another Guarantor, (iii) certain bank accounts of AFE and of the Guarantors and (iv) receivables from certain inter-company loan notes and securitisation notes that are held by AFE and by one of the Guarantors and receivables from a participation agreement due to another of the Guarantors.

ii) Transfer of Italian Securitisation Notes

On 25 August 2017, the Italian securitisation notes held by two subsidiaries of AFE, Alpha Credit Solutions 1 S.à r.l. and Prime Credit 3 S.à r.l., were transferred to AFE. Those securitisation notes were issued by Augustus SPV S.r.l., Aurora SPV S.r.l., Iustitia Futura S.r.l., Thor SPV S.r.l. and Tiberius SPV S.r.l., special purpose vehicles incorporated in Italy under article 3 of Italian law No. 130 of April 30, 1999, as amended (Disposizioni sulla cartolarizzazione dei crediti).

Notes to the Financial Statements (continued)

7. Business Combination (continued)

Revenue and profit contribution

The Portfolio Business contributed revenues of €14,361K and net profit of €1,719K to AFE for the period from 21 July 2017 to 30 September 2017.

Fair value

The assets and liabilities recognised as a result of the Acquisition are as follows:

	Alpha Credit Holdings S.à r.l.	Alpha Credit Holdings 3 S.à r.l.	ACOF II Portugal Ltd	Prime Credit 6 S.à r.l.	Prime Credit 7 S.à r.l.	AFE Spain Ltd	Total
	€000	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Non-current assets							
Investments	177,889	37,708	49,318	48,023	5,414	11	318,363
Current assets							
Cash	349	54	38	629	778	-	1,848
Trade and other receivables	16,141	600	1,837	8,727	312	-	27,617
Current liabilities							
Trade and other payables	(16,490)	(654)	(1,875)	(9,356)	(1,090)	-	(29,465)
Net identifiable assets acquired	**177,889**	**37,708**	**49,318**	**48,023**	**5,414**	**11**	**318,363**
Less: Secured loan notes	-	(22,625)	(1,583)	-	-	-	(24,208)
Net assets acquired	**177,889**	**15,083**	**47,735**	**48,023**	**5,414**	**11**	**294,155**

Acquisition related costs

Acquisition related costs of €13.9m are accounted for as follows:
- €2.4m represents transaction costs directly related to the structuring of the Acquisition and are recognised in the Statement of Comprehensive Income non-recurring items.
- €10.4m represents transaction costs directly related to the issuance of the Notes and are included in the carrying value of the Notes.
- €1.1m represents transaction costs directly related to the establishment of the Facility.

Purchase consideration – cash flow

	€000
Net cash acquired from subsidiaries	-
Cash paid	292,905
Net cash flow on acquisition	**292,905**

8. Taxation

The Group's activities are primarily based in Luxembourg. Tax charges or credits in the Financial Statements have been determined based on the tax charges or credits recorded in the legal entities comprising the Group in the relevant geographies.

Notes to the Financial Statements (continued)

9. Investment in associate

The Group has a 30% economic interest in Phoenix Asset Management SpA ("PAM") via warrants over 30% of PAM's equity. The terms of the interest means that the Group exercises significant influence over PAM.

PAM specialises in offering management services, valuation, acquisition and evaluation of NPL Portfolios which is strategic and key to the Group's operations in Italy. The associate is accounted for using the equity method.

Below is a reconciliation of the movements in the carrying value of the Group's interest in PAM during the year:

Name	Place of incorporation	Registered office	Economic interest
Phoenix Asset Management SpA	Italy	Corso Vittorio Emanuele II 154 Roma RM	Warrants over 30% of PAM's equity

	As at 30 September 2017
	€000
Acquisition of interest	5,100
Share of profit / (loss) in associate	-
Interest in net assets of associate at the end of the period	**5,100**

10. Financial assets

	As at 30 September 2017
	€000
Expected falling due after one year:	
Purchased loan portfolios	191,086
Purchased loan notes	7,245
Other receivables (non-current)	295
Total	**198,626**
Expected falling due within one year:	
Purchased loan portfolios	96,776
Purchased loan notes	3,853
Other receivables (current)	270
Total	**100,899**

Other receivables consist of deferred consideration due on the disposal of purchased loan portfolios.

