AnaCap Financial Europe S.A. SICAV-RAIF

Unaudited Condensed Interim Consolidated Financial Statements
For the Quarter Ended to 31 March 2018

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General Information

Fund

AnaCap Financial Europe S.A. SICAV-RAIF
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Rue Gabriel Lippmann
L-5365 Munsbach
Grand Duchy of Luxembourg
R.C.S Luxembourg: B 216080

Board of Directors

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

AIFM

Carne Global Fund Managers (Luxembourg) S.A.
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Grand Duchy of Luxembourg

Board of Directors of the AIFM

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

Portfolio Manager

AnaCap Investment Manager Limited
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St Peter Port
Guernsey GY1 1WD

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 Unaudited Condensed Consolidated Interim Financial Statements (the "Financial Statements") on the activities and financial performance of AFE and its subsidiaries (together, the "Group") for the period 1 January 2018 to 31 March 2018. The Financial Statements incorporate the assets, liabilities, revenue and expenses of the Group.

The Financial Statements are prepared in accordance with IAS34 "Interim Financial Reporting" and do not contain all disclosures required for annual consolidated financial statements, and should therefore be read in conjunction with the Group's annual consolidated financial statements for the period from 28 June 2017 to 31 December 2017. The principal accounting policies that have been applied to the Financial Statements have been applied consistently throughout the period unless otherwise stated.

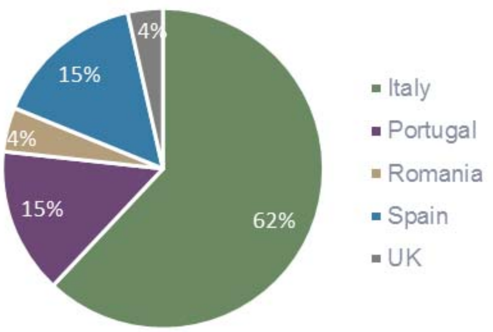
Business Overview

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.

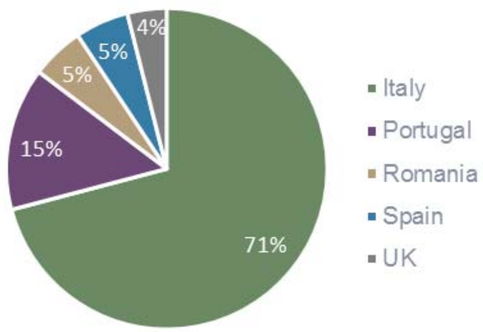
AFE has a diverse portfolio of seasoned and granular consumer, SME and mortgage debt which is differentiated among debt purchasers in the level of diversification across borrowers, asset types and geographies, as well as with its significant collateral backing. The assets acquired by the Group on incorporation (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 March 2018. 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.

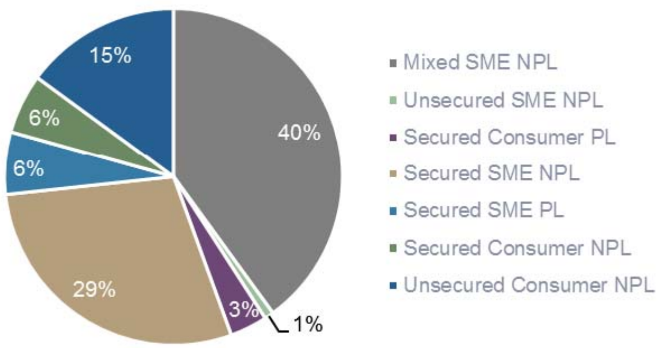
€410 million 84 month ERC by geography - 31 March 2018



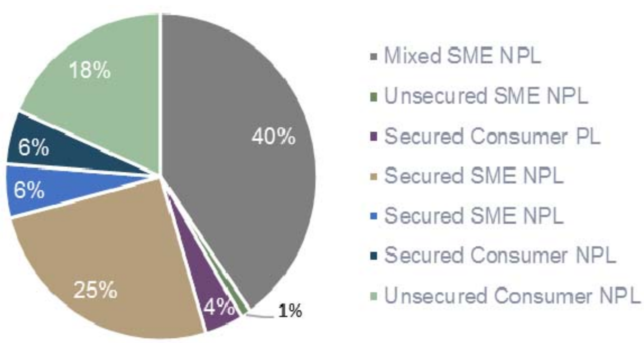
€508 million 84 month ERC by geography - 31 March 2017



€410 million 84 month ERC by asset type - 31 March 2018



€508 million 84 month ERC by asset type - 31 March 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. The data below is based on the Group for the three months ended 31 March 2018 and 31 March 2017. 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.

