

# **AnaCap Financial Europe S.A. SICAV-RAIF**

**Audited Consolidated Annual Report  
For the Year Ended 31 December 2018**

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# General Information

## Fund

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

## AIFM

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

## Portfolio Manager

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

## Administrative Agent

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

## Auditor

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

## Board of Directors

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

## Board of Directors of the AIFM

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

## Board of Directors of the Portfolio Manager

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

## Depository

The Royal Bank of Scotland PLC,  
Luxembourg Branch  
46, Avenue J.F. Kennedy  
L-1855 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 Audited Consolidated Financial Statements (the "Financial Statements") on the activities and financial performance of AFE and its subsidiaries (together, the "Group") for the year ended 31 December 2018. The Financial Statements incorporate the assets, liabilities, revenue and expenses of the Group.

## Business Overview

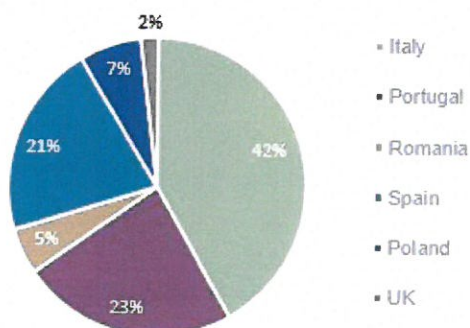
AFE purchases and invests in a diverse range of primarily non-performing debt across Europe. AFE has the capability to price and purchase a wide range of debt, consisting of portfolios of unsecured and secured consumer, SME and mortgage debt, including portfolios that are a mix of these assets. The Directors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

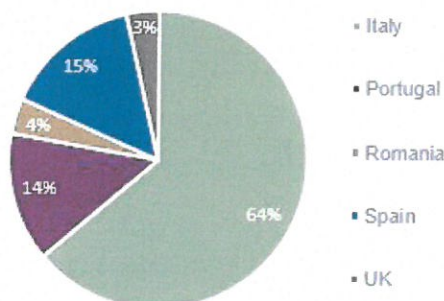
During the year ended 31 December 2018 AFE deployed c.€161.5m of capital across 5 geographies; c.€57.8m into a secured consumer debt portfolio in Portugal, c.€45.1m in Spain, which focused more on secured SME positions, c.€17.3m on corporate and SME debt in Romania, c.€20.6m on an Italian NPL secured portfolio and c.€20.7m on a portfolio of mortgage NPLs secured by residential properties in Poland, building in the wider AnaCap Group capabilities which have been operating in Poland for the past 3 years, and with this 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 (together, the "Group's Assets") by asset type and geography as well as the seasoned nature of the debt portfolios as of 31 December 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.

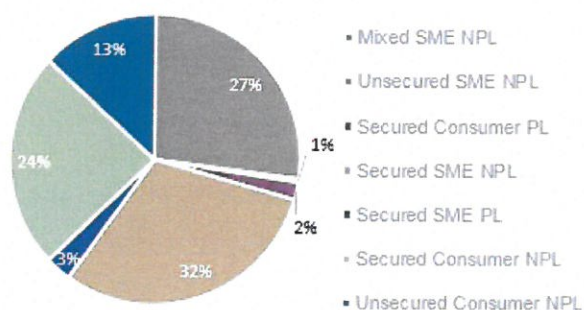
€585.1 million 84 month ERC by geography - 31 December 2018



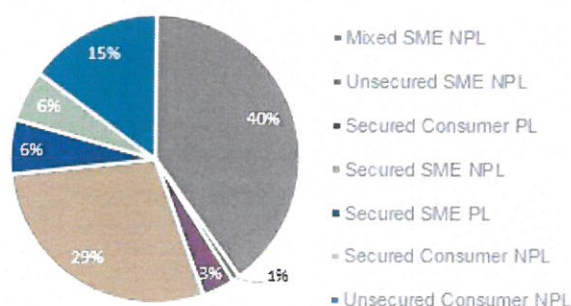
€437.9 million 84 month ERC by geography - 31 December 2017



€585.1 million 84 month ERC by asset type - 31 December 2018



€437.9 million 84 month ERC by asset type - 31 December 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 years ended 31 December 2018 and 31 December 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.

		Year ended 31 December 2018	Year ended 31 December 2017	% change
84-month ERC (€'000s)	1	585,122	437,884	33.6%
84-month Gross ERC (€'000s)	2	620,031	478,599	29.6%
Cumulative purchases of loan portfolios and loan notes (€'000s)	3	561,956	400,449	40.3%
Number of debt portfolios	4	22	16	37.5%
Number of accounts	5	216,957	211,355	2.7%
Total attributable collections (€'000s)	6	130,340	119,120	9.4%
Total gross collections (€'000s)	7	133,671	123,013	8.7%
Core collections (€'000s)	8	133,671	123,013	8.7%
Operating expenses (€'000s)	9	32,486	30,281	7.3%
Core collection cost ratio	10	24.3%	24.6%	-1.3%
Adjusted EBITDA (€'000s)	11	97,002	90,189	7.6%
Normalised Adjusted EBITDA (€'000s)	12	97,002	90,189	7.6%

(1) 84-month ERC ("ERC") means AFE's estimated remaining collections on the Group's Assets 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 the Group's Assets includes the original purchase price of assets made by the Portfolio Business, plus the purchase price of subsequent portfolio acquisitions 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.

(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 and investments in joint ventures, as well as any disposals of the Groups Assets. 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 any disposals of the Group's Assets.

(9) Operating expenses represents direct costs of collections related to purchased loan portfolios and other operating expenses, excluding impairment of the Group's Assets, net foreign currency (losses)/gains and non-recurring items.

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

## Directors' Report (continued)

### Key Performance Indicators (continued)

(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 the Group's Assets, disposals and repayments of secured loan notes, and non-recurring items. Revenue on the Group's Assets 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 the Group's Assets.

### 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 31 December 2018; a total of €600 million has been deployed through acquisitions of and investments in 26 portfolios with an aggregate face value of €12.6 billion. Since 2012, 4 portfolios have been fully sold. As of 31 December 2018, the portfolios held by AFE had an aggregate face value of €10.2 billion following the historical sale of deals with a face value of €2.4 billion, with an 84-month ERC of €585 million.

Portfolio purchased in the year / period ended	Purchase price (13) €000	Actual			Total estimated collections (14) €000	Gross money- on-money multiple (15)
		collections to 31 December 2018	84-month ERC			
		€000	€000	€000		
Year ended 31 December 2012	75,084	161,861	19,077	180,938	2.4x	
Year ended 31 December 2013	77,386	119,002	49,637	168,639	2.2x	
Year ended 31 December 2014	59,025	103,195	36,538	139,733	2.4x	
Year ended 31 December 2015	47,806	35,093	43,326	78,419	1.6x	
Year ended 31 December 2016	125,617	105,437	136,842	242,279	1.9x	
Year ended 31 December 2017	65,017	57,487	60,252	117,739	1.8x	
Year ended 31 December 2018	161,507	17,610	239,451	257,061	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 31 December 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.

		Year ended 31 December 2018
		€000
Borrowings:	The Notes	325,000
	Revolving credit facility (including bank guarantee)	64,255
	Term Facility	20,714
Less:	Cash at bank	(37,310)
	Cash held on AFE's account at servicers'	(10,863)
Add back:	Cash collected on behalf of secured loan note holders	1,422
<b>Net debt</b>		<b>363,218</b>
LTV ratio at period end	16	62.1%
Normalised Adjusted EBITDA leverage ratio	17	3.74
LTM Adjusted EBITDA	18	97,002
Net interest expense	19	20,500
Fixed charge cover ratio ("FCCR")	20	4.73

(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 year ended 31 December 2018.

(18) LTM Adjusted EBITDA means Adjusted EBITDA for the 12 month period ended 31 December 2018.

(19) Net interest expense means interest expense on total debt for the 12 month period ended 31 December 2018

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

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

		Year ended 31 December 2018
		€000
Borrowings:	The Notes	325,000
	Unamortised discount on issuance of the Notes	(1,565)
	Unamortised transaction fees	(7,011)
	Per Financial Statements (non-current liability)	316,424
	Interest payable at 31 December 2018 (current liability)	3,464
	Revolving credit facility - amount drawn (excludes bank guarantee)	60,153
	Term Facility - amount drawn	20,714
	Unamortised transaction fees on Term Facility	(311)
<b>Total borrowings</b>		<b>400,444</b>

# 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 year, the Group acquired four Spanish secured SME NPL portfolios, two of which were follow on tranches to an investment which completed in November 2017. The total consideration across the four transactions was c.€45.1m. The Group also increased its portfolio base in Romania during the year, having acquired a portfolio of corporate and SME NPLs as well as increasing its economic interest in an existing portfolio (see Note 10 for further information). The total consideration across the Romanian transactions was c.€17.3m.

On 29 June 2018 the Group 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 the Group completed the second close of this investment for a total consideration of c.€1.5m.

