AnaCap Financial Europe S.A. SICAV-RAIF

Audited Consolidated Financial Statements
For the Period from Incorporation on 28 June 2017 to 31 December 2017

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General Information

Fund

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

AIFM

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Board of Directors of the AIFM

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

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Board of Directors of the Portfolio Manager

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

Administrative Agent

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Auditor

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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 Audited 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 31 December 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 31 December 2017 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.

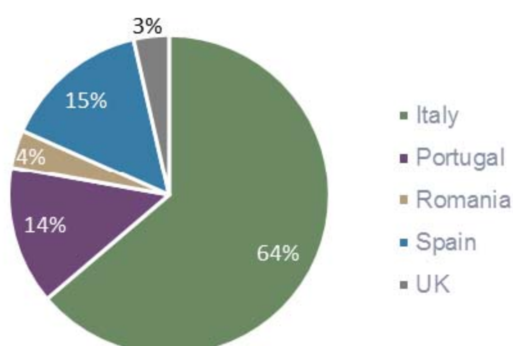
Business Overview

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 and unlocking new ones, providing it with the opportunity to generate strong returns on an ongoing basis.

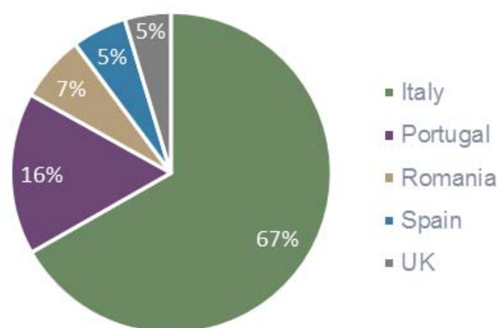
AFE has a diverse portfolio of seasoned and granular consumer, SME and mortgage debt which is differentiated among debt purchasers in the level of diversification across borrowers, asset types and geographies, as well as with its significant collateral backing. The assets of the Portfolio Business were 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 Group 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 31 December 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.

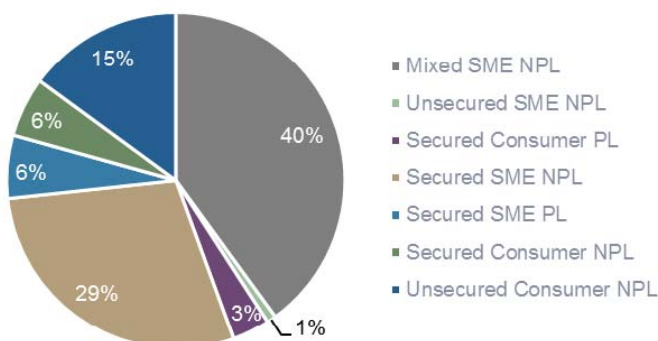
€438 million 84 month ERC by geography - 31 December 2017



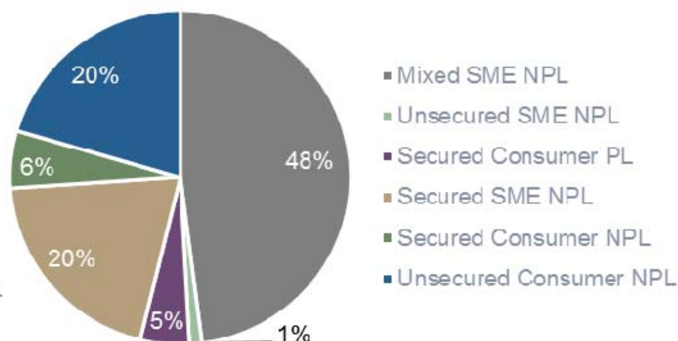
€463 million 84 month ERC by geography - 31 December 2016



€438 million 84 month ERC by asset type - 31 December 2017



€463 million 84 month ERC by asset type - 31 December 2016



Directors' Report (continued)

Market overview

The Directors believe that market opportunities for AFE are significant when considering the wider trends of banks continuing to deleverage across Europe, and in particular in the core geographies within which AFE operates. Although the market has shown signs of increased competition AFE's experience places it in a strong position to deploy capital in a disciplined manner over a select number of opportunities.

The European Commission is considering measures to help address the risk of NPLs continuing to tie up significant capital in the banking system, including freeing up judicial measures of enforcing collateral and, more importantly, developing and enhancing the functioning of secondary markets for NPLs. Until now, the free flow of NPLs and investment opportunities for third-party investors has been restricted, especially with loan servicers being prevented from offering their services across borders. Freeing up cross-border participation of NPL investors and loan servicers is expected to not only improve available infrastructure but also to intensify competition and lower costs for loan servicing.

Financial institutions have been severely affected by market developments for several years, which has impacted both profitability and maintainable balance sheet size, necessitating full business line reviews and forcing them to more rapidly address non-core assets.

- A disproportionately large and over-leveraged banking sector in Europe (bank assets represent c.261% of GDP in Europe, compared to 96% in the US[1]);
- €7.6 trillion[2] of assets on European bank balance sheets that do not meet an 8% cost of equity hurdle and are therefore deemed unprofitable;
- Disinflationary pressures, legacy problems, historically unprecedented low interest rates, structural challenges to their existing business models and bottom line profitability; and
- On-going intense regulatory pressures to tighten provisioning standards (through the implementation of IFRS9) and optimise balance sheets, with significantly higher capital requirements for the sector (through the implementation of Basel III and Basel IV).

Despite significant deleveraging to date, the European banking system remains too large. Asset disposals have become a permanent balance sheet management tool across Europe not only for NPLs but also for non-core legacy assets, as banks focus on both reducing risk and optimising capital.

Despite deleveraging by over €4 trillion since the financial crisis and improved liquidity conditions, European banks are still over-burdened with legacy assets and high fixed costs, with balance sheets totaling almost 3x European GDP at c.€30 trillion[3].

With profit margins increasingly squeezed by historic low interest rates, renewed competition for better quality customers and still high fixed cost bases, all set against increased capital requirements, banks are being forced to focus on their most profitable and capital efficient core businesses, driving a rationalisation of entire business lines including increased disposals of performing assets as well as NPLs.

As highlighted above, NPLs are unattractive assets for banks to hold given they tie up significant capital and depress earnings as impairment provisions increase. Revisions to accounting standards further increase this, given potential defaults must now be accounted for upfront (through provisions for expected losses over an asset's life) rather than when the impairment arises.

NPLs require intensive and specialist servicing and collections activity which can be inefficient for banks or other financial institutions to carry out due to high fixed costs and resource constraints. Furthermore, enforcement on collateral has been to date a cumbersome and lengthy process. Once fully provisioned, however, NPL disposals can provide a way of rapidly recognising profit via sale rather than undertaking collections activity or enforcement, which may take several years. The increased servicing burden for historically large non-performing loan balances has also led many institutions to dispose of entire servicing operations to accelerate much needed additional income. This will likely result in even more regular disposal of NPLs as institutions seek to maximise such efficiencies on an ongoing basis.

In summary we believe the size of the NPL market in Europe to be significant with the regulatory environment continuing to put pressure on banks to address their NPL exposure thus creating opportunities for AFE to offer solutions to a wide range of institutions across Europe.

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1 Source: ECB total Banking assets, US Federal Reserve May 2016, GDP IMF World Economic Report October 2016
2 Financial Stability Challenges in a low-growth, low-rate era, IMF, October 2016
3 EBA Risk Assessment of the European Banking System – November 2017

Directors' Report (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 twelve months of collections, revenue 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 Group for the twelve months ended 31 December 2017 and 31 December 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.

