AnaCap Financial Europe S.A. SICAV-RAIF

Unaudited Interim Condensed Consolidated Financial Statements
For the Nine Months Ended 30 September 2018

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General Information

Fund

AnaCap Financial Europe S.A. SICAV-RAIF
E Building, Parc d'Activité Syrdall
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L-5365 Munsbach
Grand Duchy of Luxembourg
R.C.S Luxembourg: B216080

Board of Directors

- Audrey Lewis;
- Christopher Ross-Roberts;
- Duncan Smith;
- Hugo Neuman;
- Edward Green (Appointed 18 July 2018);
- Tim Ayerbe (Resigned 18 July 2018).

AIFM

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

Board of Directors of the AIFM

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

Portfolio Manager

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

Board of Directors of the Portfolio Manager

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

Administrative Agent

Augentius (Luxembourg) S.A.
E Building, Parc d'Activité Syrdall
6, rue Gabriel Lippmann
L-5365 Munsbach
Grand Duchy of Luxembourg

Depositary

The Royal Bank of Scotland PLC,
Luxembourg Branch
46, Avenue J.F. Kennedy
L-1855 Luxembourg
Grand Duchy of Luxembourg

Auditor

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

Investment Advisor

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

Directors' Report

The Directors of AnaCap Financial Europe S.A. SICAV-RAIF ("AFE") are pleased to present the Director's Report and Unaudited Interim Condensed Consolidated 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 30 September 2018. The Financial Statements incorporate the assets, liabilities, revenue and expenses of the Group.

Business Overview

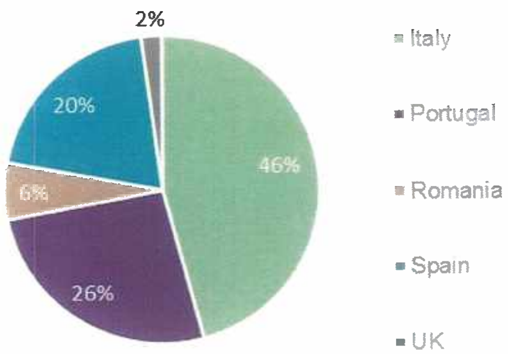
AFE purchases and invests in a diverse range of primarily non-performing debt across Europe. AFE has the capability to price and purchase a wide range of debt, consisting of portfolios of unsecured and secured consumer, SME and mortgage debt, including portfolios that are a mix of these assets. The Directors 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.

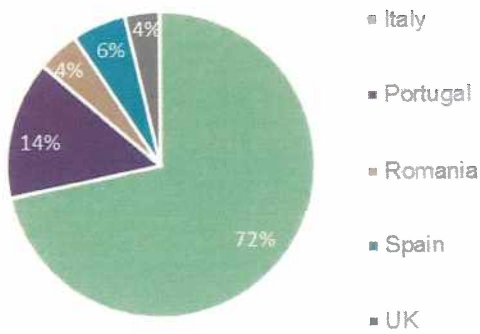
During the nine months ended 30 September 2018 AFE deployed c.€131.5m of capital across 4 geographies; c.€56.9m into a secured consumer debt portfolio in Portugal, c.€36.6m in Spain, which focused more on secured SME positions, c.€17.1m on corporate and SME debt in Romania and €20.9m on an Italian NPL secured portfolio, further diversifying the Group's geographical holding of non-performing debt and range of asset types.

The following charts illustrate the diversification of AFE's 84-month estimated remaining collections ("ERC") from existing purchased loan portfolios, purchased loan notes and investments in joint ventures by asset type and geography as well as the seasoned nature of the debt portfolios as of 30 September 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.

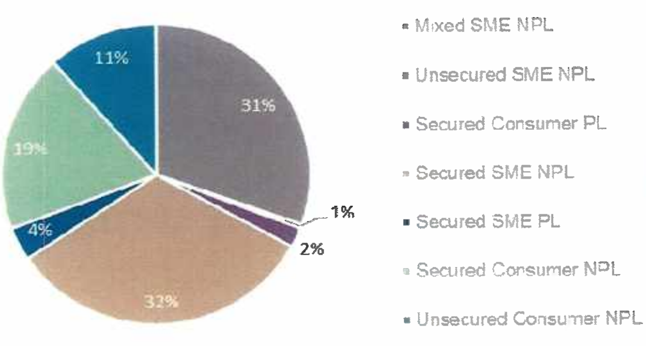
€578.9 million 84 month ERC by geography - 30 September 2018



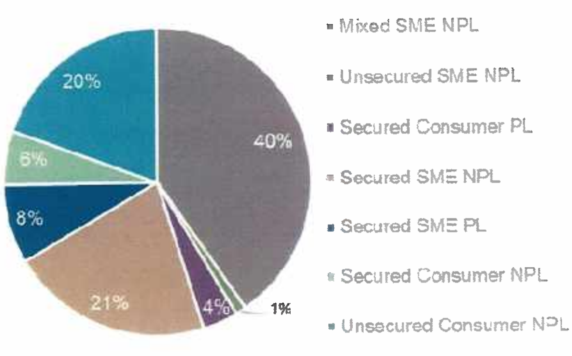
€464.5 million 84 month ERC by geography - 30 September 2017



€578.9 million 84 month ERC by asset type - 30 September 2018



€464.5 million 84 month ERC by asset type - 30 September 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 nine months ended 30 September 2018 and 30 September 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.