On 26 September 2018 the Group signed a transfer agreement whereby all economic rights and legal title of an Italian secured SME NPL portfolio were transferred to the Group. Total consideration of the first close of this portfolio amounted to c.€7.1m which was paid on 28 September 2018, of which €4.9m was deferred and settled in Q4 2018. On 1 October 2018 the Group completed the second close of this Italian transaction for a total consideration of c.€13.5m, of which €5.3m is deferred for settlement until Q4 2019.

On 18 December 2018 the Group subscribed to investment certificates in a Polish securitisation closed-end investment fund. On 19 December 2018 this Fund used the proceeds from the issuance of the investment certificates to purchase a portfolio of secured and unsecured NPLs in Poland. The total investment into this portfolio amounted to c.€20.7m.

### 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. ("Galata"), 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.

### ACSI accession

On 26 February 2018, Alpha Credit Solutions 1 S.à r.l. ("ACSI", an indirect subsidiary of AFE) successfully acceded the Indenture, Facility agreement and the Intercreditor Agreement as a guarantor, intra-group lender and security provider.

### Liquidity

On 26 February 2018 AFE increased the aggregate amount available it can draw from the Revolving Credit Facility by increasing the size of the Facility to €90.0m.

On 16 October 2018 the Group signed a €20.8m Term Facility agreement with National Westminster Bank. On 22 January 2019 the Group increased the size of the facility available to draw upon to €25.0m.

### Dividends

On 4 March 2019 the Board of Directors proposed and approved the payment of a dividend to AFE's shareholder in the amount of €10.1m. The dividend was due payable on 13 March 2019.



## Directors' Report (continued)

### Key risks and uncertainties

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

Risk	Definition	Impact	Mitigation
Market/economic risk	Changes in the economic environment in the markets in which the Group operates may negatively impact the Group's performance.	Adverse effect on potential recoveries, for example through rising interest rates. Rising rates could also impact the Groups ability to finance its debt.	<p>The Group reviews and revises as necessary business plans for underlying portfolios on a periodic basis, and also monitors closely economic growth across Europe. Nonetheless a prudent outlook is maintained.</p> <p>The Group continues to explore ways in which to reduce the level of exposure from changing interest rates and from foreign exchange risk.</p>
Concentration risk	The Group has a diverse range of portfolios across Europe, however 42% of ERC as at 31 December 2018 was attributed to Italy. This could potentially make the Group vulnerable to changes in that economic/political environment.	If the economy in any particular geography where the Group has a large concentration of investments suffers a prolonged, material downturn resulting in among other things increased unemployment rates, increased inflation, implementation of austerity measures, rising interest rates etc, this will have an adverse effect on asset prices and therefore underlying collateral values.	The Group continues to seek investment opportunities across Europe in order to try and help reduce this risk, with other core markets such as Spain and Portugal being a particular focus. Where appropriate new geographies will continue to be explored as well in order to further diversify the Group's investments and reduce this risk.
Credit/liquidity risk	The value of the Group's investments may deteriorate, or the Group may not be able to meet its day to day working capital requirements if collections performance fell.	This could lead to reduced recoveries from debtors, as well as the risk that the Group may not be able to finance its debt, or remain competitive due to a lack of capital able to deploy.	The Group closely and regularly monitors actual collections performance against forecasted targets in order to quickly assess whether any portfolio is underperforming. The Group also works closely with its engaged servicers in order to quickly establish recovery strategies for any underperforming portfolios. The Group also monitors its cash position on a regular basis to ensure that there is sufficient cash available to manage the day to day operations of the Group.

## Directors' Report (continued)


### Key risks and uncertainties (continued)

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

### Future developments

The Directors expect that the level of activity within the credit asset industry to increase during 2019 as the Group continues to explore opportunities in both core markets and potentially new geographies. As in 2018 the Group will remain highly selective with opportunities that arise in the market and only pursue opportunities that are suitable and in line with the strategic objectives of the Group. In the short term, the Group expects to focus more so on the secured market where the Group has specific internal expertise, however given the capabilities within the Group across all asset classes the unsecured space will continue to be monitored for any potential opportunities that may arise.

The Group also expects to further develop its internal servicing capabilities during 2019 across its core markets. Following the successful acquisition of Galata Asset Management S.L. ("Galata") in Spain and the acquisition of a 30% economic stake in Phoenix Asset Management SpA ("PAM") in Italy during 2018, the Group has seen the benefits of having increased on the ground presence in these geographies, including assistance with due diligence through to local asset management capabilities. Increasing asset management capabilities in core markets will assist in driving improved performance from existing assets.



Christopher Ross-Roberts  
Director  
8 March 2019

## Statement of Directors' Responsibilities

The Board of Directors of AnaCap Financial Europe S.A. SICAV-RAIF submits its report and the audited consolidated financial statements (the "Financial Statements") for the Group for the year ended 31 December 2018.

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

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

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

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





## **Audit report**

To the Shareholder of  
**Anacap Financial Europe S.A. SICAV-RAIF**

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### **Our opinion**

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of Anacap Financial Europe S.A. SICAV-RAIF (the "Fund") as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

#### *What we have audited*

The Fund's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2018;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

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### **Basis for opinion**

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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### **Other information**

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

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

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T : +352 494848 1, F : +352 494848 2900, [www.pwc.lu](http://www.pwc.lu)*

*Cabinet de révision agréé. Expert-comptable (autorisation gouvernementale n°10028256)  
R.C.S. Luxembourg B 65 477 - TVA LU25482518*





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

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

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

In preparing the consolidated financial statements, the Board of Directors of the Fund is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors of the Fund either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

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

The objectives of our audit are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an audit report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors of the Fund;



- conclude on the appropriateness of the Board of Directors of the Fund's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our audit report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our audit report. However, future events or conditions may cause the Fund to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Fund to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Fund audit. We remain solely responsible for our audit opinion.

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

PricewaterhouseCoopers, Société coopérative  
Represented by

Luxembourg, 11 March 2019

A handwritten signature in blue ink, appearing to read 'T. Salagnac', with a long horizontal flourish extending to the right.

Thierry Salagnac

## Consolidated Statement of Comprehensive Income for the Year Ended 31 December 2018

		Year ended 31 December 2018	Period from Incorporation to 31 December 2017
	Notes	€000	€000
<b>Revenue</b>			
Interest income from purchased loan portfolios	5	71,283	32,072
Interest income from purchased loan notes	5	2,203	1,185
Interest income from joint ventures	5	554	-
Revaluation gains	5	1,334	-
Other income	5	231	-
<b>Total revenue</b>		<b>75,605</b>	<b>33,257</b>
<b>Operating expenses</b>			
Collection activity costs	5	(22,566)	(10,301)
Impairment		(2,239)	(7,386)
Net foreign currency (losses)/gains	7	(118)	57
Other operating expenses	7	(10,428)	(7,718)
<i>Non-recurring items</i>	7	(508)	(2,378)
<i>Normal operating expenses</i>		(9,920)	(5,340)
<b>Total operating expenses</b>		<b>(35,351)</b>	<b>(25,348)</b>
<b>Operating profit</b>		<b>40,254</b>	<b>7,909</b>
Finance income	5	472	65
Finance costs	5	(20,158)	(9,813)
<i>Interest expense - secured loan notes</i>		(3,284)	(1,537)
<i>Revaluation gain on secured loan notes</i>		3,626	95
<i>Finance costs - borrowings</i>	8	(20,500)	(8,371)
Share of profit in associate	11	770	292
<b>Profit/(loss) before tax</b>		<b>21,338</b>	<b>(1,547)</b>
Tax charge	9	(1,016)	(4,851)
<b>Comprehensive income/(loss) for the year</b>		<b>20,322</b>	<b>(6,398)</b>

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

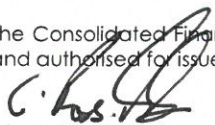


# Consolidated Statement of Financial Position as at 31 December 2018

		As at 31 December 2018	As at 31 December 2017
	Notes	€000	€000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment		22	-
Investment in associate	11	6,316	5,392
Goodwill	10	1,836	-
<b>Total non-current assets</b>		<b>8,174</b>	<b>5,392</b>
<b>Current assets</b>			
Cash and cash equivalents		37,310	52,194
Trade and other receivables	14	16,642	15,422
Purchased loan portfolios	12	309,949	266,203
Purchased loan notes	12	19,938	10,181
Investments in joint ventures	12	41,543	-
Inventory	13	20,401	15,456
<b>Total current assets</b>		<b>445,783</b>	<b>359,456</b>
<b>Total assets</b>		<b>453,957</b>	<b>364,848</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Borrowings	22	316,424	315,152
Trade and other payables	15	1,281	-
<b>Total non-current liabilities</b>		<b>317,705</b>	<b>315,152</b>
<b>Current liabilities</b>			
Borrowings	22	84,019	14,171
Secured loan notes	22	19,709	23,446
Trade and other payables	15	13,050	11,940
Tax payable		1,408	510
Provisions	23	2,892	4,777
<b>Total current liabilities</b>		<b>121,078</b>	<b>54,844</b>
<b>Total liabilities</b>		<b>438,783</b>	<b>369,996</b>
<b>Equity</b>			
Share capital	16	1,250	1,250
Retained earnings		13,924	(6,398)
<b>Total equity</b>		<b>15,174</b>	<b>(5,148)</b>
<b>Total equity and liabilities</b>		<b>453,957</b>	<b>364,848</b>
<b>Net Asset Value as per Offering Memorandum</b>	18	<b>332,103</b>	<b>286,282</b>
<b>Net Asset Value per share</b>	16	<b>12.139</b>	<b>(4.118)</b>