		12 months to 31 December 2017	12 months to 31 December 2016	% change
		€000	€000	
84-month ERC	1	437,884	460,031	-4.8%
84-month Gross ERC	2	478,599	508,007	-5.8%
Cumulative purchases of loan portfolios and purchased loan notes	3	400,449	337,260	18.7%
Number of debt portfolios	4	16	14	14.3%
Number of accounts	5	211,355	208,150	1.5%
Disposals of purchased loan portfolios and purchased loan notes	6	-	55,264	-100.0%
Total attributable collections	7	119,120	140,181	-15.0%
Total gross collections	8	123,013	144,155	-14.7%
Core collections	9	123,013	88,891	38.4%
Operating expenses	10	30,281	24,517	23.5%
Core collection cost ratio	11	24.6%	27.6%	-10.7%
Adjusted EBITDA	12	90,189	115,344	-21.8%
Normalised Adjusted EBITDA	13	90,189	60,080	50.1%

(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.

Directors' Report (continued)

Key Performance Indicators (continued)

(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 to 31 December 2017 of €450 million through acquisitions of and investments in 20 portfolios with an aggregate face value of €11.5 billion and over 500,000 accounts. Since 2012, 4 portfolios have been fully sold. As of 31 December 2017, the portfolios held by AFE had an aggregate face value of €9.1 billion following the historical sale of deals with a face value of €2.4 billion, with an 84-month ERC of €438 million.

Portfolio purchased in the year / period ended	Purchase price (14)	Actual collections to 31 December 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	158,080	13,898	171,978	2.29x
Year ended 31 December 2013	77,386	98,036	70,747	168,783	2.18x
Year ended 31 December 2014	59,025	90,771	48,847	139,618	2.37x
Year ended 31 December 2015	47,806	25,977	55,397	81,374	1.70x
Year ended 31 December 2016	125,617	65,983	161,203	227,186	1.81x
Year ended 31 December 2017	65,017	30,502	87,792	118,294	1.82x

(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 31 December 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.

Directors' Report (continued)

Net debt

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

			12 months ended 31 December 2017
			€000
Borrowings:	The Notes		325,000
	Revolving credit facility - amount utilised (including bank guarantee)		15,615
Less:	Cash at bank		(52,194)
	Cash held on AFE's account at servicers'		(11,035)
Add back:	Cash collected on behalf of secured loan note holders		655
Net debt			**278,041**
LTV ratio at period end		17	63.5%
Normalised Adjusted EBITDA leverage ratio		18	3.08
LTM Adjusted EBITDA		19	90,189
Pro forma net interest expense		20	18,378
Pro forma Fixed charge cover (FCCR)		21	4.91

(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 months ended 31 December 2017.

(19) LTM Adjusted EBITDA means Adjusted EBITDA for the 12 month period to 31 December 2017.

(20) Pro forma net interest expense means interest expense on pro forma total debt for the period 1 January 2017 - 27 June 2017 as if the Notes had been issued on 1 January 2017, which is based on a margin of 5.00% plus three-month Euribor (with a 0% floor). Interest for the period from 28 June 2017 - 31 December 2017 is as per the Financial Statements.

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

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

		12 months ended 31 December 2017
		€000
Borrowings:	The Notes	325,000
	Unamortised discount on issuance of the Notes	(1,625)
	Unamortised transaction fees	(8,223)
	Per Financial Statements (non-current liability)	315,152
	Interest payable at 31 December 2017 (current liability)	2,753
	Revolving credit facility - amount drawn	11,418
Total borrowings		**329,323**

Directors' Report (continued)

Key risks and uncertainties

The Group is exposed to a range of risks and uncertainties in its day to day operations. The following section aims to focus on the key risks arising from the Group's business model, and the steps that have been taken to mitigate and manage these risks. Additional quantitative information in respect of the following risks can be found in Note 20 in the Financial Statements:

Risk	Definition	Impact	Mitigation
Market/economic risk	Changes in the economic environment in the markets in which the Group operates may negatively impact the Group's performance.	Adverse effect on potential recoveries, for example through rising interest rates. Rising rates could also impact the Groups ability to finance its debt.	The Group reviews and revises as necessary business plans for underlying portfolios on a periodic basis. We also monitor closely economic growth which more recently has accelerated again both in Italy and more broadly across Europe. Nonetheless a prudent outlook is maintained. The Group continues to explore ways in which to reduce the level of exposure from changing interest rates and from foreign exchange risk.
Concentration risk	The Group has a diverse range of portfolios across Europe, however 64% of ERC as at 31 December 2017 was attributed to Italy. This could potentially make the Group vulnerable to changes in that economic/political environment.	If the economy in any particular geography where the Group has a large concentration of investments suffers a prolonged, material downturn resulting in among other things increased unemployment rates, increased inflation, implementation of austerity measures, rising interest rates etc, this will have an adverse effect on asset prices and therefore underlying collateral values.	The Group continues to seek investment opportunities across Europe in order to try and help reduce this risk, with other core markets such as Spain and Portugal being a particular focus. Where appropriate new geographies will continue to be explored as well in order to further diversify the Group's investments and reduce this risk.
Credit/liquidity risk	The value of the Group's investments may deteriorate, or the Group may not be able to meet its day to day working capital requirements if collections performance fell.	This could lead to reduced recoveries from debtors, as well as the risk that the Group may not be able to finance its debt, or remain competitive due to a lack of capital able to deploy.	The Group closely and regularly monitors actual collections performance against forecasted targets in order to quickly assess whether any portfolio is underperforming. The Group also works closely with its engaged servicers in order to quickly establish recovery strategies for any underperforming portfolios. The Group also monitors its cash position on a regular basis to ensure that there is sufficient cash available to manage the day to day operations of the Group.

Directors' Report (continued)

Key risks and uncertainties (continued)

Risk	Definition	Impact	Mitigation
Compliance/regulatory risk	Failure to comply with applicable legislation/regulatory requirements within the geographies and markets the Group operates within.	Potential breach of compliance acts/regulatory provisions may result in potential reputational damage in the industry, potential large fines, impairments etc which may impact the Groups ability to remain competitive in the market.	The Group maintains strong operational compliance controls and has various legal advisors in different jurisdictions in order to keep up to date with any changes to any regulatory environment which could adversely impact the Group.
Third party/operational risk	Risk of loss of relationship/underperformance/ over reliance of servicers/third parties that the Group engages with.	Any failure by third parties/servicers that the Group engages with could materially impact cash flows, income and profitability of the portfolios, and therefore adversely impact the Groups results.	The Group constantly assesses the capabilities and value that is delivered by third parties in order to determine whether there is any underperformance. Regular audits are carried out of servicers to ensure that they are compliant with necessary regulations and that they are performing as expected.

Significant recent developments

On the 9 November 2017 AFE signed binding agreements to purchase a Spanish portfolio consisting 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. The transaction will fund and close in four tranches; the first tranche closed on 24 November 2017 with a total purchase price of €25.3m, the second tranche closed on 6 April 2018 and further tranches to close later in Q2 2018, which will bring the total expected net purchase price to c. €33.0m. The split of the closing into a number of tranches is designed to enable the vendor to remedy registration issues identified during the due diligence process and also to meet local rules about the sale of foreclosed real estate assets in the Catalonia region.

Future developments

The Directors expect that the level of activity within the credit asset industry to increase during 2018 as the Group continues to explore opportunities in both core markets and potentially new geographies, with the volume of debt portfolio acquisitions set to rise as a result. In the short term, the Group expects to focus more so on the secured market where the Group has specific internal expertise, however the unsecured space continues to generate significant opportunities - the unsecured space will continue to be monitored in order to maintain coverage so that potential developments can be acted upon as they arise, assuming that these fit within the Group's long term business objectives.

The Group also expects to further develop its internal servicing capabilities during 2018. In April 2018 two of the transactions the Group completed related to servicer acquisitions; the Group first exercised warrants that it held in Phoenix Asset Management SpA ("PAM"), an Italian independent asset manager focused predominantly on the underwriting, pricing and management of secured and unsecured non-performing loan portfolio transactions, and converted these into a 30% equity stake in PAM. PAM currently has €9 billion gross book value under management across a variety of mixed asset-type portfolios, of which c. €6 billion is attributable to portfolios held within the Group. Secondly, the Group completed the acquisition in April 2018 of a Spanish asset manager who is well known to the Group having provided a range of services including collections activity on unsecured portfolios, master servicing, due diligence and valuation assistance.