		3 months to 31 March 2018	3 months to 31 March 2017	% change
		€000	€000	
84-month ERC	1	410,365	508,174	-19.2%
84-month Gross ERC	2	449,703	555,271	-19.0%
Cumulative purchases of loan portfolios and loan notes	3	400,775	375,112	6.8%
Number of debt portfolios	4	16	15	6.7%
Number of accounts	5	211,355	210,783	0.3%
Total attributable collections	6	31,377	22,356	40.4%
Total gross collections	7	32,756	22,732	44.1%
Core collections	8	32,756	22,732	44.1%
Operating expenses	9	7,474	5,589	33.7%
Core collection cost ratio	10	22.8%	24.6%	-7.2%
Adjusted EBITDA	11	24,266	16,767	44.7%
Normalised Adjusted EBITDA	12	24,266	16,767	44.7%

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

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

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

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

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

(6) 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.

(7) 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.

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

Directors' Report (continued)

Key Performance Indicators (continued)

(9) 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.

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

(11) 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.

(12) 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 March 2018 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 March 2018, 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 €410 million.

Portfolio purchased in the year / period ended	Purchase price (13)	Actual collections to 31 March 2018	84-month ERC	Total estimated collections (14)	Gross money-on-money multiple (15)
	€000	€000	€000	€000	
Year ended 31 December 2012	75,084	159,152	13,368	172,520	2.30x
Year ended 31 December 2013	77,386	100,180	68,604	168,784	2.18x
Year ended 31 December 2014	59,025	92,837	46,781	139,618	2.37x
Year ended 31 December 2015	47,806	27,486	53,977	81,463	1.70x
Year ended 31 December 2016	125,617	79,292	148,122	227,414	1.81x
Year ended 31 December 2017	65,017	41,984	76,605	118,589	1.82x
Year ended 31 December 2018*	1,326	117	2,909	3,026	2.28x

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

(14) Total estimated collections represents actual collections to date plus 84-month ERC, meaning actual collections to 31 March 2018 plus forecast collections for the following 84 months.

(15) 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.

* this includes cash paid plus an assumed liability on completion of the transaction in the quarter.

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.

			3 months ended 31 March 2018
			€000
Borrowings:	The Notes		325,000
	Revolving credit facility (including bank guarantee)		14,717
Less:	Cash at bank		(68,578)
	Cash held on AFE's account at servicers'		(10,269)
Add back:	Cash collected on behalf of secured loan note holders		613
Net debt			**261,483**
LTV ratio at period end		16	63.7%
Normalised Adjusted EBITDA leverage ratio		17	2.68
LTM Adjusted EBITDA		18	97,688
Pro forma net interest expense		19	18,586
Pro forma Fixed charge cover (FCCR)		20	5.26

(16) 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.

(17) Normalised Adjusted EBITDA leverage ratio means net debt divided by the Normalised Adjusted EBITDA for the 12 months ended 31 March 2018.

(18) LTM Adjusted EBITDA means Adjusted EBITDA for the 12 month period to 31 March 2018.

(19) Pro forma net interest expense means interest expense on pro forma total debt for the period 1 March 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 March 2018 is as per the Financial Statements.

(20) 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:

		3 months ended 31 March 2018
		€000
Borrowings:	The Notes	325,000
	Unamortised discount on issuance of the Notes	(1,625)
	Unamortised transaction fees	(7,916)
	Per Financial Statements (non-current liability)	315,459
	Interest payable at 31 March 2018 (current liability)	2,663
	Revolving credit facility - amount drawn	10,541
Total borrowings		**328,663**

Directors' Report (continued)

Significant recent developments

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.