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

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

  
Christopher Ross-Roberts  
Director

8 March 2019



## Consolidated Statement of Cash Flows for the Year Ended 31 December 2018

		Year ended 31 December 2018	Period from Incorporation to 31 December 2017
	Notes	€000	€000
<b>Cash flows from operating activities</b>			
Profit/(loss) before tax		21,338	(1,547)
<i>Adjustments for:</i>			
Interest income from purchased loan portfolios	12	(71,283)	(32,072)
Interest income from purchased loan notes	12	(2,203)	(1,185)
Interest income from joint ventures		(554)	-
Other income	5	(231)	-
Finance income	5	(472)	(65)
Impairment		2,239	7,386
Revaluation gain - secured loan notes		(3,626)	(95)
Revaluation gains	5	(1,334)	-
Finance costs - borrowings	8	20,500	8,371
Interest expense - secured loan notes		3,284	1,537
Net foreign currency losses		118	-
Share of profit in associate	11	(770)	(292)
<b>Operating cash flows before movements in working capital</b>		<b>(32,994)</b>	<b>(17,962)</b>
Change in trade and other receivables*	14	8,137	(9,214)
Change in trade and other payables*	15	(8,913)	11,749
<b>Cash used in operating activities before collections and purchases</b>		<b>(33,770)</b>	<b>(15,427)</b>
Tax paid		(3,795)	(31)
Collections in the period	12	133,671	67,786
Acquisition of purchased loan portfolios	12	(102,892)	(25,337)
Acquisition of purchased loan notes	12	(17,345)	-
Acquisition of joint ventures	12	(36,502)	-
<b>Net cash used in operating activities</b>		<b>(60,633)</b>	<b>26,991</b>
<b>Investing activities</b>			
Acquisition of subsidiaries	10	(317)	(292,905)
Other transaction costs	11	(154)	-
<b>Net cash used in investing activities</b>		<b>(471)</b>	<b>(292,905)</b>
<b>Cash flows from financing activities</b>			
<b>Financing activities</b>			
Share capital issued		-	30
Redemption of share capital		-	(30)
Issue of Senior Secured Notes		-	323,375
Proceeds from revolving credit facility		120,300	25,175
Repayment of revolving credit facility		(50,761)	(13,662)
Senior Secured Notes transaction fees paid		-	(8,573)
Revolving credit facility transaction and other fees paid		(811)	(1,354)
Repayment of secured loan notes		(4,414)	(2,205)
Finance costs paid		(18,094)	(4,649)
<b>Net cash generated from financing activities</b>		<b>46,220</b>	<b>318,107</b>
Net movements in cash and cash equivalents		(14,884)	52,194
Cash and cash equivalents at the beginning of the year		52,194	-
<b>Cash and cash equivalents at the end of the year</b>		<b>37,310</b>	<b>52,194</b>

\* Movement in working capital is net of accruals and prepayments related to the Notes and the Revolving Credit Facility.  
The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.  
Consolidated Annual Report December 2018

## Consolidated Statement of Changes in Equity for the Year Ended 31 December 2018

	Share capital	Retained earnings	Total equity
	€000	€000	€000
<b>Balance as at 1 January 2018</b>	1,250	(6,398)	(5,148)
Comprehensive income for the year	-	20,322	20,322
<b>Balance as at 31 December 2018</b>	<b>1,250</b>	<b>13,924</b>	<b>15,174</b>

Comparative figures from Incorporation to 31 December 2017:

		Share capital	Retained earnings	Total equity
		€000	€000	€000
<b>Balance as at 28 June 2017</b>		-	-	-
Issue of share capital	16	1,280	-	1,280
Redemption of shares	16	(30)	-	(30)
Comprehensive income for the year		-	(6,398)	(6,398)
<b>Balance as at 31 December 2017</b>		<b>1,250</b>	<b>(6,398)</b>	<b>(5,148)</b>

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



# Notes to the Financial Statements for the Year Ended 31 December 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 19 (together, the "Group") is to seek risk adjusted investment returns by acquiring, holding, servicing and disposing of portfolio investments comprising of loans, leases or other credit-related obligations, including primarily diversified portfolios of unsecured and secured consumer debts, SME debt, and mortgages.

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

The Group has applied the following standards and amendment for the first time for their annual reporting period commencing 1 January 2018:

- *IFRS 9, 'Financial Instruments'*

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.

**Classification and measurement** The Group has assessed the classification of financial instruments as at the date of initial application and has applied such classification retrospectively. Based on that assessment:

- All financial assets previously held at fair value continue to be measured at fair value.
- Financial assets previously classified as loans and receivable are held to collect contractual cash flows and give rise to cash flows representing solely payments of principal and interest. Thus, such instruments continue to be measured at amortised cost under IFRS 9.
- The classification of financial liabilities under IFRS 9 remains broadly the same as under IAS 39.

Impairment under IFRS 9, requires an expected credit loss model ("ECL") to be put in place in order to assess the credit risk and implement an impairment model. 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 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 assessed the effect of IFRS 16 and recognised that the standard has no impact on the Financial Statements.
- *The IASB issued a narrow scope amendment to IFRS 9 in October 2017 which updates the solely payments of principal and interest test: borrowings that include a contractual term under which an early repayment results in a settlement discount will now be deemed to have cashflows of solely principal and interest and are consequently measured at amortised cost or fair value through other comprehensive income rather than fair value through profit or loss. This has been termed 'negative compensation' as in effect the lender is paying the borrower compensation for early settlement. The amendment is effective for annual periods beginning on or after 1 January 2019.*



## Notes to the Consolidated Financial Statements (continued)

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

- Annual improvements to IFRSs 2015-2017 Cycle (not yet endorsed for use in the EU)

- *IFRS 3, 'Business Combinations'*

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments will apply on future business combinations of the Group.

- *IFRS 11 Joint Arrangements*

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted. These amendments are currently not applicable to the Group but may apply to future transactions.

- *IAS 12, 'Income Taxes'*

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events.

An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application is permitted. When an entity first applies those amendments, it applies them to the income tax consequences of dividends recognised on or after the beginning of the earliest comparative period. Since the Group's current practice is in line with these amendments, the Group does not expect any effect on its consolidated financial statements.

- *IAS 23, 'Borrowing Costs'*

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete. An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments.

An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. Since the Group's current practice is in line with these amendments, the Group does not expect any effect on its consolidated financial statements.

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

### 3. Summary of significant accounting policies

#### Basis of preparation

The Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and interpretations issued by the IFRS Interpretations Committee ("IFRS IC") applicable to companies reporting under IFRS. The Financial Statements comply with IFRS as adopted by the European Union. The principal accounting policies that have been applied to these Financial Statements are set out below. Comparative figures are presented for the period from incorporation on 28 June 2017 to 31 December 2017.

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

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

#### 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.



# Notes to the Consolidated Financial Statements (continued)

## 3. Summary of significant accounting policies (continued)

### Investment entity

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

### Consolidation and accounting for subsidiary entities within the Group

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

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

AFE has control over and therefore has consolidated the entities listed in note 19 in these Financial Statements. None of these entities have any employees except for Galata Asset Management S.L., which had 5 employees as at 31 December 2018.

### Investments in associates

AFE has significant influence over Phoenix Asset Management SpA via ownership of 30% of its ordinary share capital whereby AFE is able to participate in both the financial policy decision making and key strategic decision making processes that are made. Therefore this investment is accounted for as an investment in associate under the equity method of accounting. Significant influence is defined as having between 20 per cent and 50 per cent of the voting power of the investee, or, when the investor holds less than 20 per cent of the voting power of the investee, it is presumed that the investor does not have significant influence, unless such influence can be clearly demonstrated. The existence of significant influence by an investor is usually evidenced by such activities as representation on the board of directors, participation in policy-making processes, including participation in decisions about dividends or other distributions, material transactions between the investor and the investee, interchange of managerial personnel, or provision of essential technical information.

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

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

### 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 the effective interest rate method, and are paid to the investors pro rata after deduction of collection and overhead costs in the joint venture.