Increasing asset management capabilities in core markets is part of the overall AFE strategy as it will assist in acquisition flow in smaller off-market transactions as well as allowing for various cost efficiencies which will support improvements in both due diligence and in pricing potential portfolio acquisitions. The Group can also benefit from local expertise and intelligence in both Spain and Italy, two of the core geographies in which the Group operates in, which will help to increase the Group's competitiveness and presence in these markets.

Christopher Ross-Roberts
Director
16 April 2018

Statement of Directors' Responsibilities

The Board of Directors of AnaCap Financial Europe S.A. SICAV-RAIF submits its report and the audited consolidated financial statements (the "Financial Statements") for the Group for the period from incorporation on 28 June 2017 to 31 December 2017.

The Financial Statements have been prepared in accordance with the accounting policies stated in Note 3 to these Financial Statements.

In preparing the Financial Statements the Board of Directors is required to:

- select suitable accounting policies and apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- prepare the Financial Statements in compliance with the Issuing Document; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Board of Directors is responsible for keeping accounting records, which disclose with reasonable accuracy at any time, the financial position of the Group, to enable it to comply with the Issuing Document. The Board of Directors also has general responsibility for taking reasonable steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities. The Board of Directors is required to act in the best interest of the Group and to perform its obligations as detailed under the Issuing Document.

Independent Auditors' Report

Audit report

To the Sole Shareholder of AnaCap Financial Europe S.A. SICAV-RAIF

Our opinion

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of AnaCap Financial Europe S.A. SICAV-RAIF (the "Fund") as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the period from 28 June 2017 (date of incorporation) to 31 December 2017 in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

What we have audited

The Fund's consolidated financial statements comprise:
- the consolidated statement of financial position as at 31 December 2017;
- the consolidated statement of comprehensive income for the period from 28 June 2017 (date of incorporation) to 31 December 2017;
- the consolidated statement of cash flows for the period from 28 June 2017 (date of incorporation) to 31 December 2017;
- the consolidated statement of changes in equity for the period from 28 June 2017 (date of incorporation) to 31 December 2017; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with the Law of 23 July 2016 on the audit profession (Law of 23 July 2016) and with International Standards on Auditing (ISAs) as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier" (CSSF). Our responsibilities under those Law and standards are further described in the "Responsibilities of the "Réviseur d'entreprises agréé" for the audit of the consolidated 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.

We are independent of the Fund in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the consolidated financial statements. We have fulfilled our other ethical responsibilities under those ethical requirements.

Other information

The Board of Directors of the Fund is responsible for the other information. The other information comprises the information stated in the Annual report but does not include the consolidated financial statements and our audit report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors of the Fund for the consolidated financial statements

The Board of Directors of the Fund is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs as adopted by the European Union, and for such internal control as the Board of Directors of the Fund determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors of the Fund is responsible for assessing the Fund'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 Board of Directors of the Fund either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Independent Auditors' Report (continued)

Responsibilities of the "Réviseur d'entreprises agréé" for the audit of the consolidated financial statements

The objectives of our audit are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an audit 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 the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF 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 consolidated financial statements.

As part of an audit in accordance with the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors of the Fund;
- conclude on the appropriateness of the Board of Directors of the Fund's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our audit report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our audit report. However, future events or conditions may cause the Fund to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Fund to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Fund audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers, Société cooperative
Represented by

Luxembourg, 16 April 2018

Thierry Salagnac

Consolidated Statement of Comprehensive Income from Incorporation on 28 June 2017 to 31 December 2017

	Notes	Period from Incorporation to 31 December 2017 €000
Revenue		
Income from purchased loan portfolios	12	32,072
Income from purchased loan notes	12	1,185
Total revenue		**33,257**
Collection activity costs		(10,301)
Impairment	7	(7,386)
Net foreign currency gains	7	57
Other operating expenses	7	(7,718)
Non-recurring items	7	(2,378)
Normal operating expenses		(5,340)
Total operating expenses		**(25,348)**
Operating profit		**7,909**
Finance income		65
Finance costs		(9,813)
Interest expense - secured loan notes		(1,442)
Finance costs - borrowings	8	(8,371)
Share of profit in associate	11	292
Loss before tax		**(1,547)**
Tax charge	10	(4,851)
Comprehensive loss for the period		**(6,398)**

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

Consolidated Statement of Financial Position as at 31 December 2017

	Notes	As at 31 December 2017 €000
Assets		
Non-current assets		
Investment in associate	11	5,392
Total non-current assets		**5,392**
Current assets		
Cash and cash equivalents		52,194
Trade and other receivables	14	15,422
Purchased loan portfolios	12	266,203
Purchased loan notes	12	10,181
Inventory	13	15,456
Total current assets		**359,456**
Total assets		**364,848**
Liabilities		
Non-current liabilities		
Borrowings	23	315,152
Total non-current liabilities		**315,152**
Current liabilities		
Borrowings	23	14,171
Secured loan notes	23	23,446
Trade and other payables	15	11,940
Tax payable		510
Provision	24	4,777
Total current liabilities		**54,844**
Total liabilities		**369,996**
Equity		
Share capital	16	1,250
Retained earnings		(6,398)
Total equity		**(5,148)**
Total equity and liabilities		**364,848**
Net Asset Value as per Offering Memorandum	18	**286,282**
Net Asset Value per share	16	**(4.118)**

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

The Financial Statements for the period ended 31 December 2017 were approved by the Board of Directors and authorised for issue on its behalf by:

Christopher Ross-Roberts
Director
16 April 2018

Consolidated Statement of Cash Flows from Incorporation on 28 June 2017 to 31 December 2017

	Notes	Period from Incorporation to 31 December 2017 €000
Cash flows from operating activities		
Loss before tax		(1,547)
Adjustments for:		
Income from purchased loan portfolios	12	(32,072)
Income from purchased loan notes	12	(1,185)
Finance income		(65)
Impairment	7	7,386
Finance costs - borrowings	8	8,371
Interest expense - secured loan notes		1,442
Share of profit in associate	11	(292)
Operating cash flows before movements in working capital		**(17,962)**
Increase in trade and other receivables*	14	(9,214)
Increase in trade and other payables*	15	11,749
Cash used in operations		**(15,427)**
Taxation paid		(31)
Collections in the period	12	67,786
Acquisition of purchased loan portfolios	12	(25,337)
Net cash generated from operating activities		**26,991**
Investing activities		
Acquisition of subsidiaries	9	(292,905)
Net cash used in investing activities		**(292,905)**
Cash flows from financing activities		
Share capital issued	16	30
Redemption of share capital	16	(30)
Issue of Senior Secured Notes	23	323,375
Proceeds from revolving credit facility	23	25,175
Repayment of revolving credit facility	23	(13,662)
Senior Secured Notes transaction fees paid		(8,573)
Revolving credit facility transaction and other fees paid		(1,354)
Repayment of secured loan notes		(2,205)
Finance costs paid		(4,649)
Net cash generated from financing activities		**318,107**
Net movements in cash and cash equivalents		52,194
Cash and cash equivalents at the beginning of the period		-
Cash and cash equivalents at the end of the period		**52,194**

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

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

Consolidated Statement of Changes in Equity from Incorporation on 28 June 2017 to 31 December 2017

	Notes	Share capital €000	Retained earnings €000	Total equity €000
Balance as at 28 June 2017		-	-	-
Issue of share capital	16	1,280	-	1,280
Redemption of shares	16	(30)	-	(30)
Comprehensive loss for the period		-	(6,398)	(6,398)
Balance as at 31 December 2017		**1,250**	**(6,398)**	**(5,148)**

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

Notes to the Financial Statements from Incorporation on 28 June 2017 to 31 December 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 ("RAIF 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 RAIF law. AnaCap Financial Partners LLP acts as investment advisor to the Portfolio Manager.

The principal activity of AFE and its subsidiaries as listed in Note 19 (together, 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 Group has applied the following standards and amendment for the first time for their annual reporting period commencing 28 June 2017:

- *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 foreign 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.*

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 effective interest rate 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.

