AnaCap Financial Europe S.A. SICAV-RAIF

Audited Consolidated Annual Report
For the Year Ended 31 December 2019

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General Information

Fund

AnaCap Financial Europe S.A. SICAV-RAIF
As of 24 January 2020:
412F, route d' Esch
L-2086 Luxembourg
Grand Duchy of Luxembourg
R.C.S. Luxembourg: B216080

From 28 June 2017 to 23 January 2020:
E Building, Parc d'Activité Syrdall
6, rue Gabriel Lippmann
L-5365 Munsbach
Grand Duchy of Luxembourg

Board of Directors

- Audrey Lewis;
- Christopher Ross-Roberts;
- Duncan Smith (date of resignation: 31 July 2019);
- Edward Green;
- Hugo Neuman;
- Yazid Oudina (date of appointment: 31 July 2019).

AIFM

Carne Global Fund Managers (Luxembourg) S.A.
6b, Route De Trèves
L-2350 Luxembourg
Grand Duchy of Luxembourg

Board of Directors of the AIFM

- Bill Blackwell;
- John Alldis;
- Kevin Nolan;
- John Donohue (date of appointment: 18 October 2019);
- Steve Bernat (date of resignation: 24 July 2019).

Portfolio Manager

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

Board of Directors of the Portfolio Manager

- David Copperwaite;
- Gavin Davies (date of resignation: 24 May 2019);
- Jonathan Bridel (date of resignation: 31 December 2019);
- Nigel Ward;
- Peter Niven;
- Tim Wilson (date of appointment: 24 May 2019).

Administrative Agent

IQ EQ Fund Services (Luxembourg) S.A.
(effective from 20 March 2019)
Formerly: Augentius (Luxembourg) S.A.
412F, Route d'Esch
L-2086 Luxembourg

Depositary

RBS International Depositary Services S.A.
Luxembourg Branch
The Square, Building A – 40 Avenue J.F. Kennedy
L-1855 Luxembourg
Grand Duchy of Luxembourg

Auditor

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

Investment Advisor

AnaCap Financial Partners
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 Annual Report (the "Financial Statements") on the activities and financial performance of AFE and its subsidiaries (together, the "Group") for the period from 1 January 2019 to 31 December 2019. The Financial Statements incorporate the assets, liabilities, revenue and expenses of the Group.

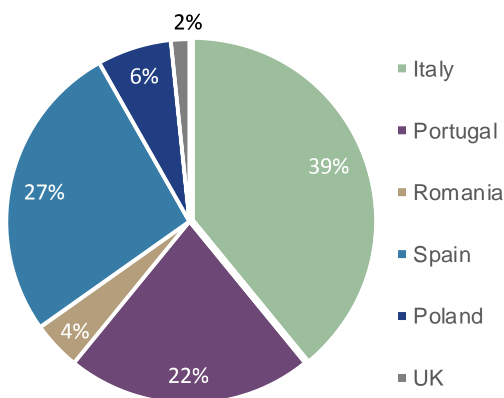
Business Overview

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

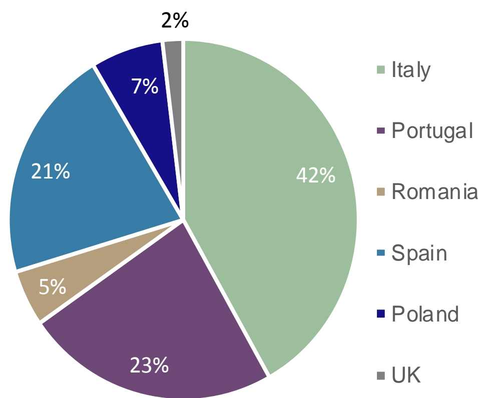
AFE has a diverse portfolio of seasoned and granular consumer, SME and mortgage debt which is differentiated among debt purchasers in the level of diversification across borrowers, asset types and geographies, as well as with its significant collateral backing.