		Nine months to 30 September 2018	Nine months to 30 September 2017	% change
84-month ERC (€'000s)	1	578,884	464,451	24.6%
84-month Gross ERC (€'000s)	2	615,087	506,802	21.4%
Cumulative purchases of loan portfolios and loan notes (€'000s)	3	531,905	375,112	41.8%
Number of debt portfolios	4	20	15	33.3%
Number of accounts	5	215,091	210,783	2.0%
Total attributable collections (€'000s)	6	75,741	75,125	0.8%
Total gross collections (€'000s)	7	77,663	75,765	2.5%
Core collections (€'000s)	8	77,663	75,765	2.5%
Operating expenses (€'000s)	9	21,825	20,901	4.4%
Core collection cost ratio	10	28.1%	27.6%	1.9%
Adjusted EBITDA (€'000s)	11	53,390	53,429	-0.1%
Normalised Adjusted EBITDA (€'000s)	12	53,390	53,429	-0.1%

(1) 84-month ERC ("ERC") means AFE's estimated remaining collections on purchased loan portfolios, purchased loan notes and investments in joint ventures 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 27 June 2017 plus capital that has been deployed since the incorporation of AFE to 30 September 2018; a total of €581 million has been deployed through acquisitions of and investments in 24 portfolios with an aggregate face value of €12.2 billion. Since 2012, 4 portfolios have been fully sold. As of 30 September 2018, the portfolios held by AFE had an aggregate face value of €9.8 billion following the historical sale of deals with a face value of €2.4 billion, with an 84-month ERC of €579 million.

Portfolio purchased in the year / period ended	Purchase price (13)	Actual collections to 30 September 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	160,644	13,808	174,452	2.3x
Year ended 31 December 2013	77,386	105,245	62,878	168,123	2.2x
Year ended 31 December 2014	59,025	99,052	40,871	139,923	2.4x
Year ended 31 December 2015	47,806	31,346	48,857	80,203	1.7x
Year ended 31 December 2016	125,617	93,592	143,020	236,612	1.9x
Year ended 31 December 2017	65,017	48,728	69,841	118,569	1.8x
Period ended 30 September 2018	131,481	6,474	199,609	206,083	1.6x

(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 30 September 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.

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.

		Nine months to 30 September 2018
		€000
Borrowings:	The Notes	325,000
	Revolving credit facility (including bank guarantee)	67,602
Less:	Cash at bank	(23,530)
	Cash held on AFE's account at servicers'	(5,840)
Add back:	Cash collected on behalf of secured loan note holders	153
Net debt		**363,385**

LTV ratio at period end	16	62.8%
Normalised Adjusted EBITDA leverage ratio	17	4.04
LTM Adjusted EBITDA	18	90,005
Net interest expense	19	21,072
Fixed charge cover ratio ("FCCR")	20	4.27

(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 30 September 2018.

(18) LTM Adjusted EBITDA means Adjusted EBITDA for the 12 month period to 30 September 2018.

(19) Net interest expense means interest expense on total debt for the 12 month period to 30 September 2018

(20) FCCR is calculated as LTM Adjusted EBITDA divided by net interest expense.

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

		Nine months to 30 September 2018
		€000
Borrowings:	The Notes	325,000
	Unamortised discount on issuance of the Notes	(1,625)
	Unamortised transaction fees	(7,278)
	Per Financial Statements (non-current liability)	316,097
	Interest payable at 30 June 2018 (current liability)	2,754
	Revolving credit facility - amount drawn	63,555
Total borrowings		**382,406**

Directors' Report (continued)

Significant recent developments

Board of Directors

Tim Ayerbe resigned as a Director on 18 July 2018 and Edward Green was appointed as a Director on 18 July 2018.

Portfolio acquisitions

During the period, AFE acquired two Spanish secured SME NPL portfolios, one of which was a second tranche to an investment which completed in November 2017. The total consideration across both transactions was c.€36.6m. AFE also acquired two portfolios in Romania during the period, one being a corporate and SME NPL portfolio and one being a follow on acquisition to an existing portfolio (see Note 10 for further information). The total consideration across both Romanian transactions was c.€17.1m.

On 29 June 2018 AFE completed the first close of the acquisition of a Portuguese secured consumer NPL portfolio for a total consideration of c.€55.5m. On 27 July 2018 AFE completed the second close of this investment for a total consideration of c.€1.5m.

On 24 September 2018 and 25 September 2018 the Group signed 2 commitment letters to subscribe to asset-backed notes to be issued by Tiberius SPV S.r.l. (compartment 5) in connection with facilitating the acquisition of 50% of an Italian secured SME NPL portfolio. On 26 September 2018 Tiberius SPV S.r.l. signed a transfer agreement whereby all economic rights and legal title of this portfolio were transferred to the Tiberius SPV S.r.l. Total consideration of the first close of this portfolio amounted to c.€7.3m which was paid on 28 September 2018, of which €4.9m is deferred for settlement until Q4 2018. On 1 October 2018 the Group completed the second close of transaction for a total consideration of c.€13.5m, of which €5.3m is deferred for settlement until Q4 2019.