The Group has assessed the impact of adopting IFRS 9 and is expecting the following impact from the adoption of the new standard on 1 January 2018:

- *Financial assets and liabilities*
  Financial assets consist primarily of purchased loan portfolios and purchased loan notes. The Group's business model for managing these financial assets is to hold for the collection of the contractual cash flows that consist solely from payment of principal and interest, which meet the condition for classification of financial assets at amortized cost under IFRS 9. Accordingly, the Group does not expect the new guidance to affect the classification and measurement of these financial assets. The Group only recognises financial instruments as an equity instrument 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 entity's own equity instruments. Any equity instruments would be recognised at fair value through profit and loss.
  No impact on the Group's accounting for the financial liabilities is expected, as the new requirements only affect the accounting for the financial liabilities that are designated at fair value through profit and loss and the Group does not have any such liabilities. The derecognition rules have been transferred from IAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

Notes to the Financial Statements (continued)

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

- *IFRS 9, 'Financial Instruments' (continued)*
  - *Impairment*
    The new impairment model requires the recognition of impairment provisions based on ECL's rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at fair value through other comprehensive income, contract assets under IFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. The Group does not expect any significant impact on the Financial Statements from these new requirements.
  - *New disclosures*
    The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

- *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 Group 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 has assessed the effect of IFRS 15 and expects that the standard will have no significant effect, when applied, on its Financial Statements.

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 IFRS 10 and IAS 28 - Sale or contribution of assets between an investor and its associate or joint venture.*
- *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 has yet to assess the impact of IFRS 16, but currently believe that it will not be material to the consolidated income statement and consolidated financial position upon adoption in 2019.

There are no other standards that are not yet effective and that would be expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

3. Summary of significant accounting policies

Basis of preparation

The Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and interpretations issued by the IFRS Interpretations Committee ("IFRS IC") applicable to companies reporting under IFRS. The Financial Statements comply with IFRS as adopted by the European Union. The principal accounting policies that have been applied to these Financial Statements are set out below. The Financial Statements contain no comparative amounts.

The preparation of the Financial Statements in conformity with IFRS as adopted by the European Union 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 (€'000s) and are prepared on a historical cost and going concern basis.

Notes to the Financial Statements (continued)

3. Summary of significant accounting policies (continued)

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 €90.0m or 17.5% of ERC. Subsequent to the period end, the AFE entered into an amendment agreement to increase the size of the Facility by an additional €45.0m (see note 26 'Subsequent events' for further details). As at the date the Financial Statements were approved, €74.4m was available to draw from the Facility. Accordingly, the Directors continue to adopt the going concern basis in preparing the Financial Statements.

Due to the loss incurred in the period AFE's net assets as of 31 December 2017 are less than a quarter of its share capital; in accordance with article 480-2 of 'Commercial Companies Law of 10 August 1915 as amended' the Board of Directors will call the general meeting with its sole shareholder to discuss the current and future performance of the Group. The Board of Directors continue to prepare the Financial Statements on the going concern basis on the basis that the Group has sufficient cash, resources and capabilities to achieve forecasted results, and are confident that the Group will continue to have the full support of its sole shareholder.

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 19 in these Financial Statements. None of these entities have any employees.

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.

Notes to the Financial Statements (continued)

3. Summary of significant accounting policies (continued)

Business combinations (continued)

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.

Purchase price of portfolio
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.

Put back warranty claims
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.

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 effective interest rate ("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 purchase 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 (84 months), 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.

Notes to the Financial Statements (continued)

3. Summary of significant accounting policies (continued)

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. Amounts due 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

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 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 up to 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 vintage 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). 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.

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 are recognised in the Consolidated Statement of Comprehensive Income 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 by vintage. Where a vintage 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.

Notes to the Financial Statements (continued)

3. Summary of significant accounting policies (continued)

Financial liabilities and equity instruments (continued)

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.

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 7. 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.

Notes to the Financial Statements (continued)

3. Summary of significant accounting policies (continued)

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 within other operating expenses.

Finance income and finance costs

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.

Finance costs include charges for secured loan notes, facility fees on bank loans and interest on Senior Secured Notes and similar charges.

Borrowings

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

Senior Secured Floating Rate Notes

Senior Secured Floating Rate Notes ("the Notes") issued by the Fund are non-derivative financial liabilities. The 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 the 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.

Super Senior Revolving Credit Facility

Super Senior Revolving Credit 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 the Portfolio Manager. Portfolios are grouped in the year of acquisition into a single portfolio as long as they meet common criteria.

Notes to the Financial Statements (continued)

3. Summary of significant accounting policies (continued)

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.

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, the carrying amount is adjusted to take into account these known factors.

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.

The Group estimates the fair value of financial assets for the purpose of determining the Net Asset Value as per the Offering Memorandum. 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.

Notes to the Financial Statements (continued)

4. Critical accounting judgments and estimates (continued)

Changes in estimates

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 31 December 2017 by €2,956k. A change in the expected future cash flows by -1% would reduce the carrying value of financial assets as 31December 2017 by €2,961k.

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 indicators are identified for any portfolio group, AFE adjusts the corresponding cash flow and a possible impairment charge or revaluation gain may be applied.

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 31 December 2017
	€000
Income from purchased loan portfolios	32,072
Income from purchased loan notes	1,185
Total revenue	**33,257**
Collection activity costs	(10,301)
Impairment	(7,386)
Net foreign currency gains	57
Other operating expenses	(5,340)
Non-recurring items	(2,378)
Operating profit	**7,909**
Finance income	65
Finance costs	(9,813)
Share of profit in associate	292
Loss before tax	**(1,547)**
Tax charge	(4,851)
Comprehensive loss for the period	**(6,398)**

	As at 31 December 2017
	€000
Investment in associate	5,392
Purchased loan portfolios	266,203
Purchased loan notes	10,181
Inventory	15,456
Statement of Financial Position	
Total segment assets	364,848
Total segment liabilities	(369,996)
Segment net liabilities	**(5,148)**

Notes to the Financial Statements (continued)

5. Segmental reporting (continued)

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

	Period from Incorporation to 31 December 2017
	€000
- United Kingdom	1,031
- Romania	1,185
- Italy, Spain, Portugal	31,041
Total revenue	**33,257**

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

	As at 31 December 2017
	€000
- United Kingdom	11,882
- Romania	9,931
- Italy, Spain, Portugal	275,419
Total	**297,232**

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

	Gross ERC 31 December 2017	ERC 31 December 2017
	€000	€000
- United Kingdom	15,625	15,625
- Romania	16,848	16,848
- Italy, Spain, Portugal	446,126	405,411
Total	**478,599**	**437,884**

6. Auditor's remuneration

The auditors' remuneration disclosed in the Financial Statements within other operating expenses represents the auditors' remuneration for the work carried out at each entity level that comprises the Group.

The table below shows the summary of audit fees incurred during the reporting period and the balances payable at the end of the period.

	Period from Incorporation to 31 December 2017
	€000
Fees charged	
Audit fees	280
Total fees payable	**280**
Fees payable at period end	
Fees payable	287
Audit fees payable at the end of the period	**287**

7. 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 31 December 2017
	€000
Management fees	2,636
Directors' fees	102
Depository fees	43
Legal and professional fees	630
Administration and audit fees	815
Abort deal fees	812
Other expenses	302
Non-recurring items: professional fees incurred in connection with the Acquisition	2,378
Other operating expenses	**7,718**
Realised foreign currency losses	48
Unrealised foreign currency gains	(105)
Net foreign currency gains	**(57)**
Impairment	7,386
Revaluation - secured loan notes*	(95)
Total impairment for the period	**7,291**

*Revaluation of secured loan notes is presented within *Interest expense – secured loan notes* in the Statement of Comprehensive Income

8. Finance costs - borrowings

	Period from Incorporation to 31 December 2017
	€000
Fees on Revolving Credit Facility	311
Interest on borrowings	104
Interest on Senior Secured Notes and related charges	7,956
Total finance costs - borrowings	**8,371**

9. 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 19 being consolidated with AFE.