The following charts illustrate the diversification of AFE's 84-month estimated remaining collections ("ERC") from existing purchased loan portfolios, purchased loan notes, investments in joint ventures and Inventory (together, the "Group's Assets") by asset type and geography as well as the seasoned nature of the debt portfolios as of 31 December 2019. 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.

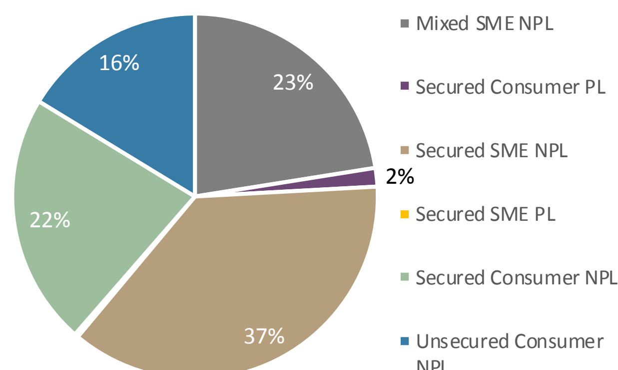
€523.5 million 84 month ERC by geography - 31 December 2019



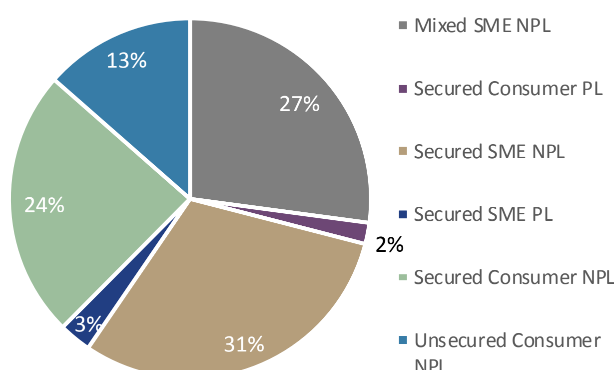
€585.1 million 84 month ERC by geography - 31 December 2018



€523.5 million 84 month ERC by asset type - 31 December 2019



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



Directors' Report (continued)

Key Performance Indicators

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

The KPI's included within the Directors Report have been prepared on a basis consistent with the financial data contained in the Offering Memorandum. The data below is based on the Group for the years ended 31 December 2019 and 31 December 2018. 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 year.

		Year ended 31 December 2019	Year ended 31 December 2018	% change
84-month ERC (€'000s)	1	523,466	585,122	-10.5%
84-month Gross ERC (€'000s)	2	554,265	620,031	-10.6%
Cumulative purchases of loan portfolios and loan notes (€'000s)	3	598,444	561,956	6.5%
Number of debt portfolios	4	30	22	36.4%
Number of accounts	5	217,193	216,957	0.1%
Total attributable collections (€'000s)	6	125,037	130,340	-4.1%
Total gross collections (€'000s)	7	124,906	133,671	-6.6%
Core collections (€'000s)	8	124,906	133,671	-6.6%
Operating expenses (€'000s)	9	32,340	32,486	-0.4%
Core collection cost ratio	10	25.9%	24.3%	6.5%
Adjusted EBITDA (€'000s)	11	90,302	97,002	-6.9%
Normalised Adjusted EBITDA (€'000s)	12	90,302	97,002	-6.9%

(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 cash collections gross of servicer fees and other costs to collect for all portfolios comprising the Group's Assets, 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; a total of €647 million has been deployed through acquisitions of and investments in 34 portfolios with an aggregate face value of €12.9 billion. Since 2012, 4 portfolios have been fully sold. As of 31 December 2019, the portfolios held by AFE had an aggregate face value of €10.5 billion following the historical sale of deals with a face value of €2.4 billion, with an 84-month ERC of €523 million.