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 completed subsequent to the period end on 8 May 2018 for total consideration of c. €15.8m

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 €326k.

Christopher Ross-Roberts
Director
22 May 2018

Independent Auditors' Report

Report on Review of Condensed Interim Financial Statements

To the Board of Directors of Anacap Financial Europe S.A. SICAV-RAIF

We have reviewed the accompanying condensed interim consolidated financial statements of Anacap Financial Europe S.A. SICAV-RAIF (the "Company"), which comprise the condensed interim consolidated statement of financial position as at 31 March 2018, and the condensed interim consolidated statement of comprehensive income, the condensed interim consolidated statement of cash flow for the 3-month period then ended, the condensed interim consolidated statement of changes in equity and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the condensed interim financial statements

The Board of Directors is responsible for the preparation and presentation of these condensed interim financial statements in accordance with IAS 34, "Interim Financial Reporting" as adopted by the European Union, and for such internal control as the Board of Directors determines is necessary to enable the preparation of condensed interim financial statements that are free from material misstatement, whether due to fraud or error.

Responsibility of the "Réviseur d'entreprises agréé"

Our responsibility is to express a conclusion on these condensed interim financial statements based on our review. We conducted our review in accordance with International Standard on Review Engagements (ISRE 2410 "Review of interim financial information performed by the independent auditor of the entity") as adopted for Luxembourg by the "Institut des Réviseurs d'Entreprises". This standard requires us to comply with relevant ethical requirements and conclude whether anything has come to our attention that causes us to believe that the condensed interim financial statements, taken as a whole, are not prepared in all material respects in accordance with the applicable financial reporting framework.

A review of condensed interim financial statements in accordance with ISRE 2410 is a limited assurance engagement. The "Réviseur d'entreprises agréé" performs procedures, primarily consisting of making inquiries of management and others within the Company, as appropriate, and applying analytical procedures, and evaluates the evidence obtained.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing. Accordingly, we do not express an audit opinion on these condensed interim financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial statements are not prepared, in all material respects, in accordance with IAS 34, "Interim Financial Reporting" as adopted by the European Union.

PricewaterhouseCoopers, Société coopérative
Represented by

Luxembourg, 22 May 2018

Thierry Salagnac

Condensed Interim Consolidated Statement of Comprehensive Income for the quarter ended to 31 March 2018

	Notes	Quarter ended 31 March 2018 €000
Revenue		
Income from purchased loan portfolios	4	15,835
Income from purchased loan notes	4	2,107
Total revenue		**17,942**
Operating expenses		
Collection activity costs	4	(5,199)
Reversal of impairment	4	618
Net foreign currency losses	4	(75)
Other operating expenses	4	(2,275)
Total operating expenses		**(6,931)**
Operating profit		**11,011**
Finance income	4	17
Finance costs	4	(4,313)
Interest expense - secured loan notes		84
Finance costs - borrowings	6	(4,397)
Share of profit in associate	4	180
Profit before tax		**6,895**
Tax charge		(272)
Comprehensive income for the quarter		**6,623**

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

Condensed Interim Consolidated Statement of Financial Position as at 31 March 2018

	Notes	As at 31 March 2018 €000	As at 31 December 2017 €000
Assets			
Non-current assets			
Investment in associate	8	5,572	5,392
Total non-current assets		**5,572**	**5,392**
Current assets			
Cash and cash equivalents		68,578	52,194
Trade and other receivables	11	18,070	15,422
Purchased loan portfolios	9	251,119	266,203
Purchased loan notes	9	11,094	10,181
Inventory	10	14,802	15,456
Total current assets		**363,663**	**359,456**
Total assets		**369,235**	**364,848**
Liabilities			
Non-current liabilities			
Borrowings	17	315,459	315,152
Total non-current liabilities		**315,459**	**315,152**
Current liabilities			
Borrowings	17	13,204	14,171
Secured loan notes	17	22,569	23,446
Trade and other payables	12	10,882	11,940
Tax payable		569	510
Provisions		5,077	4,777
Total current liabilities		**52,301**	**54,844**
Total liabilities		**367,760**	**369,996**
Equity			
Share capital	13	1,250	1,250
Retained earnings		225	(6,398)
Total equity		**1,475**	**(5,148)**
Total equity and liabilities		**369,235**	**364,848**