Notes to the Financial Statements (continued)

9. Business combinations (continued)

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, many of which are dependent on collateral claims.

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 16).

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 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.

Notes to the Financial Statements (continued)

9. Business combinations (continued)

i) Notes issued by AFE (continued)

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).

Revenue and profit contribution

The Groups' Assets contributed revenues of €33,257k and a net loss of €1,549k to AFE for the period from 21 July 2017 to 31 December 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 as 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. These costs have been recognized in other receivables and are being amortised over the life of the Facility.

Purchase consideration – cash flow

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

Notes to the Financial Statements (continued)

10. Taxation

The Group's activities are primarily based in Luxembourg, where the entities are subject to corporate income tax, municipal business tax and net wealth tax.

AFE is subject to the Luxembourg subscription tax which is imposed at the rate of 0.01% per annum based on the aggregate Net Asset Value ("NAV") of the Fund at the end of the relevant quarter, calculated and paid quarterly, subject to certain exceptions (e.g. to the extent that the NAV of the Fund is represented by investments made by the Fund in other undertakings for collective investments, which have already borne the Luxembourg subscription tax).

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.

		Period from Incorporation to 31 December 2017
	Notes	€000
Loss before tax		(1,547)
Standard income tax rate applicable in Luxembourg (%)		27.08%
Theoretical taxation benefit		419
Profit not subject to income tax		(462)
Taxation charge on ordinary activities before other taxes		**(43)**
Other taxes (Net Wealth Tax etc.)		(31)
Provisions	24	(4,777)
Taxation charge		**(4,851)**

11. 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 mean that the Group exercises significant influence over PAM, which is achieved through strong consultation and approval rights to determine servicing strategies, as well as strong input into the operational aspects of PAM and being involved in key decision making processes.

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 31 December 2017
	€000
Interest acquired during the period	5,100
Share of profit in associate	292
Interest in net assets of associate at the end of the period	**5,392**

On 21 December 2017, an agreement for the sale and purchase of shares of the corporate capital of PAM was entered into between PAM and Prime Credit 3 S.á r.l. ("PC3"), an indirect subsidiary of AFE, which governs the conditions by which, on the closing date, the warrants held by PC3 will be converted into a number of shares so that, following the conversion, PC3 shall own a number of ordinary shares representing 30% of the share capital of PAM. Note 26 'Subsequent events' discloses further information on the conversion.

Notes to the Financial Statements (continued)

11. Investment in associate (continued)

The tables below provide summarised financial information of PAM for the year ending 31 December 2017.

Statement of Financial Position of PAM as at 31 December 2017

	As at 31 December 2017
	€000
Assets	
Non-current assets	70
Current assets	
Cash and cash equivalents	3,568
Trade and other receivables	1,408
Total current assets	**4,976**
Total assets	**5,046**
Liabilities	
Current liabilities	1,830
Equity	
Share capital	50
Retained earnings	3,166
Total equity	**3,216**
Total equity and liabilities	**5,046**

Statement of Comprehensive Income of PAM for the period ending 31 December 2017

	Period from Incorporation to 31 December 2017
	€000
Revenue	2,700
Depreciation	(7)
Other expenses	(1,378)
Operating profit	**1,315**
Tax charge	**(391)**
Comprehensive income for the period	**924**

Notes to the Financial Statements (continued)

12. Financial assets

	As at 31 December 2017
	€000
Expected falling due after one year:	
Purchased loan portfolios	153,131
Purchased loan notes	6,079
Total	**159,210**
Expected falling due within one year:	
Purchased loan portfolios	113,072
Purchased loan notes	4,102
Other receivables	311
Total	**117,485**

Other receivables consist of deferred consideration due on the disposal of purchased loan portfolios. The deferred consideration was acquired by the Group on completion of the Acquisition (see Note 9).

The movements in purchased loan portfolios were as follows:

	Period from Incorporation to 31 December 2017
	€000
Purchased loan portfolios and Inventory acquired from the Acquisition	300,092
Portfolios acquired during the period	25,337
Collections in the period*	(63,869)
Impairment of purchased loan portfolios	(6,797)
Income from purchased loan portfolios	32,072
Less: Inventory and attributable other receivables	(20,632)
Purchased loan portfolios at the end of the period	**266,203**

The movements in purchased loan notes were as follows:

	Period from Incorporation to 31 December 2017
	€000
Purchased loan notes acquired during the period	12,372
Collections in the period*	(3,376)
Income from purchased loan notes	1,185
Purchased loan notes at the end of the period	**10,181**

* In addition, €541k was received in the period from the deferred consideration owing from the disposal of purchased loan portfolios.

Notes to the Financial Statements (continued)

12. Financial assets (continued)

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.

13. Inventory

	As at 31 December 2017
	€000
Inventory	15,456
Total	**15,456**

Inventory assets are collateral assets, mainly real estate, repossessed as part of the management of secured non-performing loan portfolios.

Of the collateral assets €14,720k is located in Spain and €736k is located in Portugal. The Group has no restrictions on the realisability of its collateral assets, and no contractual obligations to construct, develop or for repair and maintenance.

Notes to the Financial Statements (continued)

14. Trade and other receivables

	As at 31 December 2017
	€000
Collections receivable	11,035
Other receivables	4,387
Total	**15,422**

Collections receivable relate to amounts held by servicers which are owed to the Group.

Other receivables include deferred consideration due on the disposal of purchased loan portfolios as described and set out in Note 12.

15. Trade and other payables

		As at 31 December 2017
	Notes	€000
Trade payables		5,738
Amounts due to related parties	17	404
Accrued expenses		5,756
Other payables		42
Total		**11,940**

16. Share capital

	As at 31 December 2017
	€000
Share capital at 28 June 2017	-
Issue of share capital	1,280
Redemption of shares	(30)
Total share capital at 31 December 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 1,250k Class A shares at the total amount of €1,250,000 in the period to AnaCap Financial Europe Holdings SCSp SICAV-RAIF.

Net Asset Value per share

The NAV per Class A share results from dividing the total net assets of the Fund attributable to such Class of shares on any valuation day by the number of shares of such class then outstanding.

Share capital at 28 June 2017	-
NAV attributable to Class A shares	€(5,148k)
No. of remaining Class A shares	1,250k
NAV per Class A share as at 31 December 2017	**€(4.118)**

Notes to the Financial Statements (continued)

17. Related party transactions

	As at 31 December 2017
	€000
Due to related parties	
Carne Global Fund Managers (Luxembourg) S.A.	104
AnaCap Investment Manager Limited	300
Total	**404**

Management fees

The AIFM is entitled to receive a management fee on a quarterly basis, based on 1.75% of AFE's NAV (as defined in the Offering Memorandum, pro-rated for the number of days in each period), which includes fee payable to AnaCap Investment Management Limited, acting as Portfolio Manager. The management fee for the reporting period is €2,636k. €404k 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 period and the balances due to them at the end of the period.

	Period from Incorporation to 31 December 2017
	€000
Fees charged	
Directors' fees	102
Total fees payable	**102**
Fees payable at period end	
Fees payable	46
Directors' fees payable at the end of the period	**46**

18. Reconciliation of Net Asset Value as per Offering Memorandum

The NAV of the Group is the value of the Group's assets, less any borrowings and other liabilities of the Group and therefore corresponds to total equity as shown in the Consolidated Statement of Financial Position.

NAV as per the Offering Memorandum for the Notes ("Adjusted NAV") is defined as fair value of the purchased loan portfolios and purchased loan notes (net of servicing fees), less fair value of the secured loan notes (net of servicing fees), plus the fair value of investments in associates.