The movements in purchased loan portfolios were as follows:

	Period from Incorporation to 30 September 2017
	€000
Purchased loan portfolios acquired during the period	300,092
Collections in the period*	(18,581)
Income from purchased loan portfolios	13,933
Less: Inventory	(7,583)
Purchased loan portfolios at the end of the period	**287,862**

Notes to the Financial Statements (continued)

10. Financial assets (continued)

The movements in purchased loan notes were as follows:

	Period from Incorporation to 30 September 2017
	€000
Purchased loan notes acquired during the period	12,372
Collections in the period*	(1,702)
Income from purchased loan notes	428
Purchased loan notes at the end of the period	**11,098**

* In addition €256k was received in the period from the deferred consideration owing from the disposal of purchased loan portfolios. Deferred consideration receivable is included within other receivables in the Consolidated Statement of Financial Position.

Total investments resulting from the Acquisition:

	€000
Purchased loan portfolios acquired during the period	292,252
Purchased loan notes acquired during the period	12,372
Investment in associate	5,100
Acquisition of subsidiary	11
Inventory	7,840
Other receivables	788
Total investments acquired	**318,363**
Less: Secured loan notes	(24,208)
Net assets acquired	**294,155**

Purchased loan notes represent interests of the Group in two entities, Volga Investments DAC and APS Delta S.A., each of which acts as a holding vehicle to a single underlying loan portfolio. These entities are not linked to or originated by the Group. The Group has exposure to the underlying portfolios by way of purchasing c.32% of the notes issued by these entities as a mechanism to fund the original purchase of the loan portfolios and thereafter to distribute cash generated on loan collections. Purchased loan notes in the Consolidated Statement of Financial Position represent the Group's total interest in these entities measured at amortised cost, using the EIR method.

Volga Investments DAC is an Irish incorporated securitisation vehicle, which indirectly purchased a mixed portfolio of non-performing and semi-performing loans in Romania. The acquisition was funded through the issuance of notes by the entity. The Group owns c.32% of the notes with three other investors having subscribed to the remaining notes. The equity in the vehicle is held by a third party. At the reporting date Volga Investments DAC had no other investments.

APS Delta S.A. is a Luxembourg incorporated securitisation vehicle, which establishes new compartments for each acquisition. The 'Rosemary' compartment was used to acquire a non-performing loan portfolio in Romania and was financed using notes issued by the compartment. The Group owns c.32% of the notes with two other investors having subscribed to the remaining notes. The equity in the vehicle is held by a third party. At the reporting date APS Delta S.A. had no other compartments.

Seasonal factors, including the number of working days in a given month, the propensity of customers to take holidays at particular times of the year, annual cycles in disposable income as well as seasonal interruptions of court calendars can impact collections. Collections within portfolios tend to have high seasonal variances, resulting in high variances of collections between periods. In addition, the timing of asset acquisitions by the Group is likely to be uneven during the fiscal year which can lead to fluctuations in collections and carrying values of the Group Assets between periods. Typically the last quarter in the fiscal year sees strong collections and capital deployment as judicial matters are settled and selling banks prepare for year-end close.

Notes to the Financial Statements (continued)

11. Inventory

	As at 30 September 2017
	€000
Inventory	7,583
Total	**7,583**

12. Trade and other receivables

	Notes	As at 30 September 2017
		€000
Collections receivable		5,355
Amounts due from related parties	15	975
Other receivables		1,943
Total		**8,273**

Other receivables include deferred consideration due on the disposal of purchased loan portfolios as described and set out in Note 10.