### Business combinations

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

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



# Notes to the Consolidated Financial Statements (continued)

## 3. Summary of significant accounting policies (continued)

### Business combinations (continued)

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

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

The excess of the consideration transferred, combined with any non-controlling interest in the entity being acquired, over the fair value of net identifiable assets is recorded as goodwill. If those amounts are less than the fair value of net identifiable assets of the entity being acquired, the difference is recognised directly in the Consolidated Statement of Comprehensive Income as a gain on bargain purchase.

### As from 1 January 2018

#### Financial assets

Financial assets are classified, at initial recognition, as financial assets measured at amortised cost or fair value through profit and loss on the basis of both:

- The Group's business model for managing the financial assets
- The contractual cash flow characteristics of the financial asset

Financial assets consist primarily of purchased loan portfolios, purchased loan notes and investments in joint ventures. The Group's business model for managing these financial assets is to hold for the collection of the contractual cash flows that consist solely from payment of principal and interest, which meet the condition for classification of financial assets at amortized cost under IFRS 9. Accordingly, the Group does not expect the new guidance to affect the classification and measurement of these financial assets. The Group only recognises financial instruments as an equity instrument when they do not include a contractual obligation to deliver a financial asset or exchange a financial asset or liability to another entity and when the financial instrument can be settled in the entity's own equity instruments. Any equity instruments would be recognised at fair value through profit and loss.

#### Financial liabilities

Debt and equity are classified as either financial liabilities, such as secured loan notes, or as equity in accordance with the substance of the contractual arrangement and in conjunction with the application of IFRS. In accordance with IAS 32 Financial Instruments: Presentation, the Group only recognises financial instruments as equity when they do not include a contractual obligation to deliver a financial asset or exchange a financial asset or liability to another entity and when the financial instrument can be settled in the Groups' own equity instruments. Financial liabilities are held at amortised cost using the EIR method. The EIR is calculated by estimating the cash flows arising from the contractual terms of the instrument over its expected life. Transaction costs are included within the EIR and deducted from the initial carrying value of the debt instrument. Transaction costs related to revolving credit facilities are not included within the EIR but recognised as a separate asset and amortized over the term of the facility.

### Before 31 December 2017

#### Financial assets

The Group classified its financial assets and liabilities in accordance with IAS 39. The Group classifies its financial assets in the following categories: loan and receivable and financial assets at fair value through profit or loss.

#### Financial liabilities

Liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss or other liabilities, as appropriate.

#### Initial recognition of financial instruments

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

#### Purchase price of portfolio

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



# Notes to the Consolidated Financial Statements (continued)

## 3. Summary of significant accounting policies (continued)

### Initial recognition of financial instruments (continued)

#### Put back warranty claims

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

#### **Purchased loan notes**

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

#### **Purchased loan portfolios**

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

Purchased loan notes, purchased loan portfolios and investments in joint ventures (combined the "Group Assets") are categorised as current in the Consolidated Statement of Financial Position because 1) the underlying loans and receivables within each of the portfolios are, for most part, "past due" on their contractual payment obligations; and 2) as part of the Group's normal operating cycle (84 months), each of the portfolios is evaluated every 3-6 months, and where necessary, the strategy to recover the maximum value from each portfolio is re-visited.

#### **Derivative financial instruments**

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

#### **Secured loan notes**

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

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

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

#### **Interest income and expense and the effective interest rate method**

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

The calculation of the EIR includes all fees integral to the EIR (such as transaction costs) and contractual terms of the financial instrument (for example, prepayment options). In most cases, financial assets are acquired at a deep discount that reflects incurred credit losses. Such incurred credit losses are included in the estimated cash flows when computing the EIR as this is consistent with the incurred loss method of impairment under IFRS 9.



# Notes to the Consolidated Financial Statements (continued)

## 3. Summary of significant accounting policies (continued)

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

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

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

### Impairment

#### As from 1 January 2018

The new impairment model requires the recognition of impairment provisions based on ECL's rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at fair value through other comprehensive income, contract assets under IFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts.

#### Before 31 December 2017

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

### Derecognition of financial assets

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

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

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

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

### Derecognition of financial liabilities

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

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

### Provisions

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

### Operating expenses

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

### Collection activity costs

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

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

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



# Notes to the Consolidated Financial Statements (continued)

## 3. Summary of significant accounting policies (continued)

### Other operating expenses

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

### Functional currency

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

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

### Foreign currency translation

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

### Non-recurring items

Non-recurring items are those which are separately identified by virtue of their size and nature (i.e. outside of the normal underlying operating activities of the Group) to allow a full understanding of the underlying performance of the business. These are disclosed separately on the face of the Consolidated Statement of Comprehensive Income. Current year non-recurring items are explained in note 7. The identification of these items has significance as the resulting underlying profit is one of the key determinants of distributions payable.

### Cash and cash equivalents

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

### Deal specific transaction fees

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

### Finance income and finance costs

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

Finance costs include charges for secured loan notes, facility fees on bank loans, interest on Senior Secured Notes and similar charges and unwinding of the computed interest calculated on any deferred consideration payable resulting from business combinations.

### Borrowings

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

### Senior Secured Floating Rate Notes

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

# Notes to the Consolidated Financial Statements (continued)

## 3. Summary of significant accounting policies (continued)

### Borrowings (continued)

#### Super Senior Revolving Credit Facility

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

#### Term Facility

A Term Facility is recognised at the time of drawdown because that is the point at which the Group assumes the contractual provision of repayment. The loan is initially recognised at fair value and consequently measured at amortised cost using the straight line method.

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

### Taxation

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

### Intercompany transactions

Intercompany transactions and assets and liabilities between entities included in the Financial Statements have been eliminated. Intercompany transactions within the Group which were previously considered as transactions with related parties have been treated as intercompany transactions.

### Inventory

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

### Segmental reporting

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

### Offsetting financial instruments

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

### Related party transactions

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

## 4. Critical accounting judgments and estimates

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



# Notes to the Consolidated Financial Statements (continued)

## 4. Critical accounting judgments and estimates (continued)

### Critical judgments in applying accounting policies

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

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

In relation to non-paying accounts, judgments will be made as to which operational strategy is the most appropriate to move the account to paying status, which may include placing these accounts into litigation. Operational factors, that may impact future estimated cash flows, are also considered such as improved collections processes and systems. The Board of Directors also 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.

### 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. Valuations are performed for each individual investment in order to assess potential changes in forecasted cash-flows compared to current targets based on underlying macro-economic, credit, behavioural, legal, collateral and operational cost assumptions driving liquidation performance and ultimate exit value if applicable. Macro-economic assumptions that are incorporated into the forecasts include factors such as GDP growth rates, unemployment rates and inflation. 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 December 2018 by €2,535k. A change in the expected future cash flows by -1% would reduce the carrying value of financial assets as at 31 December 2018 by €2,535k.

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.

## Notes to the Consolidated Financial Statements (continued)

### 5. Segmental reporting

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

	Year ended 31 December 2018	Period from Incorporation to 31 December 2017
	€000	€000
Interest income from purchased loan portfolios	71,283	32,072
Interest income from purchased loan notes	2,203	1,185
Interest income from joint ventures	554	-
Revaluation gains	1,334	-
Other income	231	-
<b>Total revenue</b>	<b>75,605</b>	<b>33,257</b>
Collection activity costs	(22,566)	(10,301)
Impairment	(2,239)	(7,386)
Net foreign currency (losses)/gains	(118)	57
Normal operating expenses	(9,920)	(5,340)
Non-recurring items	(508)	(2,378)
<b>Operating profit</b>	<b>40,254</b>	<b>7,909</b>
Finance income	472	65
Finance costs	(20,158)	(9,813)
Share of profit in associate	770	292
<b>Profit/(loss) before tax</b>	<b>21,338</b>	<b>(1,547)</b>
Tax charge	(1,016)	(4,851)
<b>Comprehensive income/(loss) for the year</b>	<b>20,322</b>	<b>(6,398)</b>

	As at 31 December 2018	As at 31 December 2017
	€000	€000
Investment in associate	6,316	5,392
Purchased loan portfolios	309,949	266,203
Purchased loan notes	19,938	10,181
Investments in joint ventures	41,543	-
Inventory	20,401	15,456
<b>Statement of Financial Position</b>		
Total segment assets	453,957	364,848
Total segment liabilities	(438,783)	(369,996)
<b>Segment net assets/(liabilities)</b>	<b>15,174</b>	<b>(5,148)</b>

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

	Year ended 31 December 2018	Period from Incorporation to 31 December 2017
	€000	€000
- United Kingdom	1,318	1,031
- Romania	4,052	1,185
- Italy, Spain, Portugal	70,235	31,041
<b>Total revenue</b>	<b>75,605</b>	<b>33,257</b>



## Notes to the Consolidated Financial Statements (continued)

### 5. Segmental reporting (continued)

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 31 December 2018	As at 31 December 2017
	€000	€000
- United Kingdom	8,553	11,882
- Romania	19,938	9,931
- Poland	20,692	-
- Italy, Spain, Portugal	348,964	275,419
<b>Total</b>	<b>398,147</b>	<b>297,232</b>