PAM equity conversion

On 11 April 2018, the Group successfully completed the conversion of the warrants held in Phoenix Asset Management SpA ("PAM"), an Italian servicing platform. As a result of the conversion the Group now has a 30% equity stake in PAM.

Spanish asset manager

On 12 April 2018 the Group completed the acquisition of 100% of the share capital in Galata Asset Management S.L., a Spanish asset manager, for a total consideration of c.€2.3m; €800k of this was settled on completion, with the balance to be deferred in instalments over the next five years.

ACS1 accession

On 26 February 2018, Alpha Credit Solutions 1 S.à r.l. ("ACS1") successfully acceded the Indenture, Facility agreement and the Intercreditor Agreement 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 increasing the size of the Facility to €90.0m.

C. Ross-Roberts

Christopher Ross-Roberts
Director
23 November 2018

Independent Auditors' Report

Report on Review of Interim Condensed Consolidated Financial Statements

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

We have reviewed the accompanying interim condensed consolidated financial statements of AnaCap Financial Europe S.A. SICAV-RAIF (the "Group"), which comprise the interim condensed consolidated statement of financial position as at 30 September 2018 and the related interim condensed consolidated statement of comprehensive income, the interim condensed consolidated statement of changes in equity and the interim condensed consolidated cash flow statement for the nine-month period then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the interim condensed consolidated financial statements

The Board of Directors is responsible for the preparation and presentation of these interim condensed consolidated 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 interim condensed consolidated 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 interim condensed consolidated 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 interim condensed consolidated financial statements, taken as a whole, are not prepared in all material respects in accordance with the applicable financial reporting framework.

A review of interim condensed consolidated 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 Group, 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 interim condensed consolidated financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated 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, 23 November 2018

Thierry Salagnac

Interim Condensed Consolidated Statement of Comprehensive Income for the Nine Months Ended 30 September 2018

	Notes	Three months ended 30 September 2018 €000	Nine months ended 30 September 2018 €000	Period from Incorporation to 30 September 2017 €000
Revenue				
Interest income from purchased loan portfolios	4	20,296	51,434	13,933
Interest income from purchased loan notes	4	668	1,595	428
Revaluation gains	4	-	1,849	-
Other income	4	124	230	-
Total revenue		**21,088**	**55,108**	**14,361**
Operating expenses				
Collection activity costs	4	(4,846)	(14,796)	(3,769)
Impairment	4	-	(2,427)	-
Net foreign currency (losses)/gains	4	(86)	(113)	28
Other operating expenses	5	(2,706)	(7,257)	(4,881)
Non-recurring items	5	(12)	(228)	(2,378)
Normal operating expenses		(2,694)	(7,029)	(2,503)
Total operating expenses		**(7,638)**	**(24,593)**	**(8,622)**
Operating profit		**13,450**	**30,515**	**5,739**
Finance income	4	19	250	33
Finance costs	4	(6,288)	(15,540)	(4,053)
Interest expense - secured loan notes		(789)	(665)	(432)
Finance costs - borrowings	6	(5,499)	(14,875)	(3,621)
Share of profit in associate	4	97	590	-
Profit before tax		**7,278**	**15,815**	**1,719**
Tax (charge)/credit	7	(328)	(385)	35
Comprehensive income for the period		**6,950**	**15,430**	**1,754**

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

The first Interim Condensed Consolidated Financial Statements were prepared for the period 28 June 2017 ("Incorporation") to 30 September 2017. As per IAS 34, comparatives for both quarterly and yearly periods are to be shown, however since the financial performance of the Group for the period of Incorporation to 30 September 2017 was the same as the financial performance of the Group for the three months ended 30 September 2017, the former period has been used for the purpose of disclosing comparative figures.

Interim Condensed Consolidated Statement of Financial Position as at 30 September 2018

	Notes	As at 30 September 2018 €000	As at 31 December 2017 €000
Assets			
Non-current assets			
Property, plant and equipment	8	14	-
Investment in associate	9	6,136	5,392
Goodwill	8	1,836	-
Total non-current assets		**7,986**	**5,392**
Current assets			
Cash and cash equivalents		23,530	52,194
Trade and other receivables	12	12,836	15,422
Purchased loan portfolios	10	335,835	266,203
Purchased loan notes	10	23,162	10,181
Investments in joint ventures	10	20,789	-
Inventory	11	18,917	15,456
Total current assets		**435,069**	**359,456**
Total assets		**443,055**	**364,848**
Liabilities			
Non-current liabilities			
Borrowings	18	316,097	315,152
Total non-current liabilities		**316,097**	**315,152**
Current liabilities			
Borrowings	18	66,309	14,171
Secured loan notes	18	21,216	23,446
Trade and other payables	13	23,607	11,940
Tax payable		863	510
Provisions	19	4,681	4,777
Total current liabilities		**116,676**	**54,844**
Total liabilities		**432,773**	**369,996**
Equity			
Share capital	14	1,250	1,250
Retained earnings		9,032	(6,398)
Total equity		**10,282**	**(5,148)**
Total equity and liabilities		**443,055**	**364,848**