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

The Financial Statements for the quarter ended 31 March 2018 were approved by the Board of Directors and authorised for issue on its behalf by:

Christopher Ross-Roberts
Director
22 May 2018

Condensed Interim Consolidated Statement of Cash Flows for the quarter ended to 31 March 2018

	Notes	Quarter ended 31 March 2018 €000
Cash flows from operating activities		
Profit before tax		6,895
Adjustments for:		
Income from purchased loan portfolios	9	(15,835)
Income from purchased loan notes	9	(2,107)
Finance income		(17)
Reversal of impairment	5	(618)
Finance costs - borrowings	6	4,397
Interest expense - secured loan notes		(84)
Share of profit in associate	8	(180)
Operating cash flows before movements in working capital		**(7,549)**
Change in trade and other receivables*	11	(1,075)
Change in trade and other payables*	12	(907)
Cash used in operations		**(9,531)**
Taxation paid		88
Collections in the period	9	32,756
Acquisition of purchased loan notes		(326)
Net cash generated from operating activities		**22,987**
Cash flows from financing activities		
Repayment of revolving credit facility	18	(993)
Revolving credit facility transaction and other fees paid		(591)
Repayment of secured loan notes		(866)
Finance costs paid		(4,153)
Net cash generated from financing activities		**(6,603)**
Net movements in cash and cash equivalents		16,384
Cash and cash equivalents at the beginning of the period		52,194
Cash and cash equivalents at the end of the period		**68,578**

* 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.

Condensed Consolidated Interim Statement of Changes in Equity for the quarter ended to 31 March 2018

	Share capital	Retained earnings	Total equity
	€000	**€000**	**€000**
Balance as at 1 January 2018	1,250	(6,398)	(5,148)
Comprehensive income for the quarter	-	6,623	6,623
Balance as at 31 March 2018	**1,250**	**225**	**1,475**

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

Notes to the Financial Statements for the quarter ended to 31 March 2018

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 15 (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.

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. On 26 February 2018, AFE entered into an amendment agreement to increase the size of the Facility by an additional €45.0m to €90.0m. As at the date the Financial Statements were approved, €75.3m was available to draw from the Facility. Accordingly, the Directors continue to adopt the going concern basis in preparing the Financial Statements.

2. Adoption of new and amended International Financial Reporting Standards and changes in accounting policies

The following new and revised standards and interpretations affecting the Group have been endorsed in the Financial Statements:

- *IFRS 9, 'Financial Instruments'- Impact of adoption*
    - IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.
    - IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income and fair value through profit or loss. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The Group's business model is to hold assets to collect solely payments on the principal and interest (SPPI) of the loan balances, as such the group holds purchased loan portfolios and purchased loan notes at amortised cost.
    - IFRS 9 replaces the 'incurred loss' model in IAS39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost. The Group purchase credit impaired assets that are typically outside the original credit terms, as such 100% of ECL have already been recognized at initial recognition.
    - The adoption of IFRS 9 Financial Instruments from 1 January 2018 resulted in changes in accounting policies as presented below. In accordance with the transitional provisions in IFRS 9(7.2.15) and (7.2.26), comparative figures have not been restated.
    - No reclassifications or restatement adjustments were made in the opening balance sheet on 1 January 2018, as no differences arose as the result of adoption of IFRS 9.