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

	Gross ERC 31 December 2018	ERC 31 December 2018
	€000	€000
- United Kingdom	11,146	11,146
- Romania	29,452	29,452
- Italy	244,761	244,730
- Spain	154,464	123,144
- Portugal	141,008	137,450
- Poland	39,200	39,200
<b>Total</b>	<b>620,031</b>	<b>585,122</b>

### 6. Auditor's remuneration

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

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

	As at 31 December 2018	As at 31 December 2017
	€000	€000
<b>Fees charged</b>		
Audit fees	375	280
<b>Total fees payable</b>	<b>375</b>	<b>280</b>
<b>Fees payable at year end</b>		
Fees payable	239	287
<b>Audit fees payable at the end of the year</b>	<b>239</b>	<b>287</b>



## Notes to the Consolidated Financial Statements (continued)

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

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

	Year ended 31 December 2018	Period from Incorporation to 31 December 2017
	€000	€000
Management fees	6,125	2,636
Directors' fees	265	102
Legal and professional fees	640	630
Administration fees	1,325	535
Audit fees	375	280
Abort deal fees	446	812
Depository charges	40	43
Other expenses	704	302
Non-recurring items*	508	2,378
<b>Other operating expenses</b>	<b>10,428</b>	<b>7,718</b>
Realised foreign currency (gains)/losses	(144)	48
Unrealised foreign currency losses/(gains)	262	(105)
<b>Net foreign currency losses/(gains)</b>	<b>118</b>	<b>(57)</b>

\*Non-recurring items relate to:

- i) Costs incurred on the acquisition of Galata Asset Management S.L. (see note 10) and costs incurred on structural changes and efficiencies in light of recent Portuguese tax assessments in 2018; and
- ii) Costs incurred on the acquisition of the Portfolio Business in 2017.

### 8. Finance costs – borrowings

	Year ended 31 December 2018	Period from Incorporation to 31 December 2017
	€000	€000
Fees on Revolving Credit Facility	481	311
Interest on borrowings	1,773	104
Interest on Senior Secured Notes and related charges	18,246	7,956
<b>Total finance costs - borrowings</b>	<b>20,500</b>	<b>8,371</b>

### 9. 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 year ended 31 December 2018, the Group's tax charge of €1.02m (period from Incorporation to 31 December 2017: €4.85m) comprised of Portuguese and other local tax charges of €1.63m (period from Incorporation to 31 December 2017: €4.85m) and a release of €612k (period from Incorporation to 31 December 2017: €nil) of the Portuguese tax provision (see note 23 'Commitments and contingencies').

## Notes to the Consolidated Financial Statements (continued)

### 9. Taxation (continued)

Tax charges or credits in the Financial Statements have been determined based on the tax charges or credits recorded in the legal entities comprising the Group in the relevant geographies.

	Year ended 31 December 2018	Period from Incorporation to 31 December 2017
Notes	€000	€000
Profit/(loss) before tax	21,338	(1,547)
Standard income tax rate applicable in Luxembourg (%)	26.01%	27.08%
<b>Theoretical taxation (charge)/benefit</b>	<b>(5,550)</b>	<b>419</b>
Effect of profit not subject to income tax	5,475	(462)
<b>Taxation charge on ordinary activities before other taxes</b>	<b>(75)</b>	<b>(43)</b>
Other taxes (Net Wealth Tax etc.)	(209)	(31)
Provisions	23	(4,777)
<b>Taxation charge</b>	<b>(1,016)</b>	<b>(4,851)</b>

### 10. 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
<b>Total purchase consideration</b>	<b>2,318</b>

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 and deferred consideration have been recognised within trade and other payables in the Consolidated Statement of Financial Position.



## Notes to the Consolidated Financial Statements (continued)

### 10. Business combinations (continued)

#### Fair value

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

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

\* 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

For the period from acquisition to 31 December 2018 Galata contributed revenues of €476k and net profit of €91k to the Group.

#### Acquisition related costs

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

#### Purchase consideration – cash flow

	As at 12 April 2018 €000
Cash paid	800
Less: Balances acquired	
Cash	(183)
Short-term bank deposit	(300)
<b>Net cash paid</b>	<b>317</b>



## Notes to the Consolidated Financial Statements (continued)

### 11. 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 year, 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 year.

Below is a reconciliation of the movements in the carrying value of the Group's interest in PAM as at 31 December 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 31 December 2018	As at 31 December 2017
	€000	€000
Interest in net assets at beginning of year	5,392	-
Interest acquired during the year	-	5,100
Share of profit in associate	770	292
Costs capitalised in connection with the conversion of the warrants	154	-
<b>Interest in net assets of associate at the end of the year</b>	<b>6,316</b>	<b>5,392</b>

## Notes to the Consolidated Financial Statements (continued)

### 11. Investment in associate (continued)

The tables below provide summarised financial information of PAM for the year ending 31 December 2018.

#### Statement of Financial Position of PAM as at 31 December 2018

	As at 31 December 2018	As at 31 December 2017
	€000	€000
<b>Assets</b>		
<b>Non-current assets</b>	93	70
<b>Current assets</b>		
Cash and cash equivalents	6,599	3,568
Trade and other receivables	1,456	1,408
<b>Total current assets</b>	<b>8,055</b>	<b>4,976</b>
<b>Total assets</b>	<b>8,148</b>	<b>5,046</b>
<b>Liabilities</b>		
<b>Current liabilities</b>	1,364	1,830
<b>Equity</b>		
Share capital	71	50
Retained earnings	6,712	3,166
<b>Total equity</b>	<b>6,783</b>	<b>3,216</b>
<b>Total equity and liabilities</b>	<b>8,148</b>	<b>5,046</b>

#### Statement of Comprehensive Income of PAM for the year ending 31 December 2018

	Year ended 31 December 2018	Period from Incorporation to 31 December 2017
	€000	€000
Revenue	7,536	2,700
Depreciation	(33)	(7)
Other expenses	(3,848)	(1,378)
<b>Operating profit</b>	<b>3,655</b>	<b>1,315</b>
Tax charge	(1,088)	(391)
<b>Comprehensive income for the year</b>	<b>2,567</b>	<b>924</b>



## Notes to the Consolidated Financial Statements (continued)

### 12. Financial assets

	As at 31 December 2018 €000	As at 31 December 2017 €000
<i>Expected falling due after one year:</i>		
Purchased loan portfolios	256,454	153,131
Purchased loan notes	15,845	6,079
<b>Total</b>	<b>272,299</b>	<b>159,210</b>
<i>Expected falling due within one year:</i>		
Purchased loan portfolios	53,495	113,072
Purchased loan notes	4,093	4,102
Other receivables	186	311
<b>Total</b>	<b>57,774</b>	<b>117,485</b>

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 December 2018 €000	As at 31 December 2017 €000
Purchased loan portfolios as at beginning of period	266,203	-
Purchased loan portfolios acquired during the year	102,892	325,429
Interest income from purchased loan portfolios	71,283	32,072
Collections in the year*	(121,711)	(63,869)
Impairment of purchased loan portfolios	(2,239)	(6,797)
Less: movement in inventory and other receivables	(6,479)	(20,632)
<b>Purchased loan portfolios at the end of the year</b>	<b>309,949</b>	<b>266,203</b>

The movements in purchased loan notes were as follows:

	As at 31 December 2018 €000	As at 31 December 2017 €000
Purchased loan notes as at beginning of period	10,181	-
Additional purchased loan notes acquired during the year	17,345	12,372
Interest income from purchased loan notes	2,203	1,185
Collections in the year*	(10,875)	(3,376)
Revaluation gains	1,334	-
Other movements**	(250)	-
<b>Purchased loan notes at the end of the year</b>	<b>19,938</b>	<b>10,181</b>

\* In addition, €588k (2017: €541k) was received in the year from the deferred consideration owing from the disposal of purchased loan portfolios and €492k was received from investments in joint ventures.

\*\* Other movements relate to the carrying value of the investment in Galata pre-acquisition.

## Notes to the Consolidated Financial Statements (continued)

### 12. Financial assets (continued)

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/compartments 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.

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, the Group acquired 50% of an existing investor's share of the notes for a total consideration of c.€1.3m, bringing the Groups' total ownership of the notes to 48%. On 31 October 2018 the Group acquired another 50% of an existing investor's share of the notes for a total consideration of c.€151k, bringing the Groups' total ownership of the notes issued by Volga Investments DAC to 50%.

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 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. As at 31 December 2018 deferred consideration payable for the notes amounted to €5.3m.



## Notes to the Consolidated Financial Statements (continued)

### 12. Financial assets (continued)

#### Investments in joint ventures (continued)

The tables below provides summarised financial information of Tiberius S.r.l. (compartment 5) for the year ended 31 December 2018.