13. Trade and other payables

	Notes	As at 30 September 2017
		€000
Trade payables		5,270
Amounts due to related parties	15	1,315
Accrued expenses		4,623
Total		**11,208**

14. Share capital

	As at 30 September 2017
	€000
Share capital at 28 June 2017	-
Issue of share capital	1,280
Redemption of shares	(30)
Total share capital at 30 September 2017	**1,250**

AFE was incorporated with an initial share capital of €30,000 representing 30,000 shares. These shares have been redeemed fully in the period.

AFE further issued €1,250,000 Class A shares in the period to AnaCap Financial Europe Holdings SCSp SICAV-RAIF.

Notes to the Financial Statements (continued)

15. Related party transactions

	As at 30 September 2017
	€000
Due from related parties	
AnaCap Credit Opportunities II Limited	645
AnaCap Credit Opportunities III Limited	330
Total	**975**
Due to related parties	
Carne Global Fund Managers (Luxembourg) S.A.	1,315
Total	**1,315**

AnaCap Credit Opportunities II Limited and AnaCap Credit Opportunities III Limited are related parties by the virtue of retaining a residual interest in AnaCap Financial Europe Holdings SCSp SICAV-RAIF, the sole shareholder of AFE. As at 30 September 2017, the amounts due from these related parties are €645K and €330K respectively representing the overpayment of transaction costs related to the Acquisition of subsidiaries from the above entities.

Management fees

The AIFM is entitled to receive a management fee on a quarterly basis, based on 1.75% of AFE's net asset value (as defined in the Offering Memorandum, pro-rated for the number of days in each period). The management fee for the reporting period is €1,315K, which includes €290k for services provided by AnaCap Luxembourg S.à r.l. to the AIFM. The full balance remains outstanding at the period end.

Directors' fees

The Group entities each have a Board of Directors who receives Directors' fees on a fixed basis. The table below shows the payment to the Directors during the periods and the balances due to them at the end of each period.

	Period from Incorporation to 30 September 2017
	€000
Fees charged	
Directors' fees	51
Total fees payable	**51**
Fees payable at period end	
Fees payable	57
Directors' fees payable at the end of the period	**57**

Notes to the Financial Statements (continued)

16. Investments in subsidiaries and controlled entities

Details of the Group's subsidiaries and controlled entities are as follows:

Name	Place of incorporation	Registered office	Ownership %	Current status
ACOF II Portugal Limited	Guernsey	∂	100%	Active
AFE Spain Limited	Guernsey	∂	100%	Active
Alpha Credit Holdings S.à r.l.	Luxembourg	◊	100%	Active
Alpha Credit Holdings 3 S.à r.l.	Luxembourg	◊	100%	Active
Alpha Credit Solutions 1 S.à r.l.	Luxembourg	◊	100%	Active
Alpha Credit Solutions 2 S.à r.l.	Luxembourg	◊	100%	Active
Alpha Credit Solutions 4 S.à r.l.	Luxembourg	◊	100%	Active
Alpha Credit Solutions 5 S.à r.l.	Luxembourg	◊	100%	Active
Alpha Credit Solutions 6 S.à r.l.	Luxembourg	◊	100%	Active
Aurora Reo S.r.l.	Italy	√	100%	Active
Aurora SPV S.r.l.	Italy	√	0%	Active
Augustus SPV S.r.l.	Italy	√	0%	Active
Iustitia Futura S.r.l.	Italy	√	0%	Active
Mountrock S.L.U.	Spain	µ	100%	Active
Prime Credit 3 S.A.	Luxembourg	◊	100%	Active
Prime Credit 6 S.à r.l.	Luxembourg	◊	100%	Active
Prime Credit 7 S.à r.l.	Luxembourg	◊	100%	Active
Sagres Holdings Limited	Portugal	∞	0%	Active
Silview S.L.U.	Spain	µ	100%	Active
Tiberius SPV S.r.l.	Italy	√	0%	Active
Thor SPV S.r.l.	Italy	∏	0%	Active