- *IFRS 9, 'Financial Instruments' - Accounting policies applied from 1 January 2018*

    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 financial assets measured at amortised cost.
    - Purchased loan portfolios are acquired at a deep discount to their principal outstanding and as a result the carrying values at initial recognition reflect expected credit losses over the lifetime of each portfolio. The portfolio investments are initially recorded at their fair value, being their purchase price, plus transaction costs that are directly attributable to the acquisition of the financial asset.
    - Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses), together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

Notes to the Financial Statements (continued)

2. Adoption of new and amended International Financial Reporting Standards and changes in accounting policies (continued)

- *IFRS 9, 'Financial Instruments' - Accounting policies applied from 1 January 2018 (continued)*

  Purchased loan notes
  - The Group invests in portfolios held by entities which are not under the control of the Group via loan notes, which gives the Group proportionate rights to the cash flows from the underlying portfolios. These non-derivative purchased loan notes have been classified as financial assets measured at amortised cost.
  - Initial and subsequent measurement of purchased loan notes is similar to purchased loan portfolios.

- *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 recognises that the standard has no impact on the 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:

- *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. 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.

Notes to the Financial Statements (continued)

3. Critical accounting judgments and estimates (continued)

Critical estimates

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

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

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 March 2018 by €2,686k. A change in the expected future cash flows by -1% would reduce the carrying value of financial assets as at 31 March 2018 by €2,788k.

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.

4. 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.

	Quarter ended 31 March 2018
	€000
Income from purchased loan portfolios	15,835
Income from purchased loan notes	2,107
Total revenue	**17,942**
Collection activity costs	(5,199)
Reversal of impairment	618
Net foreign currency losses	(75)
Other operating expenses	(2,275)
Operating profit	**11,011**
Finance income	17
Finance costs	(4,313)
Share of profit in associate	180
Profit before tax	**6,895**
Tax charge	(272)
Comprehensive income for the quarter	**6,623**

Notes to the Financial Statements (continued)

4. Segmental reporting (continued)

	As at 31 March 2018	As at 31 December 2017
	€000	**€000**
Investment in associate	5,572	5,392
Purchased loan portfolios	251,119	266,203
Purchased loan notes	11,094	10,181
Inventory	14,802	15,456
Statement of Financial Position		
Total segment assets	369,235	364,848
Total segment liabilities	(367,760)	(369,996)
Segment net assets	**1,475**	**(5,148)**

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

	As at 31 March 2018
	€000
- United Kingdom	427
- Romania	2,107
- Italy, Spain, Portugal	15,408
Total revenue	**17,942**

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

	As at 31 March 2018	As at 31 December 2017
	€000	**€000**
- United Kingdom	11,133	11,882
- Romania	10,757	9,931
- Italy, Spain, Portugal	260,697	275,419
Total	**282,587**	**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 March 2018	ERC 31 March 2018
	€000	**€000**
- United Kingdom	14,537	14,533
- Romania	18,353	18,353
- Italy, Spain, Portugal	416,814	377,479
Total	**449,704**	**410,365**

Notes to the Financial Statements (continued)

5. 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:

	Quarter ended 31 March 2018
	€000
Management fees	1,311
Directors' fees	71
Legal and professional fees	184
Administration and audit fees	318
Abort deal fees	226
Depositary charges	12
Other expenses	153
Other operating expenses	**2,275**
Realised foreign currency losses	75
Net foreign currency losses	**75**
Reversal of impairment	(618)
Revaluation - secured loan notes*	(869)
Total revaluation for the quarter	**(1,487)**

*Revaluation of secured loan notes is presented within *Interest expense – secured loan notes* in the Statement of Comprehensive Income, which reduces the liability on the secured loan notes.

6. Finance costs – borrowings

	Quarter ended 31 March 2018
	€000
Fees on Revolving Credit Facility	143
Interest on borrowings	113
Interest on Senior Secured Notes and related charges	4,141
Total finance costs - borrowings	**4,397**

7. 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).

8. 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:

Notes to the Financial Statements (continued)

8. Investment in associate (continued)

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 March 2018
	€000
Interest as at 1 January 2018	5,392
Share of profit in associate	180
Interest in net assets of associate at the end of the quarter	**5,572**

Subsequent to the period end, Prime Credit 3 S.a r.l. ("PC3"), an indirect subsidiary of AFE, converted the warrants it held into ordinary shares representing 30% of the share capital in PAM. Note 20 'Subsequent events' discloses further information on the conversion.