#### Statement of Financial Position of Tiberius S.r.l. (compartment 5) as at 31 December 2018 (unaudited)

	As at 31 December 2018 €000
<b>Assets</b>	
<b>Non-current assets</b>	40,786
<b>Current assets</b>	
Cash and cash equivalents	1,067
Trade and other receivables	35
<b>Total current assets</b>	<b>1,102</b>
<b>Total assets</b>	<b>41,888</b>
<b>Liabilities</b>	
<b>Long term liabilities</b>	30,000
<b>Current liabilities</b>	11,888
<b>Equity</b>	
Share capital	-
Retained earnings	-
<b>Total equity</b>	<b>-</b>
<b>Total equity and liabilities</b>	<b>41,888</b>

#### Statement of Comprehensive Income of Tiberius S.r.l. (compartment 5) for the year ending 31 December 2018 (unaudited)

	Period from incorporation to 31 December 2018 €000
Other income	758
Other expenses	(758)
<b>Operating profit</b>	<b>-</b>
Tax charge	-
<b>Comprehensive income for the year</b>	<b>-</b>

On 11 December 2018, Prime Credit 7 S.a r.l. ("PC7"), a direct subsidiary of AFE, purchased 60% of the A investment certificates that were in issue by Aneto NS FIZ ("Aneto"), a securitisation closed-end investment fund in Poland. On 18 December 2018, PC7 subscribed to 60% of the B investment certificates issued by Aneto. In turn, on 19 December 2018 Aneto used the proceeds from the full issuance of the B certificates for the purposes of acquiring a portfolio of secured and unsecured NPLs in Poland for an amount of c.€20.7m. There is one other co-investor in the transaction who holds 40% of both the A and B investment certificates that are in issue.

Though the Group holds 60% of the investment certificates issued by Aneto, the contractual arrangement gives both parties collectively control of the arrangement, with unanimous consent being required for both key strategic and financial decision making. The arrangement is jointly controlled and the transaction has therefore been deemed a joint venture and has been accounted for as such.

## Notes to the Consolidated Financial Statements (continued)

### 12. Financial assets (continued)

#### Investments in joint ventures (continued)

The tables below provides the summarised financial information of Aneto for the year ended 31 December 2018:

#### Statement of Financial Position of Aneto as at 31 December 2018 (unaudited)

	As at 31 December 2018 €000
<b>Assets</b>	
<b>Non-current assets</b>	34,939
<b>Current assets</b>	
Cash and cash equivalents	1,232
Trade and other receivables	2
<b>Total current assets</b>	<b>1,234</b>
<b>Total assets</b>	<b>36,173</b>
<b>Liabilities</b>	
<b>Current liabilities</b>	13
<b>Equity</b>	
Share capital	35,231
Retained earnings	929
<b>Total equity</b>	<b>36,160</b>
<b>Total equity and liabilities</b>	<b>36,173</b>

#### Statement of Comprehensive Income of Aneto for the year ending 31 December 2018 (unaudited)

	Period from incorporation to 31 December 2018 €000
Other income	941
Other expenses	(7)
Finance cost	(5)
<b>Operating profit</b>	<b>929</b>
Tax charge	-
<b>Comprehensive income for the year</b>	<b>929</b>

The tables provide summarised financial information of the investments in joint ventures, which reflect the amounts presented in the financial statements of the relevant joint venture vehicles and not the Group's share of those amounts. They have been prepared in accordance with local jurisdiction accounting policies and do not reflect adjustments made by the Group when using the equity method, including adjustments in respect of using the EIR methodology when accounting for loan portfolios.



## Notes to the Consolidated Financial Statements (continued)

### 13. Inventory

	As at 31 December 2018	As at 31 December 2017
	€000	€000
Inventory	20,401	15,456
<b>Total</b>	<b>20,401</b>	<b>15,456</b>

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 year:

	As at 31 December 2018	As at 31 December 2017
	€000	€000
Opening inventory	15,456	-
Purchases	5,373	15,456
Re-posessions	4,374	-
Disposals	(4,802)	-
<b>Closing balance</b>	<b>20,401</b>	<b>15,456</b>

### 14. Trade and other receivables

	As at 31 December 2018	As at 31 December 2017
	€000	€000
Collections receivable	10,863	11,035
Other receivables	5,779	4,387
<b>Total</b>	<b>16,642</b>	<b>15,422</b>

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 12.

### 15. Trade and other payables

		As at 31 December 2018	As at 31 December 2017
	Notes	€000	€000
Trade payables		2,323	5,738
Deferred consideration		5,635	-
Amounts due to related parties	17	301	404
Accrued expenses		4,791	5,756
Other payables		-	42
Trade and other payables - current		13,050	11,940
Deferred and contingent consideration - non-current		1,281	-
<b>Total trade and other payables</b>		<b>14,331</b>	<b>11,940</b>

## Notes to the Consolidated Financial Statements (continued)

### 16. Share capital

	As at 31 December 2018	As at 31 December 2017
	€000	€000
Share capital at beginning of year	1,250	-
Issue of share capital	-	1,280
Redemption of shares	-	(30)
<b>Total share capital at end of year</b>	<b>1,250</b>	<b>1,250</b>

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.

### Net Asset Value per share

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

	As at 31 December 2018	As at 31 December 2017
	000	000
NAV attributable to Class A shares	€15,174	€(5,148)
No. of remaining Class A shares	1,250	1,250
<b>NAV per Class A share</b>	<b>€12.139</b>	<b>€(4.118)</b>

### 17. Related party transactions

	As at 31 December 2018	As at 31 December 2017
	€000	€000
<b>Due to related parties</b>		
Carne Global Fund Managers (Luxembourg) S.A.	50	104
AnaCap Investment Manager Limited	107	300
AnaCap Luxembourg S.à r.l.	144	-
<b>Total</b>	<b>301</b>	<b>404</b>

### 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 €6,125k (2017: €2,636). €144k (2017: €nil) remains outstanding at year end.

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

During the year, the Group incurred charges of €749k (2017: €nil) 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 year and the balances due to them at the end of the year.



## Notes to the Consolidated Financial Statements (continued)

### 17. Related party transactions (continued)

	Year ended 31 December 2018	Year ended 31 December 2017
	€000	€000
<b>Fees charged</b>		
Directors' fees	265	102
<b>Total fees charged during the year</b>	<b>265</b>	<b>102</b>
<b>Fees payable</b>		
Directors' fees payable	136	46
<b>Directors' fees payable at the end of the year</b>	<b>136</b>	<b>46</b>

### 18. Reconciliation of Net Asset Value as per Offering Memorandum

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

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

The table below shows the reconciliation from total net assets value of the Group to the Adjusted NAV:

	As at 31 December 2018	As at 31 December 2017
	€000	€000
NAV according to the Consolidated Statement of Financial Position	15,174	(5,148)
Adjustments:		
Cash and cash equivalents	(37,310)	(52,194)
Trade and other receivables (current and non-current)	(16,642)	(15,422)
Inventory	(20,401)	(15,456)
Trade payables and other current liabilities	18,631	17,227
Borrowings (current and non-current)	379,730	329,323
Fair value movement	(7,079)	27,952
<b>Adjusted NAV</b>	<b>332,103</b>	<b>286,282</b>

## Notes to the Consolidated Financial Statements (continued)

### 19. Investments in subsidiaries and controlled entities

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

	Place of incorporation	Registered office	Ownership %		Current status
			as at 31 December 2018	as at 31 December 2017	
ACOF II Portugal Limited	Guernsey	ð	100%**	100%**	Active
AFE Spain Limited	Guernsey	ð	100%	100%	Active
AFE Asset Management S.à r.l.	Luxembourg	ø	100%	0%	Active
Alpha Credit Holdings S.à r.l.	Luxembourg	ø	100%	100%	Active
Alpha Credit Holdings 3 S.à r.l.	Luxembourg	ø	100%	100%	Active
Alpha Credit Holdings 7 S.à r.l.	Luxembourg	ø	100%	0%	Active
Alpha Credit Solutions 1 S.à r.l.	Luxembourg	ø	100%	100%	Active
Alpha Credit Solutions 2 S.à r.l.	Luxembourg	β	100%	100%	Active
Alpha Credit Solutions 4 S.à r.l.	Luxembourg	ø	100%	100%	Active
Alpha Credit Solutions 5 S.à r.l.	Luxembourg	β	100%	100%	Active
Alpha Credit Solutions 6 S.à r.l.	Luxembourg	ø	100%	100%	Active
Aurora Reo S.r.l.	Italy	√	100%	100%	Active
Aurora SPV S.r.l.*	Italy	√	0%	0%	Active
Augustus SPV S.r.l.*	Italy	√	0%	0%	Active
Iustitia Futura S.r.l.*	Italy	√	0%	0%	Active
Mountrock S.L.U.	Spain	μ	100%	100%	Active
Prime Credit 3 S.à r.l.	Luxembourg	ø	100%	100%	Active
Prime Credit 6 S.à r.l.	Luxembourg	ø	100%	100%	Active
Prime Credit 7 S.à r.l.	Luxembourg	ø	100%	100%	Active
Sagres Holdings Limited*	Malta	∞	0%	0%	Active
Silview S.L.U.	Spain	μ	100%	100%	Active
Tiberius SPV S.r.l.* (Compartments 1-4)	Italy	√	0%	0%	Active
Thor SPV S.r.l.*	Italy	∏	0%	0%	Active
Belice ITG, S.L.U.	Spain	₣	100%	100%	Active
Silonea Investments, S.L.U.	Spain	ω	100%	0%	Active
Galata Asset Management, S.L.	Spain	ξ	100%	0%	Active
Episódio Válido - S.A.	Portugal	φ	100%	0%	Active

#### Key

ø - 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

ð - 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

ω - Claudio Coello 124, 6ª derecha, Madrid, Spain

ξ - Calle Doctor Esquerdo nº 140, Portal 1, Piso 2º B, Madrid, Spain

φ - 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 Consolidated Financial Statements (continued)

### 20. Financial risk management

#### Credit risk

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

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

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

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

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

#### Liquidity risk

Liquidity risk is the risk that the Group will have difficulties meeting obligations associated with its financial liabilities that are settled by cash or another financial asset when they become due.