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

The Interim Condensed Consolidated Financial Statements for the nine months ended 30 September 2018 were approved by the Board of Directors and authorised for issue on its behalf by:

C. Ross

Christopher Ross-Roberts
Director
23 November 2018

Interim Condensed Consolidated Statement of Cash Flows for the Nine Months Ended 30 September 2018

	Notes	Nine months ended 30 September 2018 €000	Period from Incorporation to 30 September 2017 €000
Cash flows from operating activities			
Profit before tax		15,815	1,719
Adjustments for:			
Interest income from purchased loan portfolios	10	(51,434)	(13,933)
Interest income from purchased loan notes	10	(1,595)	(428)
Other income	4	(230)	-
Finance income	4	(250)	(33)
Impairment	5	2,427	-
Revaluation gains	10	(1,849)	-
Finance costs - borrowings	6	14,875	3,621
Interest expense - secured loan notes		665	432
Net foreign currency losses		113	-
Share of profit in associate	9	(590)	-
Operating cash flows before movements in working capital		**(22,053)**	**(8,622)**
Change in trade and other receivables*	12	3,656	(6,576)
Change in trade and other payables*	13	(505)	10,996
Cash used in operating activities before collections and purchases		**(18,902)**	**(4,202)**
Tax paid		(1,467)	-
Collections in the period	10	77,663	20,539
Acquisition of purchased loan portfolios	10	(93,500)	-
Acquisition of purchased loan notes	10	(17,194)	-
Acquisition of joint ventures	10	(10,589)	-
Net cash used in operating activities		**(63,989)**	**16,337**
Investing activities			
Acquisition of subsidiaries	8	(317)	(292,905)
Other transaction costs	9	(154)	-
Net cash used in investing activities		**(471)**	**(292,905)**
Financing activities			
Share capital issued		-	30
Redemption of share capital		-	(30)
Issue of Senior Secured Notes		-	323,375
Proceeds from revolving credit facility		82,000	-
Repayment of revolving credit facility		(29,854)	-
Senior Secured Notes transaction fees paid		-	(8,493)
Revolving credit facility transaction and other fees paid		(591)	(1,105)
Repayment of secured loan notes		(2,491)	(642)
Finance costs paid		(13,268)	-
Net cash generated from financing activities		**35,796**	**313,135**
Net movements in cash and cash equivalents		(28,664)	36,567
Cash and cash equivalents at the beginning of the period		52,194	-
Cash and cash equivalents at the end of the period		**23,530**	**36,567**

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

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

Interim Condensed Consolidated Statement of Changes in Equity for the Nine Months Ended 30 September 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 period	-	15,430	15,430
Balance as at 30 September 2018	**1,250**	**9,032**	**10,282**

Comparative figures from Incorporation to 30 September 2017:

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

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

Notes to the Interim Condensed Consolidated Financial Statements for the Nine Months Ended 30 September 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 16 (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.

The Interim Condensed Consolidated Financial Statements (hereafter 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.

In the current period the Group introduced the accounting policy to account for the following transactions that are different in substance from those previously occurring:

Investment in joint ventures

Joint arrangements are classified as either joint ventures or joint operations. When accounting for joint ventures, the equity method is applied. The Group's joint arrangements are determined to be joint ventures. The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

Under the equity method the investment is recognised at cost and subsequently adjusted to the Group's share of the change in the investments net assets since acquisition date. The equity method is applied from the date a significant influence arises until the time it ceases or the associated company or joint venture becomes a subsidiary.

The contractual arrangement is directly linked to the performance of the portfolios purchased by the joint venture. All collections in the joint venture from the portfolios are split between interest income and amortisation of the portfolio in accordance with effective interest method, and are paid to the investors pro rata after deduction of collection and overhead costs in the joint venture.

Significant changes in the current reporting period

Board of Directors

Tim Ayerbe resigned as a Director on 18 July 2018 and Edward Green was appointed as a Director on 18 July 2018.

Portfolio acquisitions

During the period, AFE acquired two Spanish secured SME NPL portfolios, one of which was a second tranche to an investment which completed in November 2017. The total consideration across both transactions was c.€36.6m. AFE also acquired two portfolios in Romania during the period, one being a corporate and SME NPL portfolio and one being a follow on acquisition to an existing portfolio (see note 10 for further information). The total consideration across both Romanian transactions was c.€17.1m.

On 29 June 2018 AFE completed the first close of the acquisition of a Portuguese secured consumer NPL portfolio for a total consideration of c.€55.5m. On 27 July 2018 AFE completed the second close of this investment for a total consideration of c.€1.5m.

On 24 September 2018 and 25 September 2018 the Group signed 2 commitment letters to subscribe to asset-backed notes to be issued by Tiberius SPV S.r.l. (compartment 5) in connection with facilitating the acquisition of 50% of an Italian secured SME NPL portfolio. On 26 September 2018 Tiberius SPV S.r.l. signed a transfer agreement whereby all economic rights and legal title of this portfolio were transferred to the Tiberius SPV S.r.l. Total consideration of the first close of this portfolio amounted to c.€7.3m which was paid on 28 September 2018, of which €4.9m is deferred for settlement until Q4 2018. On 1 October 2018 the Group completed the second close of transaction for a total consideration of c.€13.5m, of which €5.3m is deferred for settlement until Q4 2019.