Key

◊ - 11-13 Boulevard de la Foire, L-1528, Luxembourg

∞ - East 3, Apartment 1401, Fort Cambridge, Tigne Street, Sliema SLM 3175, Malta

µ - Calle Príncipe de Vergara 131, Primera Planta, 28002 Madrid, Spain

√ - Via Mario Bianchini, 43, 00142 Rome, Italy

∂ - Ground Floor, Cambridge House, Le Truchot, St Peter Port, Guernsey, GY1 1WD

∏ - Via Alessandro Pestalozza 12/14, 20131 Milan, Italy

In accordance with IFRS 10 these entities have been deemed to be under the control of the Group and have therefore been consolidated in the Financial Statements. IFRS 10 determines there to be control when the Group is exposed to the majority of the variable returns and was involved at inception of the vehicle.

**Represents 100% ownership of the voting and controlling A shares. A co-investor owns the B shares in ACOF II Portugal Limited, but the B shares have no voting or controlling rights. Both the A shares and the B shares track the Portuguese Group Assets, through inter-company funding loan notes and equity.

17. Financial Risk Management

This note should be read in conjunction with Note 17 in the Combined Financial Statements in the Offering Memorandum.

Liquidity risk

Liquidity risk is the risk that the Group will have difficulties meeting obligations associated with its financial liabilities that are settled by cash or another financial asset when they become due. The Group is subject to the risk that it will not have sufficient borrowing facilities and working capital to fund its existing and future growth, and in particular to meet obligations associated with the Notes, the secured loan notes and the Facility, all of which are monitored by the Board of Directors on a regular basis. Working capital requirements of the Group are funded by collections activity and the ability to draw down on the Facility. As at 30 September 2017, the Facility remained undrawn. An analysis of borrowings and facilities can be found in Note 19.

Notes to the Financial Statements (continued)

18. Financial instruments

Fair value estimation

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Group determines fair values using other valuation techniques.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Valuation models

The Group measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

Level 1: inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

Level 2: inputs other than quoted market prices within level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

Valuation techniques include net present value and discounted cash flow models, using prices from observable current market transactions and dealer quotes for similar instruments and unobservable inputs such as historic performance data.

The purchased loan portfolios and purchased loan notes are carried at amortised cost calculated using the 84-month ERC. Derivative financial instruments are initially recognised, and subsequently measured, at fair value. The fair values of derivative instruments are calculated using quoted prices. Borrowings are initially measured at fair value and are subsequently measured at amortised cost.

Financial instruments not measured at fair value – fair value hierarchy

The following table analyses financial instruments not measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the Consolidated Statement of Financial Position.

The following table shows the investments split into their respective categories as at 30 September 2017:

	Level 1	Level 2	Level 3
	€000	€000	€000
Purchased loan portfolios	-	-	287,862
Purchased loan notes	-	-	11,098
Investment in associate	-	-	5,100
Total	**-**	**-**	**304,060**

As at 30 September 2017, the fair value of purchased loan portfolios (including inventory) and purchased loan notes was €294,810K and €11,624K respectively. Fair value has been determined by discounting the net cash flows of the Group Assets at a market discount rate. The investment in associate is an investment into a privately owned company and therefore there is no active market for which fair value information can be derived.

Notes to the Financial Statements (continued)

18. Financial instruments (continued)

There have been no transfers in or out of level 3.

The Consolidated Statement of Financial Position value of the Group Assets is derived from discounted cash flows generated by an 84-month ERC model. The inputs into the ERC model are historic portfolio collection performance data. This ERC is updated with the core collections experience to date on a monthly basis.

The Group has an established control framework with respect to the measurement of the Group Assets values. This includes regular monitoring of portfolio performance overseen by the Group, which considers actual versus forecast results at an individual portfolio level, re-forecasting cash flows on a 3-6 monthly basis, and reviews of actual versus forecast gross money forecasts of the Group Assets.

A reconciliation of the closing balances for the period of the purchased loan portfolios and purchased loan notes can be seen in Note 10.