9. Financial assets

	As at 31 March 2018	As at 31 December 2017
	€000	€000
Expected falling due after one year:		
Purchased loan portfolios	143,733	153,131
Purchased loan notes	6,634	6,079
Total	**150,367**	**159,210**
Expected falling due within one year:		
Purchased loan portfolios	107,385	113,072
Purchased loan notes	4,460	4,102
Other receivables	230	311
Total	**112,075**	**117,485**

Other receivables consist of deferred consideration which has previously been acquired by the Group.

The movements in purchased loan portfolios were as follows:

	As at 31 March 2018
	€000
Purchased loan portfolios as at 1 January 2018	266,203
Collections in the period*	(31,138)
Reversal of impairment of purchased loan portfolios	618
Income from purchased loan portfolios	15,835
Less: movement in inventory and other receivables	(399)
Purchased loan portfolios at the end of the quarter	**251,119**

Notes to the Financial Statements (continued)

9. Financial assets (continued)

The movements in purchased loan notes were as follows:

	As at 31 March 2018
	€000
Purchased loan notes as at 1 January 2018	10,181
Additional purchased loan notes acquired during the quarter	326
Collections in the period*	(1,520)
Income from purchased loan notes	2,107
Purchased loan notes at the end of the quarter	**11,094**

* In addition, €98k was received in the period from the deferred consideration owing from the disposal of purchased loan portfolios.

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 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.

On 19 March 2018, AFE acquired 50% of an existing investors share of the notes. The Group now owns c.48% of the notes with two other investors.

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.

10. Inventory

	As at 31 March 2018	As at 31 December 2017
	€000	€000
Inventory	14,802	15,456
Total	**14,802**	**15,456**

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

Notes to the Financial Statements (continued)

10. Inventory (continued)

The following table shows the movements in inventory during the period:

	As at 31 March 2018
	€000
Opening inventory	15,456
Purchases	166
Sales	(820)
Closing balance	**14,802**

11. Trade and other receivables

	As at 31 March 2018	As at 31 December 2017
	€000	€000
Collections receivable	10,269	11,035
Other receivables	7,801	4,387
Total	**18,070**	**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 9.

12. Trade and other payables

		As at 31 March 2018	As at 31 December 2017
	Notes	€000	€000
Trade payables		5,438	5,738
Amounts due to related parties	14	412	404
Accrued expenses		4,952	5,756
Other payables		80	42
Total		**10,882**	**11,940**

13. Share capital

	As at 31 March 2018
	€000
Share capital at 1 January 2018	1,250
Total share capital at 31 March 2018	**1,250**

There are 1,250k Class A shares in issue, which were fully issued for a total amount of €1,250,000. These shares were fully subscribed to by AnaCap Financial Europe Holding SCSp SICAV-RAIF, its sole shareholder.

Notes to the Financial Statements (continued)

14. Related party transactions

	As at 31 March 2018	As at 31 December 2017
	€000	€000
Due to related parties		
Carne Global Fund Managers (Luxembourg) S.A.	37	104
AnaCap Investment Manager Limited	375	300
Total	**412**	**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 fees payable to AnaCap Investment Management Limited, acting as Portfolio Manager. The management fee for the reporting period is €1,311k.

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.

	Quarter ended 31 March 2018
	€000
Fees charged	
Directors' fees	71
Total fees charged during the period	**71**
Fees payable	
Directors' fees payable	81
Directors' fees payable at the end of the quarter	**81**

Notes to the Financial Statements (continued)

15. 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
AFE Asset Management S.à r.l.	Luxembourg	◊	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.