Notes to the Interim Condensed Consolidated Financial Statements (continued)

1. General information (continued)

Significant changes in the current reporting period (continued)

PAM equity conversion

On 11 April 2018, the Group successfully completed the conversion of the warrants held in Phoenix Asset Management SpA ("PAM"), an Italian servicing platform. As a result of the conversion the Group now has a 30% equity stake in PAM.

Spanish asset manager

On 12 April 2018 the Group completed the acquisition of 100% of the share capital in Galata Asset Management S.L., a Spanish asset manager, for a total consideration of c. €2.3m; €800k of this was settled on completion. The balance is deferred in instalments over the next five years, part of which is dependent on profit performance of Galata Asset Management S.L. (see note 8).

ACS1 accession

On 26 February 2018, Alpha Credit Solutions 1 S.à r.l. ("ACS1") successfully acceded the Indenture, Facility agreement and the Intercreditor Agreement 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 increasing the size of the Facility to €90.0m.

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.

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 purchases 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 Statement of Financial Position 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.

Notes to the Interim Condensed Consolidated Financial Statements (continued)

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

- 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 Comprehensive Income.

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 Statement of Comprehensive Income and Consolidated Statement of 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 Interim Condensed 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 reviews 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 Interim Condensed Consolidated 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 Interim Condensed 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 30 September 2018 by €3,535k. A change in the expected future cash flows by -1% would reduce the carrying value of financial assets as at 30 September 2018 by €3,535k.

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.

	Three months ended 30 September 2018	Nine months ended 30 September 2018	Period from Incorporation to 30 September 2017
	€000	**€000**	**€000**
Interest income from purchased loan portfolios	20,296	51,434	13,933
Interest income from purchased loan notes	668	1,595	428
Revaluation gains	-	1,849	-
Other income	124	230	-
Total revenue	**21,088**	**55,108**	**14,361**
Collection activity costs	(4,846)	(14,796)	(3,769)
Impairment	-	(2,427)	-
Net foreign currency (losses)/gains	(86)	(113)	28
Other operating expenses	(2,706)	(7,257)	(4,881)
Operating profit	**13,450**	**30,515**	**5,739**
Finance income	19	250	33
Finance costs	(6,288)	(15,540)	(4,053)
Share of profit in associate	97	590	-
Profit before tax	**7,278**	**15,815**	**1,719**
Tax (charge)/credit	(328)	(385)	35
Comprehensive income for the period	**6,950**	**15,430**	**1,754**

Notes to the Interim Condensed Consolidated Financial Statements (continued)

4. Segmental reporting (continued)

	As at 30 September 2018	As at 31 December 2017
	€000	€000
Investment in associate	6,136	5,392
Purchased loan portfolios	335,835	266,203
Purchased loan notes	23,162	10,181
Investments in joint ventures	20,789	-
Inventory	18,917	15,456
Statement of Financial Position		
Total segment assets	443,055	364,848
Total segment liabilities	(432,773)	(369,996)
Segment net assets	**10,282**	**(5,148)**

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

	Three months ended 30 September 2018	Nine months ended 30 September 2018	Period from Incorporation to 30 September 2017
	€000	€000	€000
- United Kingdom	332	1,011	566
- Romania	668	3,445	428
- Italy, Spain, Portugal	20,088	50,652	13,367
Total revenue	**21,088**	**55,108**	**14,361**

The table below represents the carrying value of the Group's Assets (being total assets less property, plant and equipment, goodwill, trade and other receivables and cash and cash equivalents) by geography:

	As at 30 September 2018	As at 31 December 2017
	€000	€000
- United Kingdom	9,328	11,882
- Romania	22,815	9,931
- Italy, Spain, Portugal	372,696	275,419
Total	**404,839**	**297,232**

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

	Gross ERC 30 September 2018	ERC 30 September 2018
	€000	€000
- United Kingdom	12,402	12,402
- Romania	34,134	34,134
- Italy, Spain, Portugal	568,551	532,348
Total	**615,087**	**578,884**

Notes to the Interim Condensed Consolidated 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:

	Three months ended 30 September 2018	Nine months ended 30 September 2018	Period from Incorporation to 30 September 2017
	€000	**€000**	**€000**
Management fees	1,689	4,341	1,315
Directors' fees	58	186	51
Legal and professional fees	145	468	491
Administration fees	254	915	153
Audit fees	72	207	62
Abort deal fees	-	226	269
Depositary charges	2	26	-
Other expenses	474	660	162
Non-recurring items	12	228	2,378
Other operating expenses	**2,706**	**7,257**	**4,881**
Realised foreign currency gains	(134)	(205)	(2)
Unrealised foreign currency losses/(gains)	220	318	(26)
Net foreign currency losses/(gains)	**86**	**113**	**(28)**
Impairment	-	2,427	-
Impairment - secured loan notes*	-	(1,833)	-
Total impairment for the period	**-**	**594**	**-**

*Impairment 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

	Three months ended 30 September 2018	Nine months ended 30 September 2018	Period from Incorporation to 30 September 2017
	€000	**€000**	**€000**
Fees on Revolving Credit Facility	55	390	93
Interest on borrowings	537	951	25
Interest on Senior Secured Notes and related charges	4,907	13,534	3,503
Total finance costs - borrowings	**5,499**	**14,875**	**3,621**

7. Taxation

The Group's activities are subject to local income taxes, which are mainly incurred in jurisdictions such as Luxembourg, Spain, Portugal and Romania.