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

19. Borrowings and facilities

	As at 30 September 2017
	€000
Non-current	
Senior Secured Notes	314,851
Total	**314,851**
Current	
Senior Secured Notes	3,250
Secured loan notes	23,998
Total	**27,248**

Secured loan notes represent amounts owed to external parties which invest in portfolios held by entities which are under the control of the Group via subscriptions to secured loan notes and shares issued by entities within the Group. The secured loan notes in the above table are carried at amortised cost using the EIR method. As at 30 September 2017, the fair value of secured loan notes was €24,065K.

On 21 July 2017 AFE issued Senior Secured Floating Rate Notes for a value of €325.0m (the "Notes). The Notes will mature on 1 August 2024, and at any time on or after 1 August 2019 AFE may redeem all or a portion of the Notes. Interest is charged at annual interest rate of 5.00% plus EURIBOR (subject to 0% floor). As at 30 September 2017, the fair value of the Notes was €327,844K.

AFE also entered into a Super Senior Revolving Credit Facility Agreement (the "Facility") on 7 July 2017 which provides a facility of €45.0m, and can be increased up to an amount equal to the higher of €90m or 17.5% of ERC. As at 30 September 2017, the Facility remained undrawn.

20. Commitments and contingencies

As at 30 September 2017, there were no commitments or contingencies of the Group except for those disclosed in Note 19.

21. Ultimate controlling party

In the opinion of the Board of Directors there is no ultimate controlling party.

22. Subsequent events

On 9 November 2017 AFE signed binding agreements to purchase a Spanish portfolio. The portfolio consists of Spanish secured SME loans and real estate assets already foreclosed but not yet sold. The SME loans have an outstanding balance owed of €150.2m and the real estate assets have a market value of €22.1m. The transaction will fund and close in two tranches, the first tranche closed on 24 November 2017 with a net purchase price of €23.4m and the second tranche on 20 March 2018 with an expected net purchase price of €7.5m. The split of the closing into two tranches is designed to enable the vendor to remedy registration issues identified during the due diligence and also to meet local rules about the sale of foreclosed real estate assets in the Catalonia region.

Notes to the Financial Statements (continued)

23. Adjusted EBITDA, Normalised EBITDA and ERC

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

Normalised EBITDA eliminates the impact of portfolio disposals.

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

Reconciliation of profit before tax to Normalised and Adjusted EBITDA:

	Period from Incorporation to 30 September 2017
	€000
Profit before tax	**1,719**
Finance costs	4,053
Net foreign currency gains	(28)
Collections from portfolios	20,539
Revenue	(14,361)
Repayment of secured loan notes	(642)
Non-recurring items: professional fees incurred in connection with the Acquisition	2,378
Finance income	(33)
Normalised and Adjusted EBITDA	**13,625**

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

	Period from Incorporation to 30 September 2017
	€000
Net cash generated from operating activities	**16,337**
Repayment of secured loan notes	(642)
Working capital adjustments	(4,420)
Net foreign currency gains	(28)
Non-recurring items: professional fees incurred in connection with the Acquisition	2,378
Normalised and Adjusted EBITDA	**13,625**

Reconciliation of core collections to Normalised and Adjusted EBITDA:

	Period from Incorporation to 30 September 2017
	€000
Core Collections/Collections in the period	**20,539**
Operating expenses	(8,622)
Net foreign currency gains	(28)
Repayment of secured loan notes	(642)
Non-recurring items: professional fees incurred in connection with the Acquisition	2,378
Normalised and Adjusted EBITDA	**13,625**

Notes to the Financial Statements (continued)

23. Adjusted EBITDA, Normalised EBITDA and ERC (continued)

The value of purchased loan portfolios and purchased loan notes shown in the Financial Statements are discounted back to net present value. The tables below set out the undiscounted estimated remaining collections of the Group Assets ("Gross ERC") and net of any amounts attributable to the secured loan note holders ("ERC").

	As at 30 September 2017
	€000
Gross ERC	506,803
ERC	464,451