Portfolios purchased in the year ended:	Purchase price (13)	Actual collections to 31 December 2019	84-month ERC	Total estimated collections (14)	Gross money multiple (15)
	€000	€000	€000	€000	
Year ended 31 December 2012	75,084	166,201	22,576	188,777	2.5x
Year ended 31 December 2013	77,386	131,804	35,749	167,553	2.2x
Year ended 31 December 2014	59,025	112,402	26,522	138,924	2.4x
Year ended 31 December 2015	47,806	42,291	28,250	70,541	1.5x
Year ended 31 December 2016	125,617	130,430	122,652	253,082	2.0x
Year ended 31 December 2017	65,017	77,510	35,383	112,893	1.7x
Year ended 31 December 2018	161,507	59,662	192,960	252,622	1.6x
Year ended 31 December 2019	36,488	2,494	59,374	61,867	1.7x

(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 2019 plus forecast collections for the following 84 months. An adjustment of €1.8m has been made in Q2 2019 to deduct collections received on behalf of co-investors which had been recognised historically.

(15) The Gross 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 2019
			€000
Borrowings:	The Notes		307,500
	Revolving Credit Facility (including bank guarantee)		55,071
	Term Facility		20,817
Less:	Cash at bank		(26,474)
	Cash held on AFE's account at servicers		(11,311)
Add back:	Cash collected on behalf of secured loan note holders		260
Net debt			**345,863**
LTV ratio		16	66.1%
Normalised Adjusted EBITDA leverage ratio		17	3.83
LTM Adjusted EBITDA		18	90,302
Net interest expense		19	21,245
Fixed charge cover ratio ("FCCR")		20	4.25

(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 2019.

(18) LTM Adjusted EBITDA means Adjusted EBITDA for the year ended 31 December 2019.

(19) Net interest expense means interest expense on total debt for the year ended 31 December 2019.

(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 2019
		€000
Borrowings:	The Notes	307,500
	Unamortised discount on issuance of the Notes	(1,255)
	Unamortised transaction fees	(5,619)
	Term Facility - non- current liability	3,606
	Per Financial Statements (non-current liability)	304,232
	Interest payable at 31 December 2019 (current liability)	2,484
	Revolving credit facility - amount drawn (excludes bank guarantee)	50,969
	Term Facility - current liability	17,211
	Unamortised transaction fees on Term Facility	(511)
Total borrowings		**374,385**

Directors' Report (continued)

Key risks and uncertainties

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

Risk	Definition	Impact	Mitigation
Market/economic risk	Changes in the economic environment in the markets in which the Group operates may negatively impact the Group's performance.	Adverse effect on potential recoveries, for example through rising interest rates. Rising rates could also impact the Groups ability to finance its debt.	The Group reviews and revises as necessary business plans for underlying portfolios on a periodic basis, and also monitors closely economic growth across Europe. Nonetheless a prudent outlook is maintained. The Group continues to explore ways in which to reduce the level of exposure from changing interest rates and from foreign exchange risk.
Concentration risk	The Group has a diverse range of portfolios across Europe, however 39% of ERC as at 31 December 2019 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.
COVID-19	The risk that COVID-19 causes a slowdown in economic growth in core markets, and causes short term disruption in collection activity.	A slowdown in economic growth could lead to adverse movements in asset prices and therefore underlying collateral values, which could have an effect on the Group's ability to meet collections targets. Disruption to court schedules and closure of auctions could result in collections being lower in the short term.	The Group continues to remain close to developments of COVID-19 and the impact it is having across core markets. The risk is helped mitigated by the geographic and regional diversification of the Groups asset base.

Significant recent developments

Impairment

As part of the biannual detailed review of all investments, and taking into account recent and expected future performance, AFE expects a reassessment of the timings for estimated remaining collections ("ERC"). As a consequence, the Group will report a non-cash impairment of €35.6m in Q4 2019, resulting in a write down of the book value of its investment in portfolios to €347.3m, or a 9% reduction.

Adjusted EBITDA is unaffected by the impairment at €90.3m for 2019, compared to €97.0m in 2018, despite total capital deployment of only €36.4m during the year (compared to €161.5m in 2018). The Group will record a non-cash loss for the full year 2019 as a result of the write down of the portfolio.