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).

For the nine months ended 30 September 2018, the Group's tax charge of €385k (three months ended 30 September 2018: €328k) comprised of Portuguese and other local tax charges of €997k (three months ended 30 September 2018: €328k) and a release of €612k (three months ended 30 September 2018: €nil) of the Portuguese tax provision (see note 19 'Commitments and contingencies').

Notes to the Interim Condensed Consolidated Financial Statements (continued)

8. Business combinations

Introduction

On 12 April 2018, AFE completed the acquisition of 100% of the share capital in a Spanish asset manager, Galata Asset Management S.L. ("Galata"), for total consideration in the amount of €2.3m; €800k of this was settled on completion with the balance to be deferred in instalments over the next five years. In order to help facilitate the acquisition, a new entity was incorporated on 9 March 2018, AFE Asset Management S.à r.l., a 100% owned subsidiary of AFE. Subsequent to this, AFE Asset Management S.à r.l. acquired 100% of the share capital of a Spanish shelf company, Silonea Investments S.L.U. on 5 April 2018. Galata was acquired with the intention to develop an internal asset management function in Spain within AFE.

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

Purchase consideration

	As at 12 April 2018 €000
Cash paid	800
Deferred consideration	712
Contingent consideration	806
Total purchase consideration	**2,318**

As part of the purchase agreement, a contingent consideration has been agreed. In the event that profit before tax of Galata meets pre-determined benchmarks in the years 2020 – 2023, a cash payment of up to €1.4m in total are payable. As at the date of acquisition, the fair value of the contingent consideration was estimated to be €806k. Contingent consideration has been recognised within trade and other payables in the Consolidated Statement of Financial Position.

Fair value

The assets and liabilities recognized as a result of the acquisition are as follows:

	As at 12 April 2018 €000
Non-current assets	
Property, plant and equipment	15
Current assets	
Cash and cash equivalents	183
Short term bank deposit	300
Trade receivables	94
Non-current liability	
Deferred tax liability	(13)
Current liabilities	
Trade and other payables	(16)
Tax liability	(81)
Net identifiable assets acquired	**482**
Goodwill*	1,836
Net assets acquired	**2,318**

* The goodwill is attributable to the high expertise of Galata employees in credit management and synergies from combining the activities of Galata with those of AFE. It will not be deductible for tax purposes.

Revenue and profit contribution

The acquired business contributed revenues of €229k and net profit of €49k to the Group for the period from 12 April 2018 to 30 September 2018.

Notes to the Interim Condensed Consolidated Financial Statements (continued)

8. Business combinations (continued)

Acquisition related costs

Acquisition related costs of €228k directly related to the structuring of the acquisition are recognised in the Statement of Comprehensive Income as non-recurring items.

Purchase consideration – cash flow

	€000
Cash paid	800
Less: Balances acquired	
Cash	(183)
Short-term bank deposit	(300)
Net cash paid	**317**

9. Investment in associate

The Group had a 30% economic interest in Phoenix Asset Management SpA ("PAM") via warrants over 30% of PAM's equity. During the period, Prime Credit 3 S.à r.l. ("PC3"), an indirect subsidiary of AFE, converted the warrants it held into ordinary shares representing 30% of the share capital in PAM. Completion of the conversion of the warrants held by PC3 into 30% equity occurred on 11 April 2018.

The terms of the interest mean that the Group exercises significant influence over PAM, which is achieved through the power to participate in the financial policy decisions of PAM and being involved in key strategic 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. Costs incurred which are directly attributable to the conversion of the warrants have been capitalised during the period.

Below is a reconciliation of the movements in the carrying value of the Group's interest in PAM as at 30 September 2018:

Name	Place of incorporation	Registered office	Economic interest
Phoenix Asset Management SpA	Italy	Corso Vittorio Emanuele II 154 Roma RM	30% ownership of issued share capital

	As at 30 September 2018 €000
Interest as at 1 January 2018	5,392
Share of profit in associate	590
Costs capitalised in connection with the conversion of the warrants	154
Interest in net assets of associate at the end of the period	**6,136**

Notes to the Interim Condensed Consolidated Financial Statements (continued)

10. Financial assets

	As at 30 September 2018 €000	As at 31 December 2017 €000
Expected falling due after one year:		
Purchased loan portfolios	264,660	153,131
Purchased loan notes	17,102	6,079
Total	**281,762**	**159,210**
Expected falling due within one year:		
Purchased loan portfolios	71,175	113,072
Purchased loan notes	6,060	4,102
Other receivables	245	311
Total	**77,480**	**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 30 September 2018 €000
Purchased loan portfolios as at 1 January 2018	266,203
Collections in the period*	(69,945)
Portfolios acquired during the period	93,500
Impairment of purchased loan portfolios	(2,427)
Interest income from purchased loan portfolios	51,106
Less: movement in inventory and other receivables	(2,602)
Purchased loan portfolios at the end of the period	**335,835**

The movements in purchased loan notes were as follows:

	As at 30 September 2018 €000
Purchased loan notes as at 1 January 2018	10,181
Additional purchased loan notes acquired during the period	17,194
Collections in the period*	(7,410)
Interest income from purchased loan notes	1,598
Revaluation gains	1,849
Other movements**	(250)
Purchased loan notes at the end of the period	**23,162**

* In addition, €308k was received in the period from the deferred consideration owing from the disposal of purchased loan portfolios.
** Other movements relate to the carrying value of the investment in Galata pre-acquisition.