Notes to the Financial Statements (continued)

16. Financial instruments

Fair value estimation

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

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

Valuation models

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

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

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

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

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

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

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

Financial instruments not measured at fair value – fair value hierarchy

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

The following table shows the financial instruments split into their respective categories as at 31 March 2018:

	Level 1	Level 2	Level 3
	€000	€000	€000
Purchased loan portfolios	-	-	251,119
Purchased loan notes	-	-	11,094
Investment in associate	-	-	5,572
Senior Secured Notes	(318,122)	-	-
Revolving Credit Facility	-	(10,541)	-
Total	**(318,122)**	**(10,541)**	**267,785**

As at 31 March 2018, the fair value of purchased loan portfolios (including inventory) and purchased loan notes was €275,107K and €11,801K respectively. Fair value has been determined by discounting the net cash flows of the Group Assets at a market discount rate. The investment in associate is an investment into a privately owned company and therefore there is no active market for which fair value information can be derived. The carrying value of €5,572k is a reasonable estimate of the fair value of the investment in associate. The fair value of the Senior Secured Notes and the Revolving Credit Facility as at 31 March 2018 were €306,819k and €10,541k respectively.

There have been no transfers between the levels.

Notes to the Financial Statements (continued)

16. Financial instruments (continued)

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 and re-forecasting cash flows on a 3-6 monthly basis.

A reconciliation of the closing balances for the period of the purchased loan portfolios and purchased loan notes can be seen in Note 9.

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.

17. Borrowings and facilities

	As at 31 March 2018	As at 31 December 2017
		€000
Expected falling due after one year		
Senior Secured Notes	315,459	315,152
Secured loan notes	14,073	15,618
Total	**329,532**	**330,770**
Expected falling due within one year		
Revolving Credit Facility	10,541	11,418
Senior Secured Notes	2,663	2,753
Secured loan notes	8,496	7,828
Total	**21,700**	**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. As at 31 March 2018, the fair value of the secured loan notes was €24,328k.

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

As at 31 March 2018 AFE had a €90.0m Super Senior Revolving Credit Facility available to use to help facilitate its working capital requirements (the "Facility"). The Facility can be increased up to an amount equal to the higher of €90.0m and 17.5% of ERC. Interest accrues on the Facility at a rate of 3.50% p.a. for amounts drawn (the "Margin"), with commitment fees being 30% of the Margin. As at 31 March 2018, €10.6m had been drawn as a loan from the Facility, and €4.1m had been utilised in the form of a bank guarantee, which resulted in the total amount available to draw upon as at 31 March 2018 equal to €75.3m. The fees 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 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 March 2018, the LTV Ratio was 63.7% and the SSRCF LTV Ratio was 3.6%.

18. 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 a tax charge based on PTA calculations has been provided 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 2016-2018, which has been calculated in a similar manner. The total tax provision reflected in the Financial Statements is c.€2.9m.

Notes to the Financial Statements (continued)

18. Commitments and contingencies (continued)

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.

19. Ultimate parent entity

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

20. Subsequent events

Portfolio acquisitions

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.

On 8 May 2018, the Group completed the acquisition of a corporate and SME NPL portfolio in Romania for a total consideration of €15.8m.

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.

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.

21. 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.

Notes to the Financial Statements (continued)

21. Adjusted EBITDA and Normalised EBITDA (continued)

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

Reconciliation of profit before tax to Normalised and Adjusted EBITDA:

	Quarter ended 31 March 2018
	€000
Profit before tax	**6,895**
Finance costs	4,313
Share of profit in associate	(180)
Net foreign currency losses	(75)
Reversal of impairment	(618)
Collections from portfolios	32,756
Revenue	(17,942)
Repayment of secured loan notes	(866)
Finance income	(17)
Normalised and Adjusted EBITDA	**24,266**

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

	Quarter ended 31 March 2018
	€000
Net cash generated from operating activities	**22,987**
Acquisition of purchased loan notes	326
Taxation paid	(88)
Repayment of secured loan notes	(866)
Working capital adjustments	1,982
Net foreign currency losses	(75)
Normalised and Adjusted EBITDA	**24,266**

Reconciliation of core collections to Normalised and Adjusted EBITDA:

	Quarter ended 31 March 2018
	€000
Core Collections/Collections in the period	**32,756**
Operating expenses	(6,931)
Net foreign currency losses	(75)
Reversal of impairment	(618)
Repayment of secured loan notes	(866)
Normalised and Adjusted EBITDA	**24,266**