In accordance with RAIF law, the table below shows the reconciliation from total net assets value of the Group to the Adjusted NAV:

	As at 31 December 2017
	€000
NAV according to the Consolidated Statement of Financial Position	(5,148)
Adjustments:	
Cash and cash equivalents	(52,194)
Trade and other receivables	(15,422)
Inventory	(15,456)
Trade payables and other current liabilities	17,227
Borrowings (current and non-current)	329,323
Fair value adjustment on purchased loan portfolios, purchased loan notes, investment in associate and secured loan notes	27,952
Adjusted NAV	**286,282**

Notes to the Financial Statements (continued)

19. Investments in subsidiaries and controlled entities

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

	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	β	100%	Active
Alpha Credit Solutions 4 S.à r.l.	Luxembourg	◊	100%	Active
Alpha Credit Solutions 5 S.à r.l.	Luxembourg	β	100%	Active
Alpha Credit Solutions 6 S.à r.l.	Luxembourg	β	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
Belice ITG, S.L.U	Spain	₮	100%	Active

Key

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

β - Parc d'Activité Syrdall, 6, rue Gabriel Lippmann, L-5365 Munsbach, 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

₮ - Calle Serrano 41, 4th floor, 28001 Madrid, Spain

*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 has the ability to affect those returns through power over an investee.

**Represents 100% ownership and 100% of the voting and controlling rights of the 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.

20. Financial risk management

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a loss for the other party by failing to pay for its obligations.

The Group's principal activity is the acquisition and monetisation of pools of performing, under-performing and/or non-performing loan portfolios and is therefore subject to significant counterparty risk. Most of the loan portfolios are purchased at a deep discount and hence are impaired by nature at acquisition. Subsequent to acquisition the expected cash flows are regularly benchmarked against actual performance and market and proprietary data which in turn leads to a revision up or down to the estimated remaining collections that forms the basis for the carrying value estimation at the reporting date. Further details of the forecasting process are given in Notes 3 and 4.

20. Financial risk management (continued)

Credit risk (continued)

The ongoing risk is managed via a formal portfolio valuation and review process that is undertaken by the Group. The Group also reviews and analyses all loan portfolio acquisitions including reputational and regulatory risk, as well as the assumptions underpinning any maximum bid price to minimise future credit risk resulting from loan portfolio acquisitions.

The carrying value of purchased loan portfolios and purchased loan notes in the Consolidated Statement of Financial Position represent the Group's maximum exposure to credit risk. The tables in Note 12 set out the maximum risk at each reporting period end.

The Group monitors its exposure to the geographic concentration risk of its loan assets, a breakdown of which is shown in Note 5.

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 of the business. The policy adopted by the Group is to reduce its risk by ensuring that there are sufficient committed debt facilities to cover forecast borrowings plus the operating headroom. Further, the aim is to ensure that there is a balanced refinancing profile, diversification of debt funding sources and no over-reliance on a single or small group of lenders. The total undrawn amount on the Facility as at 31 December 2017 were €29,385k.

The Group monitors cash through daily reporting, monthly management accounts and period review meetings. The Group has well established models used to predict collectability of cash receipts and this represents a key performance indicator of the business. The Group has low fixed cost base, is highly cash generated with monthly cash receipts and portfolio purchases are discretionary, which helps to mitigate the liquidity risk.

The table below sets out the cash flows payable, including both principal and interest, over the contractual life of the financial liabilities.

	Within 1 year	1-3 years	3-5 years	Over 5 years	Total
	€000	€000	€000	€000	€000
Borrowings	30,647	32,997	32,951	355,243	451,838
Secured loan notes	8,548	14,143	9,847	208	32,746
Trade and other payables	11,940	-	-	-	11,940
Total	**51,135**	**47,140**	**42,798**	**355,452**	**496,524**

Secured loan notes shown in the tables above represent expected repayments based on expected collections; all other balances represent contractual repayment dates.

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

	As at 31 December 2017
	€000
Gross ERC	478,599
ERC	437,884

Notes to the Financial Statements (continued)

20. Financial risk management (continued)

Liquidity risk (continued)

A maturity analysis of the Group's financial assets and borrowing facilities as at 31 December is presented below:

	Notes	Group Assets €000	% of total	Borrowings and facilities €000	% of total
Within one year	12 / 23	117,485	42.5%	21,999	6.2%
After one year		159,210	57.5%	330,770	93.8%
Total		**276,695**	**100%**	**352,769**	**100%**

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk predominately comprises interest rate risk and currency risk.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in interest rates.

The Group is exposed to interest rate risk on its borrowings, principally on the Notes that incur annual interest at a rate equal to the sum of i) three-month Euro Interbank Offered Rate ("EURIBOR") (subject to a 0% floor) plus ii) 5.00%. During the reporting period EURIBOR was less than 0% and so interest at a rate of 5.00% has been incurred on the Notes.

Interest payable on loans under the Facility agreement is charged at an annual marginal rate of 3.5% plus IBOR (being EURIBOR for loans denominated in euro, otherwise LIBOR). In any case that IBOR is less than 0% in respect of any loans drawn, IBOR in respect of that loan shall be deemed to be 0%. As at 31 December 2017, €15,615k of the Facility was drawn. Commitment fees payable under the Facility agreement are accrued at the rate of 35% of the then applicable margin, being 1.225% p.a. in the reporting period.

The following table shows the impact on finance costs if the EURIBOR had increased by 1.00%. A decrease in EURIBOR has no material impact as the instruments would bear a fixed interest rate.

	Period from Incorporation to 31 December 2017 €000
Increase in finance cost	647
Total impact on the Statement of Comprehensive Income for the period	**647**

Foreign currency risk

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in foreign currency exchange rates. The Group comprises one loan portfolio in a foreign currency (Sterling, GBP). Additionally, the Group held cash balances in foreign currencies including GBP and Romanian leu (RON) at the reporting date. Consequently, the business is subject to three elements of foreign currency risk considered below.

- **Statement of Comprehensive Income exposure**

Income and expenses stemming from the Groups' Assets which are denominated in Sterling are converted to Euro using the exchange rate at the prevailing date. Therefore, the risk arises that fluctuations in the foreign currency exchange rate will have an impact on the combined results for the period. A sensitivity analysis has been conducted to consider the impact of movements in the foreign currency exchange rates on the loan portfolio and is shown in the tables below.

- **Financial position exposure**

Group Assets denominated in foreign currency are converted to Euro using the exchange rate at the reporting date. Therefore, the risk arises that fluctuations in the foreign currency exchange rate will have an impact on the combined net assets. A sensitivity analysis has been conducted to consider the impact of movements in the foreign currency exchange rates on the foreign currency denominated loan portfolios and cash balances at reporting date and is shown in the tables below.

Notes to the Financial Statements (continued)

20. Financial risk management (continued)

- **Cash flow exposure**

The Group is subjected to currency risk in respect of forecasted cash flows to be received in foreign currency. Foreign currency cash flow risk mitigation is managed by the Group by settling any liabilities in that currency due at the same date.

Foreign currency sensitivity analysis

The below table sets out what the impact on the net assets and net profit/loss would be, had the foreign currencies at the Statement of Financial Position date been 10% weaker in relation to the Euro.

	Period from Incorporation to 31 December 2017
	€000
Equity and net assets	
Sterling (GBP)	(154)
Romanian leu (RON)	(52)
Loss	
Sterling (GBP)	(154)
Romanian leu (RON)	(52)

The below table sets out what the impact on the net assets and net profit/loss would be, had the foreign currencies at the Statement of Financial Position date been 10% stronger in relation to the Euro.

	Period from Incorporation to 31 December 2017
	€000
Equity and net assets	
Sterling (GBP)	154
Romanian leu (RON)	52
Profit	
Sterling (GBP)	154
Romanian leu (RON)	52

Capital risk management

Capital risk is the risk that the Group's capital structure is not sufficient in order to support the growth of the business.

The Group aims to maintain appropriate capital to ensure that it has a strong Statement of Financial Position but at the same time is providing a good return on equity to the shareholders. The Group's long-term aim is to ensure that the capital structure results in the optimal ration of debt and equity finance. The Board of Directors reviews the capital structure on an ongoing basis. As part of this review, the Board of Directors considers the cost of capital and the risks associated with each class of capital.