Purchased loan notes represent the interests of the Group in investment vehicles (or compartments in these investment vehicles) where the Group does not exercise control, with each vehicle/compartment holding a single underlying loan portfolio. 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.

Notes to the Interim Condensed Consolidated Financial Statements (continued)

10. Financial assets (continued)

The Group originally owned 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 investor's share of the notes. As of 30 September 2018 the Group owned 48% of the notes in Volga Investments DAC.

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.

On 8 May 2018, Alpha Credit Solutions 4 S.à r.l., an indirect subsidiary of AFE, subscribed to c.22% of the notes issued by A1 Carpi Finance S.A., a Luxembourg incorporated securitisation vehicle, in order to help facilitate the acquisition of a corporate and SME NPL portfolio in Romania for a total consideration of c.€15.8m. Two well known investors to the Group subscribed to the remaining notes.

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.

Investments in joint ventures

In order to facilitate the acquisition of 50% of an Italian secured SME NPL portfolio in the period the Group established a new compartment in Tiberius SPV S.r.l. (compartment 5). This new compartment is treated as having a separate legal personality to all other compartments within this vehicle.

On 24 September 2018 and 25 September 2018 the Group signed 2 commitment letters to subscribe to asset-backed notes to be issued by Tiberius SPV S.r.l. compartment 5 and provided bridge loans on 28 September 2018 and 1 October 2018 (see note 21 'Subsequent events') totalling c.€10.6m in order to finance the acquisition of the underlying portfolio, while the co-investor provided a similar bridge facility totalling c.€10.6m resulting with the Group having joint control over this compartment.

On 26 September 2018 Tiberius SPV S.r.l. signed a transfer agreement whereby all economic rights and legal title of this portfolio were transferred to Tiberius SPV S.r.l.

11. Inventory

	As at 30 September 2018	As at 31 December 2017
	€000	**€000**
Inventory	18,917	15,456
Total	**18,917**	**15,456**

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

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

	As at 30 September 2018
	€000
Opening inventory	15,456
Purchases	3,198
Re-possessions	2,731
Sales	(2,468)
Closing balance	**18,917**

Notes to the Interim Condensed Consolidated Financial Statements (continued)

12. Trade and other receivables

	As at 30 September 2018 €000	As at 31 December 2017 €000
Collections receivable	5,840	11,035
Other receivables	6,996	4,387
Total	**12,836**	**15,422**

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

Other receivables include prepaid expenses in relation to fees incurred on obtaining and upsizing the Facility, advances made by REOCOs for properties which are held as a receivable until all legal documentation is in place confirming the asset title has transferred to the REOCO and deferred consideration due on the disposal of purchased loan portfolios as described and set out in Note 10.

13. Trade and other payables

	Notes	As at 30 September 2018 €000	As at 31 December 2017 €000
Trade payables		4,414	5,738
Deferred consideration		10,952	-
Amounts due to related parties	15	148	404
Accrued expenses		5,398	5,756
Other payables		2,695	42
Total		**23,607**	**11,940**

14. Share capital

	As at 30 September 2018 €000
Share capital at 1 January 2018	1,250
Total share capital at 30 September 2018	**1,250**

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

15. Related party transactions

	As at 30 September 2018 €000	As at 31 December 2017 €000
Due to related parties		
Carne Global Fund Managers (Luxembourg) S.A.	45	104
AnaCap Investment Manager Limited	4	300
AnaCap Luxembourg S.à r.l.	99	-
Total	**148**	**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 €4,341k.

Notes to the Interim Condensed Consolidated Financial Statements (continued)

15. Related party transactions (continued)

Fees payable to AnaCap Luxembourg S.à r.l.

During the period, the Group incurred charges of €523k to AnaCap Luxembourg S.à r.l. in relation to support functions and services provided to the Group.

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.

	Nine months ended 30 September 2018
	€000
Fees charged	
Directors' fees	186
Total fees charged during the period	**186**
Fees payable	
Directors' fees payable	111
Directors' fees payable at the end of the period	**111**

Notes to the Interim Condensed Consolidated Financial Statements (continued)

16. 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 Holdings 7 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	◊	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.à r.l.	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.* (Compartments 1-4)	Italy	√	0%	Active
Thor SPV S.r.l.*	Italy	∏	0%	Active
Belice ITG, S.L.U.	Spain	₮	100%	Active
Silonea Investments, S.L.U.	Spain	ὠ	100%	Active
Galata Asset Management, S.L.	Spain	ẑ	100%	Active
Episódio Válido - S.A.	Portugal	ɸ	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