The Group is subject to the risk that it will not have sufficient borrowing facilities and working capital to fund its existing and future growth of the business. The policy adopted by the Group is to reduce its risk by ensuring that there are sufficient committed debt facilities to cover forecast borrowings plus the operating headroom. Further, the aim is to ensure that there is a balanced refinancing profile, diversification of debt funding sources and no over-reliance on a single or small group of lenders. The total undrawn amount on the Facility as at 31 December 2018 were €25.7m.

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

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

	Within 1 year	1-3 years	3-5 years	Over 5 years	Total
	€000	€000	€000	€000	€000
Borrowings	100,495	32,997	32,951	338,767	505,210
Secured loan notes	5,176	12,335	8,340	2,168	28,019
Trade and other payables	13,050	1,281	-	-	14,331
<b>Total</b>	<b>118,721</b>	<b>46,613</b>	<b>41,291</b>	<b>340,936</b>	<b>547,560</b>

Comparative figures from Incorporation to 31 December 2017:

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

## Notes to the Consolidated Financial Statements (continued)

### 20. Financial risk management (continued)

#### Liquidity risk (continued)

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

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

	As at 31 December 2018	As at 31 December 2017
	€000	€000
Gross ERC	620,031	478,599
ERC	585,122	437,884

A maturity analysis of the Group's financial assets (purchased loan portfolios and purchased loan notes) and borrowings and facilities as at 31 December 2018 is presented below:

	Notes	Financial assets	% of total	Borrowings and facilities	% of total
		€000		€000	
Within one year	12 / 22	57,773	17.5%	88,920	21.2%
After one year		272,300	82.5%	331,232	78.8%
<b>Total</b>		<b>330,073</b>	<b>100%</b>	<b>420,152</b>	<b>100%</b>

Comparative figures as at 31 December 2017:

	Notes	Financial assets	% of total	Borrowings and facilities	% of total
		€000		€000	
Within one year	12 / 22	117,485	42.5%	21,999	6.2%
After one year		159,210	57.5%	330,770	93.8%
<b>Total</b>		<b>276,695</b>	<b>100%</b>	<b>352,769</b>	<b>100%</b>

The maturity gap in respect of Group's financial assets and borrowings and facilities within one year is supported by available cash of €37.3m and undrawn facilities of €25.7m.

#### Market risk

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

#### Interest rate risk

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

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

Interest payable on loans under the Facility agreement is charged at an annual marginal rate of 3.5% plus IBOR (being EURIBOR for loans denominated in euro, otherwise LIBOR). In any case that IBOR is less than 0% in respect of any loans drawn, IBOR in respect of that loan shall be deemed to be 0%. As at 31 December 2018, €64.3m of the Facility was drawn. Commitment fees payable under the Facility agreement are accrued at the rate of 35% of the then applicable margin, being 1.225% p.a. in the reporting period.

Interest payable on draws made under the Term Facility agreement is charged at an annual rate of 3.75% plus IBOR. As at 31 December 2018, €20.7m of the facility was drawn. No commitment fee is payable under the Term Facility agreement.



# Notes to the Consolidated Financial Statements (continued)

## 20. Financial risk management (continued)

### Interest rate risk (continued)

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

	Year ended 31 December 2018	Period from Incorporation to 31 December 2017
	€000	€000
Increase in finance cost	1,846	647
<b>Total impact on the Statement of Comprehensive Income for the period</b>	<b>1,846</b>	<b>647</b>

### Foreign currency risk

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

- **Statement of Consolidated Comprehensive Income exposure**

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

- **Statement of Consolidated Financial Position exposure**

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

- **Cash flow exposure**

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

### Foreign currency sensitivity analysis

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

	Year ended 31 December 2018	Period from Incorporation to 31 December 2017
	€000	€000
<b>Equity and net assets</b>		
Polish Zloty (PLN)	(2,069)	-
Sterling (GBP)	(855)	(154)
Romanian leu (RON)	(3)	(52)
<b>Loss</b>		
Polish Zloty (PLN)	(2,069)	-
Sterling (GBP)	(855)	(154)
Romanian leu (RON)	(3)	(52)

## Notes to the Consolidated Financial Statements (continued)

### 20. Financial risk management (continued)

#### Foreign currency sensitivity analysis (continued)

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

	Year ended 31 December 2018	Period from Incorporation to 31 December 2017
	€000	€000
<b>Equity and net assets</b>		
Polish Zloty (PLN)	2,069	-
Sterling (GBP)	855	154
Romanian leu (RON)	3	52
<b>Profit</b>		
Polish Zloty (PLN)	2,069	-
Sterling (GBP)	855	154
Romanian leu (RON)	3	52

#### Capital risk management

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

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

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

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

The net capital position for the Group is set out below:

	As at 31 December 2018	As at 31 December 2017
	€000	€000
Equity	15,174	(5,148)
Borrowings	400,443	329,323
Less: Cash and cash equivalents	(37,310)	(52,194)
<b>Total</b>	<b>378,307</b>	<b>271,981</b>

### 21. Financial assets, liabilities and instruments

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

Financial assets	Book value 31 December 2018	Fair value 31 December 2018
	€000	€000
Purchased loan portfolios	309,949	306,880
Purchased loan notes	19,938	19,938
Investments in joint ventures	41,543	40,827
Cash and cash equivalents	37,310	37,310
Trade and other receivables	16,642	16,642
<b>Total</b>	<b>425,382</b>	<b>421,597</b>



## Notes to the Consolidated Financial Statements (continued)

### 21. Financial assets, liabilities and instruments (continued)

Comparative figures from Incorporation to 31 December 2017:

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

Financial liabilities	Book value	Fair value
	31 December 2018	31 December 2018
	€000	€000
Borrowings	400,443	353,254
Secured loan notes	19,709	19,764
Trade and other payables	14,331	14,331
<b>Total</b>	<b>438,783</b>	<b>353,292</b>

For the Group, the carrying value of financial assets and financial liabilities is considered to be the best estimate of fair value, with the exception of purchased loan portfolios, purchased loan notes, investments in joint ventures and secured loan notes. The fair value of purchased loan portfolios, purchased loan notes investments in joint ventures and secured loan notes have been determined by discounting the net cash flows of the Group Assets over 84 months at a market discount rate.

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

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

#### 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.

## Notes to the Consolidated Financial Statements (continued)

### 21. Financial assets, liabilities and instruments (continued)

#### Valuation models (continued)

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

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

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

#### Financial instruments not measured at fair value – fair value hierarchy

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

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

	Level 1	Level 2	Level 3
	€000	€000	€000
Purchased loan portfolios	-	-	309,949
Purchased loan notes	-	-	19,938
Investment in joint ventures	-	-	41,543
Investment in associate	-	-	6,316
Senior Secured Notes	(319,133)	-	-
Revolving Credit Facility	-	(60,908)	-
Term Facility	-	(20,402)	-
Secured loan notes	-	-	(19,709)
<b>Total</b>	<b>(319,133)</b>	<b>(81,310)</b>	<b>358,037</b>

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 year of the purchased loan portfolios and purchased loan notes can be seen in note 12.

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



## Notes to the Consolidated Financial Statements (continued)

### 22. Borrowings and facilities

	As at 31 December 2018	As at 31 December 2017
	€000	€000
<b>Expected falling due after one year</b>		
Senior Secured Notes	316,424	315,152
Secured loan notes	14,808	15,618
<b>Total</b>	<b>331,232</b>	<b>330,770</b>
<b>Expected falling due within one year</b>		
Revolving Credit Facility	60,908	11,418
Term Facility	20,402	-
Senior Secured Notes	2,709	2,753
Secured loan notes	4,901	7,828
<b>Total</b>	<b>88,920</b>	<b>21,999</b>

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 31 December 2018 AFE had a €90.0m (2017: €45m) 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 31 December 2018, €60.2m (2017: €11.5m) had been drawn as a loan from the Facility, and €4.1m (2017: €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 December 2018 equal to €25.7m (2017: €29.4m). 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 31 December 2018, the LTV Ratio was 62.1% and the SSRCF LTV Ratio was 3.3%.