The capital structure of the business consists of borrowings, equity and cash and cash equivalents as shown in the below table.

In accordance with article 25 of RAIF law the subscribed capital of AFE, increased by share premium, may not be less than €1,250k. This minimum must be achieved within the period of 12 months following the incorporation of AFE.

Notes to the Financial Statements (continued)

20. Financial risk management (continued)

Capital risk management (continued)

The net capital position for the Group as at 31 December 2017 is set out below:

	As at 31 December 2017
	€000
Equity	(5,148)
Borrowings	329,323
Less: Cash and cash equivalents	(52,194)
Total	**271,981**

21. Financial assets and liabilities

The fair value and carrying value of financial assets and financial liabilities of the Group are set out below:

Financial assets	Book value 31 December 2017	Fair value 31 December 2017
	€000	€000
Purchased loan portfolios	266,203	295,729
Purchased loan notes	10,181	10,809
Cash and cash equivalents	52,194	52,194
Trade and other receivables	15,422	15,422
Total	**344,000**	**374,154**

Financial liabilities	Book value 31 December 2017	Fair value 31 December 2017
	€000	€000
Borrowings	329,323	333,179
Secured loan notes	23,446	25,356
Trade and other payables	11,940	11,940
Total	**364,709**	**370,475**

For the Group, the carrying value of financial assets and financial liabilities is considered to be the best estimate of fair value, with the exception of purchased loan portfolios, purchased loan notes and secured loan notes. The fair value of purchased loan portfolios, purchased loan notes and secured loan notes have been determined by discounting the net cash flows of the Group Assets over 120 months at a market discount rate.

The three main influencing factors in calculating the fair value of purchased loan portfolios and purchased loan notes are: (i) gross collections forecast, (ii) the cost level, and (iii) the market discount rate. On a quarterly basis, the Group assesses net collection forecasts for all portfolios and discounts the forecasts to present value, which serves as the basis for calculating the reported fair value for each portfolio.

The Group has gained vast experience from the many portfolio transactions in which it has participated in or has knowledge of which forms an important component in estimating a market discount rate. The discount rate corresponding to the market's required return is updated on a bi-annual basis (or on a quarterly basis if the change is considered material) and reflects actual return on relevant and comparable transactions in the market.

22. 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.

22. Financial instruments (continued)

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 financial instruments split into their respective categories as at 31 December 2017:

	Level 1	Level 2	Level 3
	€000	**€000**	**€000**
Purchased loan portfolios	-	-	266,203
Purchased loan notes	-	-	10,181
Investment in associate	-	-	5,392
Senior Secured Notes	317,905	-	-
Revolving Credit Facility	-	11,418	-
Total	**317,905**	**11,418**	**281,776**

There have been no transfers between the levels.

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 12.

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.

Notes to the Financial Statements (continued)

23. Borrowings and facilities

	As at 31 December 2017
	€000
Expected falling due after one year	
Senior Secured Notes	315,152
Secured loan notes	15,618
Total	**330,770**
Expected falling due within one year	
Revolving Credit Facility	11,418
Senior Secured Notes	2,753
Secured loan notes	7,828
Total	**21,999**

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.

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).

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 €90.0m or 17.5% of ERC. As at 31 December 2017, €11,513k was drawn as a loan from the Facility. In addition to this, €4,102k was utilised in the period in the form of a bank guarantee, which resulted in the total amount available to draw upon as at 31 December 2017 equal to €29,385k. The fee payable for the bank guarantee is 2.85% p.a. which is charged quarterly in arrears.

In accordance with the Facility agreement, AFE is required to ensure that at each quarter end date (beginning with the quarter end date falling on 31 December 2017) i) the LTV Ratio does not exceed 0.75:1 and ii) the SSRCF LTV Ratio does not exceed 0.25:1. During the reporting period both ratios were kept within the required thresholds, therefore fully complying with the financial covenants imposed. As at 31 December 2017, the LTV Ratio was 63.5% and the SSRCF LTV Ratio was 3.6%.

Reconciliation of changes in financial liabilities arising from financing activities

The below table sets out an analysis of the changes in financial liabilities for the period from financing activities:

	Cash and cash equivalents	Borrowings	Secured loan notes	Total
	€000	€000	€000	€000
As at 28 June 2017	-	-	-	-
Cash flows	52,194	(320,312)	2,205	(265,914)
Acquisitons	-	-	(24,208)	(24,208)
Foreign exchange adjustments	-	(95)	-	(95)
Finance cost	-	(8,371)	(1,442)	(9,813)
Other non-cash movements	-	(545)	-	(545)
As at 31 December 2017	**52,194**	**(329,323)**	**(23,446)**	**(300,575)**

Notes to the Financial Statements (continued)

24. Commitments and contingencies

Portuguese tax liability

On 26 February 2018, the Group received a notification issued by the Portuguese Tax Authorities ("PTA") referring to tax audit proceedings in relation to the Portuguese assets held within the Group for the financial years 2013 – 2015. As a result of this investigation the PTA have determined that PC3 owes a Portuguese tax charge, and a charge has been computed by the PTA based on the taxable income determined during this period. It is likely that the charge will need to be settled prior to a legal challenge and as such the tax charge based on PTA calculations has been accrued for in the Financial Statements. In light of this, an accrual has also been made to recognise that there may be a potential tax charge for the financial years 2016-2017, which has been calculated in a similar manner. The total tax provision reflected in the Financial Statements is c.€2.6m.

Romanian tax liability

In 2017 the Romanian tax authorities conducted a tax investigation into the structure within which one of the Groups Romanian debt portfolios are held, and concluded by raising a full income tax assessment for the entire profits in the NPL and REO portfolio. Whilst we maintain the option of challenging this assessment in the courts, under Romanian law a tax assessment, regardless of the validity or basis of the same, has to be paid and failing this, the tax authorities (much like any other significant creditor) have the right to petition for an insolvency of the entity. We are in discussions with the tax authorities regarding a payment schedule for meeting the tax assessment bill but stand ready to fund the entire tax assessment amount upfront (c.€2.1m) to mitigate even a small risk of insolvency, due to the potential loss in future value in an insolvency scenario. We believe our estimates are prudent in light of our ability to challenge the tax assessment. We have also undertaken additional steps in subsequent acquisitions to enhance tax efficiency.

Other than those disclosed in this note and in Note 23, there are no other commitments or contingencies of the Group that existed as at 31 December 2017.

25. Ultimate parent entity

The ultimate parent entity of the Group is AnaCap Group Holdings Limited.

26. Subsequent events

ACS1 accession

On 26 February 2018, Alpha Credit Solutions 1 S.a r.l. ("ACS1") successfully acceded the Indenture, Facility agreement and the ICA as a guarantor, intra-group lender and security provider.

Facility upsize

On 26 February 2018 AFE increased the aggregate amount available it can draw from the Facility by establishing an additional facility. The additional facility able to draw upon is €45.0m, bringing the total available facility AFE is able to draw upon to €90.0m. As at the date the Financial Statements were approved, the total available for AFE to utilise from the Facility was €75.4m.

Portfolio acquisitions

On 4 January 2018 AFE, along with two other co-investors (together the "Investors"), signed into an Investor Agreement confirming that the Investors will provide the necessary funding in order to complete on the acquisition of a corporate and SME NPL portfolio in Romania. The portfolio consists of 341 borrowers and 981 loans with total outstanding balance of c.€364.3m. Subsequent to this on 28 February 2018 the Investors signed into an Escrow Agreement, and on 2 March 2018 the Investors funded the Escrow account for an amount representing c.20% of the gross purchase price. The acquisition is anticipated to complete and fund in Q2 2018. The total consideration expected to be paid to acquire the portfolio is c. €15m.

On 19 March 2018, AFE acquired 50% of an existing investor's share relating to the tail portion of one of the Romanian debt portfolios held within the Group, for a total consideration of €325k.