ὠ - Claudio Coello 124, 6° derecha, Madrid, Spain

ẑ - Calle Doctor Esquerdo n° 140, Portal 1, Piso 2° B, Madrid, Spain

ɸ - Cruzamento do Tourão, No. 7, Lisbon, Portugal

*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 Interim Condensed Consolidated Financial Statements (continued)

17. 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 30 September 2018:

	Level 1	Level 2	Level 3
	€000	**€000**	**€000**
Purchased loan portfolios	-	-	335,835
Purchased loan notes	-	-	23,162
Investment in joint ventures	-	-	20,789
Investment in associate	-	-	6,136
Senior Secured Notes	(318,851)	-	-
Revolving Credit Facility	-	(63,555)	-
Secured loan notes	-	-	(21,216)
Total	**(318,851)**	**(63,555)**	**364,706**

Notes to the Interim Condensed Consolidated Financial Statements (continued)

17. Financial instruments (continued)

Management believes the acquisition price is the best indicator of fair value upon acquisition. Subsequent to acquisition, it has been determined that the carrying value of purchased loan portfolios, purchased loan notes, investments in joint ventures and secured loan notes best reflects the fair value of these assets and liabilities. The fair value of investments in joint ventures as at 30 September 2018 was €20,789k. 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 €6,136k 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 30 September 2018 were €293,226k and €63,555k respectively. 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 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 10.

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

18. Borrowings and facilities

	As at 30 September 2018	As at 31 December 2017
	€000	**€000**
Expected falling due after one year		
Senior Secured Notes	316,097	315,152
Secured loan notes	15,492	15,618
Total	**331,589**	**330,770**
Expected falling due within one year		
Revolving Credit Facility	63,555	11,418
Senior Secured Notes	2,754	2,753
Secured loan notes	5,724	7,828
Total	**72,033**	**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).

As at 30 September 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 35% of the Margin. As at 30 September 2018, €63.6m 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 30 September 2018 equal to €22.3m. The fees payable for the bank guarantee is 2.70% 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 30 September 2018, the LTV Ratio was 62.8% and the SSRCF LTV Ratio was 6.6%.

Notes to the Interim Condensed Consolidated Financial Statements (continued)

19. 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. After on-going discussions with the PTA a settlement fee has been agreed for c.€696k for the financial years 2013-2015; as such the provision has been revised accordingly.

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 as at 30 September 2018 is c. €3.1m.

Romanian tax liability

In 2017 the Romanian tax authorities ("RTA") 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 RTA (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.€2.0m) 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, and as of 30 September 2018 c.€1.4m has been paid to the RTA in respect of this assessment.

A portion of the consideration given in acquiring additional notes in Volga Investments DAC came in the form of assuming the sellers own tax liability stemming from the same tax investigation. As a result of this an additional c.€988k has been provided for in the Financial Statements; the total Romanian tax provision reflected in the Financial Statements as at 30 September 2018 is c.€1.6m. The full liability for this tax charge was settled subsequent to the period end for c.€1.5m (see note 21 'Subsequent events').

20. Ultimate parent entity

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

21. Subsequent events

On 1 October 2018, the Group provided a bridge loan amounting to c.€2.1m to Tiberius SPV S.r.l. in connection with the acquisition of the Italian secured SME NPL portfolio joint venture that was acquired in the period.

On 8 October 2018 the Group settled the Portuguese tax liability in respect of the financial years 2013-2015 totalling c.€696k.

On 16 October 2018 the Group entered into an asset backed, non-recourse finance facility with National Westminster Bank. The total facility available to the Group is €20.8m which terminates 36 months after the date of the agreement.

On 31 October 2018 the Group acquired 50% of an existing investors share of the notes issued by Volga Investments DAC for a total consideration of €151k. As of the date these Financial Statements are signed the Group owns 50% of the notes in Volga Investments DAC.

On 19 November 2018 the Group settled the remaining Romanian tax liability totalling RON 6,850k (c.€1.5m).

22. 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:

Notes to the Interim Condensed Consolidated Financial Statements (continued)

22. Adjusted EBITDA and Normalised EBITDA (continued)

	Nine months ended 30 September 2018
	€000
Profit before tax	**15,815**
Finance costs	15,540
Share of profit in associate	(590)
Net foreign currency losses	113
Impairment	2,427
Collections from portfolios	77,663
Unwinding of deferred consideration	43
Revenue	(55,108)
Repayment of secured loan notes	(2,491)
Non-recurring items	228
Finance income	(250)
Normalised and Adjusted EBITDA	**53,390**

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

	Nine months ended 30 September 2018
	€000
Net cash generated from operating activities	**(63,989)**
Portfolio acquisitions in the period	121,283
Taxation paid	1,467
Repayment of secured loan notes	(2,491)
Working capital adjustments	(3,151)
Unwinding of deferred consideration	43
Non-recurring items	228
Normalised and Adjusted EBITDA	**53,390**

Reconciliation of core collections to Normalised and Adjusted EBITDA:

	Nine months ended 30 September 2018
	€000
Core Collections/Collections in the period	**77,663**
Unwinding of deferred consideration	43
Operating expenses	(24,593)
Net foreign currency losses	113
Impairment	2,427
Repayment of secured loan notes	(2,491)
Non-recurring items	228
Normalised and Adjusted EBITDA	**53,390**