On 16 October 2018, Alpha Credit Solutions 6 S.a.r.l. ("ACS6") entered into a 36 month €20.8m Term Facility Agreement with National Westminster Bank. As at 31 December 2018, €20.7m had been drawn. Interest accrues at a rate equal to the Margin and EURIBOR. The Margin means 3.75% for a period of 6 months, and this rate decreases at various intervals over the term of the agreement.

In accordance with the Term Facility, ACS6 is required to ensure that leverage does not exceed:

- i) 55% for the first 12 months of the agreement,
- ii) 45% for the second 12 months of the agreement and
- iii) 35% for the remaining term of the agreement.

As at 31 December 2018, leverage was 43.4%, therefore fully complying with the financial covenants imposed.

## Notes to the Consolidated Financial Statements (continued)

### 22. Borrowings and facilities (continued)

#### Reconciliation of changes in financial liabilities arising from financing activities

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

	Cash and cash equivalents	Borrowings	Secured loan notes	Total
	€000	€000	€000	€000
<b>As at 1 January 2018</b>	<b>52,194</b>	<b>(329,323)</b>	<b>(23,446)</b>	<b>(300,575)</b>
Cash flows	(14,884)	(51,445)	4,414	(61,915)
Acquisitions	-	-	-	-
Foreign exchange adjustments	-	(84)	-	(84)
Finance cost	-	(20,500)	342	(20,158)
Other non-cash movements	-	909	(1,019)	(110)
<b>As at 31 December 2018</b>	<b>37,310</b>	<b>(400,443)</b>	<b>(19,709)</b>	<b>(382,842)</b>

Comparative figures from Incorporation to 31 December 2017:

	Cash and cash equivalents	Borrowings	Secured loan notes	Total
	€000	€000	€000	€000
<b>As at 28 June 2017</b>	-	-	-	-
Cash flows	52,194	(320,312)	2,205	(265,913)
Acquisitions	-	-	(24,208)	(24,208)
Foreign exchange adjustments	-	(95)	-	(95)
Finance cost	-	(8,371)	(1,442)	(9,813)
Other non-cash movements	-	(545)	-	(545)
<b>As at 31 December 2017</b>	<b>52,194</b>	<b>(329,323)</b>	<b>(23,446)</b>	<b>(300,575)</b>

### 23. 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 determined that the Group 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 was 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 31 December 2018 is c. €2.9m.

#### 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 the Group maintains 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. As of 31 December 2018 c. €3.0m has been paid to the RTA in respect of this assessment. This tax liability has now been fully settled.

#### Brexit

The Group maintained a consistent focus on risks arising as a result of uncertainties related to the United Kingdom's planned exit from the European Union ("Brexit"). Oversight of planning for regulatory and legislative impacts – as well as economic impacts – remained a part of forward-looking risk management throughout the year.



## Notes to the Consolidated Financial Statements (continued)

### 23. Commitments and contingencies (continued)

#### Brexit (continued)

As the Fund is euro denominated, has a Luxembourg-based AIFM and is not reliant on distribution of its shares to UK investors, the potential risks related to Brexit remain remote.

### 24. Ultimate parent entity

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

### 25. Subsequent events

On 22 January 2019, ACS6 increased the existing Term Facility it had available from €20.8m to €25.0m. The termination date of the Term Facility has extended from 15 October 2021 to 21 January 2022, and the terms over which the financial covenants comply reset so that the leverage test as set out in note 22 begins for the 36 month period beginning 22 January 2019.

On 4 March 2019 it was recommended and approved by the board that a dividend in the amount of €10.1m be paid to the sole shareholder. The dividend is due to be paid on 13 March 2019.

### 26. 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, purchased loan notes, investments in joint ventures and secured loan notes are calculated using the EIR method are also replaced with actual cash collections in the year. Collections in the year represent cash received by the Group and/or the servicers engaged by the Group within that year and include deferred consideration on a received basis.

Normalised EBITDA eliminates the impact of portfolio disposals.

## Notes to the Consolidated Financial Statements (continued)

### 27. 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:

	Year ended 31 December 2018	Period from Incorporation to 31 December 2017
	€000	€000
<b>Profit before tax</b>	<b>21,338</b>	<b>(1,547)</b>
Finance costs	20,158	9,813
Share of profit in associate	(770)	(292)
Net foreign currency losses	118	57
Impairment	2,239	7,386
Collections from portfolios	133,671	67,786
Revenue	(75,605)	(33,257)
Other income	231	-
Repayment of secured loan notes	(4,414)	(2,205)
Non-recurring items	508	2,378
Finance income	(472)	(65)
<b>Normalised and Adjusted EBITDA</b>	<b>97,002</b>	<b>50,054</b>

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

	Year ended 31 December 2018	Period from Incorporation to 31 December 2017
	€000	€000
<b>Net cash generated from operating activities</b>	<b>(60,633)</b>	<b>26,991</b>
Portfolio acquisitions	156,739	25,337
Other income	231	-
Taxation paid	3,795	31
Repayment of secured loan notes	(4,414)	(2,205)
Working capital adjustments	776	(2,536)
Non-recurring items	508	2,378
<b>Normalised and Adjusted EBITDA</b>	<b>97,002</b>	<b>50,054</b>

Reconciliation of core collections to Normalised and Adjusted EBITDA:

	Year ended 31 December 2018	Period from Incorporation to 31 December 2017
	€000	€000
<b>Core Collections/Collections in the year</b>	<b>133,671</b>	<b>67,786</b>
Other income	231	-
Operating expenses	(35,351)	(25,348)
Net foreign currency losses	118	57
Impairment	2,239	7,386
Repayment of secured loan notes	(4,414)	(2,205)
Non-recurring items	508	2,378
<b>Normalised and Adjusted EBITDA</b>	<b>97,002</b>	<b>50,054</b>



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

## Liquidity arrangements and liquidity management

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

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

## Leverage

The leverage employed by AnaCap Financial Europe S.A. SICAV-RAIF (the "AIF") as per December 31, 2018 was 190.02% of the AIF's net asset value based on the gross method and 204.10% of the AIF's net asset value based on the commitment method.

The Leverage has been calculated in accordance with articles 7 and 8 of AIFMD law, and has no bearing or correlation with how leverage is calculated under the Facility agreement for the Super Senior Revolving Credit Facility that AnaCap Financial Europe S.A. SICAV-RAIF is a party to.

## Risk management

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

## Material Changes

Following the departure of Mr Attilio Femiano at the end of 2017, Mr James Bolton was approved as Conducting Officer for Delegate Oversight, Risk and Compliance by the CSSF on 5th February 2018. Mrs Elisabeth Patino George was also approved as Conducting Officer for Portfolio Management at the same time. In June 2018, Mr Andrew Hehir, Head of Compliance and MLRO resigned and on 18 November 2018, Mr Christophe Douche was appointed as Head of Risk with the CSSF approving his appointment as Conducting Officer for Risk. He was also approved by the CSSF as Compliance and MLRO on 28 December 2018.

## Remuneration

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

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

The Board of Directors of the AIFM is responsible for the design, implementation and regular review of the Remuneration Policy. In reviewing the Remuneration Policy, the Board of Directors of the AIFM will consider whether the remuneration framework operates as intended and that the risk profile, long-term objectives and goals of the AIFs it manages are adequately reflected.

A copy of the AIFM Remuneration Policy is available, free of charge, at the registered office of the AIFM and at the following address: [www.carnegroup.com](http://www.carnegroup.com).

**Proportion of the total remuneration of the staff of the AIFM attributable to AnaCap Financial Europe S.A. SICAV-RAIF, as of December 31, 2018<sup>1</sup>**

<sup>1</sup> 31 December is the financial year end of the AIFM

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

For the identified persons, the total fixed and variable remuneration attributable to AnaCap Financial Europe S.A. SICAV-RAIF has been calculated on a pro-rata basis on the basis of all funds managed by Carne Global Fund Managers Luxembourg SA.

	Number of beneficiaries	Total remuneration (EUR) <sup>2</sup>	Fixed remuneration in percentage of total	Variable remuneration in percentage of total	Carried Interest paid in percentage of total
Total remuneration paid to Identified Staff <sup>3</sup> by the AIFM during the financial year	7	€ 1,764,117	0.95%	0.30%	0%

<sup>2</sup> Total remuneration = sum of fixed remuneration and variable remuneration paid during the AIFM's financial year  
<sup>3</sup> Identified Staff comprises = Chief Executive Officer, Conducting Officers and Head of Legal and Compliance