On 6 April 2018, AFE completed the second tranche of its investment in a Spanish portfolio of secured SME loans and real estate assets, which follows on from the first tranche which completed in November 2017. The net purchase price paid to close this transaction was c. €5.1m.

PAM equity conversion

Following on from the agreement of the sale and purchase of shares of the corporate capital of PAM by PC3 that occurred on 21 December 2017 (the "SPA"), all conditions precedent to completion were obtained in March 2018 as outlined in the SPA. Completion of the conversion of the warrants held by PC3 into 30% equity subsequently took place on 11 April 2018.

Notes to the Financial Statements (continued)

26. Subsequent events (continued)

Spanish asset manager

On 5 April 2018 the Group signed into a share and purchase agreement ("SPA") in order to acquire 100% of the share capital in a Spanish asset manager. On 12 April 2018 the acquisition completed for total consideration in the amount of €1.6m; €800k of this was settled on completion with the balance to be deferred in instalments over the next three years. In order to help facilitate the acquisition a new entity was incorporated on 9 March 2018, AFE Asset Management S.a r.l., a 100% owned subsidiary of AFE. Subsequent to this, AFE Asset Management S.a r.l. acquired 100% of the share capital of a Spanish shelf company, Silonea Investments S.L.U on 5 April 2018. The Group is currently evaluating the purchase price allocation between the assets acquired and liabilities assumed.

27. Adjusted EBITDA and Normalised EBITDA

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 31 December 2017
	€000
Profit before tax	**(1,547)**
Finance costs	9,813
Share of profit in associate	(292)
Net foreign currency gains	57
Impairment	7,386
Collections from portfolios	67,786
Revenue	(33,257)
Repayment of secured loan notes	(2,205)
Non-recurring items: professional fees incurred in connection with the Acquisition	2,378
Finance income	(65)
Normalised and Adjusted EBITDA	**50,054**

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

	Period from Incorporation to 31 December 2017
	€000
Net cash generated from operating activities	**26,991**
Acquisition of purchased loan portfolios	25,337
Taxation paid	31
Repayment of secured loan notes	(2,205)
Working capital adjustments	(2,536)
Net foreign currency gains	57
Non-recurring items: professional fees incurred in connection with the Acquisition	2,378
Normalised and Adjusted EBITDA	**50,054**

Notes to the Financial Statements (continued)

27. Adjusted EBITDA and Normalised EBITDA (continued)

Reconciliation of core collections to Normalised and Adjusted EBITDA:

	Period from Incorporation to 31 December 2017
	€000
Core Collections/Collections in the period	**67,786**
Operating expenses	(25,348)
Net foreign currency gains	57
Impairment	7,386
Repayment of secured loan notes	(2,205)
Non-recurring items: professional fees incurred in connection with the Acquisition	2,378
Normalised and Adjusted EBITDA	**50,054**

Disclosures under the Alternative Investment Fund Managers Directive (unaudited)

In accordance with the Level 2 Regulations of the Alternative Investment Fund Managers Directive (AIFMD), the Alternative Investment Fund Manager (AIFM) is jointly responsible with the Board of Directors of the AIF for certain disclosures to investors and competent authorities with respect to the AIF's Annual Report.

Information required to be disclosed under the AIFMD in relation to the AnaCap Financial Europe S.A. SICAV-RAIF (AIF):

Liquidity arrangements and liquidity management

There are no assets of the AIF subject to special arrangements such as side pockets, gates or other similar arrangements. No new arrangements or material changes were made to manage the liquidity of the AIF.

The AIFM confirms it has maintained appropriate capital adequacy provisions as required by the CSSF.

Leverage

The leverage employed by the AIF as per December 31, 2017 was 81.9% of the AIF's net asset value based on the gross method and 100.0% of the AIF's net asset value based on the commitment method.

Risk management

The AIFM has established and maintains a dedicated risk management system to identify, measure, manage and monitor on an ongoing basis risks relevant to each AIF's Investment Objective including, in particular market, credit, liquidity, counterparty, operational and other relevant risks. Both quantitative and/or qualitative risk limits have been established and were monitored by the AIFM. No material changes were made in relation to the risk management system.

Material Changes

On 10 May 2017, during the General Meeting of Shareholders, Mr. Kevin Nolan was appointed to act as additional Director of Carne Global Fund Managers (Luxembourg) S.A (further to CSSF's approval on 11 April 2017). Mr. Mario Koster and Mr. Attilio Femiano, Conducting Officers, resigned on 30 June 2017 and 31 October 2017, respectively. Application is currently with the CSSF to approve the appointment of Mr. James Bolton and Mrs. Elisabeth Patino George as Conducting Officers.

Furthermore, on 14 June 2017 the CSSF extended Carne Global Fund Managers (Luxembourg) S. A's license to include the management of Real Estate Funds.

Remuneration

The AIFM has designed and implemented a remuneration policy (the "Remuneration Policy") in line with the provisions on remuneration as set out by the European Directive 2011/61/EU as amended and implemented into Luxembourg Law of 12 July of 2013 (the "AIFM Regulations").

The AIFM has developed and implemented remuneration policies and practices that are consistent with and promote sound and effective risk management of the AIF, do not encourage risk-taking which is inconsistent with the risk profiles/rules governing the AIF, and do not impair compliance with the AIFM's duty to act in the best interest of the AIF and ultimately its investors.

The Board of Directors of the AIFM is responsible for the design and implementation of the Remuneration Policy and reviews this on a regular basis as part of its supervisory function. In reviewing the Remuneration Policy, the Board of Directors of the AIFM will consider whether the remuneration framework operates as intended and that the risk profile, long-term objectives and goals of the Company are adequately reflected.

A copy of the AIFM Remuneration Policy is available, free of charge, at the registered office of the AIFM and on http://www.carnegroup.com.

Disclosures under the Alternative Investment Fund Managers Directive (unaudited) (continued)

Proportion of the total remuneration of the staff of the AIFM attributable to AnaCap Financial Europe S.A. SICAV-RAIF, indicating the number of beneficiaries, as of December 31, 2017

The below table represents the proportion of the total remuneration of the staff of the AIFM attributable to all funds it manages, taking into account AIFs and UCITS.

The proportion allocated to AnaCap Financial Europe S.A. SICAV-RAIF has been calculated time-weighted[1] based on the number of all funds[2] managed by the AIFM.

	Number of Beneficiaries [3]	Fixed Remuneration[4] in % of total	Variable Remuneration[5] in % of total	Carried Interest paid in % of total	Total Remuneration [6]
Staff [7]	16	0.763%	0.102%	0	€ 2,069,486
Senior Management	5	1.075%	0.261%	0	€ 1,048,212
Risk Takers [8]	5	1.075%	0.261%	0	€ 1,048,212

[1] Time-weighted = the proportion allocation takes into consideration the time when the fund was established or transferred to the AIFM (e.g. a fund that was live for 6 months during the financial year of the AIFM would get allocated 6/12 of the proportion that would be allocated to a fund that was live for the complete financial year of the AIFM).

[2] Funds = single funds and sub-funds of umbrella structures.

[3] Number of beneficiaries = average number of employees for the period of the AIFM's financial year 2017.

[4] Fixed remuneration = consists of salaries paid during the AIFM financial year 2017 including employer social security, pension contribution, other non-monetary benefits like car allowance but excluding payments in relation to secondment services.

[5] Variable remuneration = consists of annual bonuses paid during the AIFM Company's financial year 2017 in accordance with the remuneration policy.

[6] Total remuneration = sum of fixed remuneration and variable remuneration paid during the AIFM's financial year 2017.

[7] Staff = including Senior Management and Risk Takers.

[8] Risk Takers = staff members of the AIFM whose actions might have a material impact on the risk profile of the AIF, including Senior Management.

Further Disclosures

In accordance with the Securities Financing Transaction Regulation (SFTR), the AIFM is responsible to disclose Securities Financing Transactions (SFTs) for the AIF. For the period ended 31 December 2017, the AIF did not engage in any SFTs.

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 RAIF law. For the year ended 31 December 2017, the Portfolio Manager paid £234k in director's fees.