The reassessment of ERC includes a timing shortfall of collections of €10m in Q4 2019 or 7.6% below full year collections target of €135m as well as a more conservative view of expected timings of collections going forward across a range of portfolios and geographies.

Directors' Report (continued)

Significant recent developments (continued)

Impairment (continued)

The level of impairment is primarily driven by the impact of discounting expected cash flow over the life of the portfolio (using the Effective Interest Rate to calculate the book value) as well as a modest decrease of ERC of €5m, or 1%, to €523.5m. While the proportion of ERC now forecast to be delivered in 2020 will be reduced to €127m or 23% below previous forecast of €164m (presented during Q3 results), we expect total collections from assets owned at 30 September 2019 to be €450m from 2020 to 2023 or 97% of the previous estimate. ERC secured by underlying real estate collateral and cash in court remains stable over the period at around 75%.

During 2019, AFE remained highly disciplined in deployment while it continued to enhance its Asset Management and Analytics capabilities in order to continually assess and optimise performance across its portfolio. This includes significant recent hires in the UK, Spain and Portugal, with additional hires expected soon in Italy, as AFE looks to further capitalise on its long track record in each of these local markets.

Please refer to Note 1 of the Financial Statements to see other significant recent developments of the Group.

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 at least 12 months from the date of approval of the Financial Statements. As at the date the Financial Statements were approved, €56.1m was available to draw from the Facility. Accordingly, the Board of Directors continue to prepare the Financial Statements on the going concern basis.

Future developments

The Board of Directors expect that the level of activity within the credit asset industry to remain strong during 2020 as the Group continues to explore opportunities in both core markets and potentially new geographies. As in 2019, amidst intensive competition for NPLs in particular, the Group will remain highly selective and only pursue opportunities that are suitable, offer a sufficiently high return and are in line with the strategic objectives of the Group.

This will likely include expanding into a wider range of asset classes building upon AnaCap's well established, broader credit experience in performing loans and direct real estate investments amongst others, including further co-investment alongside AnaCap's Credit Opportunities funds. With a primary focus recently on real estate secured NPLs and with European banks continuing to de-lever by increasingly selling not only NPLs but also repossessed real estate (REOs), the Group has increased its own focus on REOs, building upon its extensive experience valuing and liquidating real estate as a core component of the NPL recovery strategy. With funding gaps remaining around even well located, liquid real estate assets in need of re-positioning and/or where there has previously been distress, attractive opportunities exist in small to mid-size residential and commercial real estate. Moreover, by investing alongside AnaCap's funds, it is possible to maintain a higher level of diversification across the number of deals and variety of asset types. The Group and broader AnaCap funds also have extensive experience investing in unsecured NPLs as well as unsecured and secured performing debt, all of which continue to feature in European banks expanded efforts to divest of non-core assets in order to optimise capital usage and profitability.

The Group also expects to further develop its internal servicing capabilities during 2020 across its core markets. Following the successful acquisition and on-boarding 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, and more recently the incorporation of a local servicing platform in Portugal, Átila Unipessoal LDA ("Átila"), the Group has seen the benefits of an increased on the ground presence in each of these core geographies, including assistance with due diligence through to local Asset Management capabilities. These capabilities include both master servicing and selectively internalising direct special servicing, leveraging internal competencies around amicable and legal recoveries, real estate valuation and management, financial, corporate administration, reporting and analytics. Increasing asset management capabilities in core markets will assist in continually improving underwriting and due diligence on potential new acquisitions as well as optimising performance and rapidly addressing performance challenges in existing assets.

Christopher Ross-Roberts
Director
9 March 2020

Statement of Directors' Responsibilities

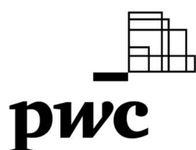
The Board of Directors of AnaCap Financial Europe S.A. SICAV-RAIF submits its report and the audited consolidated financial statements (the "Financial Statements") for the Group for the year ended 31 December 2019.

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

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 and its subsidiaries (the "Fund") as at 31 December 2019, 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 2019;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of cash flows for the year then ended;
- the consolidated statement of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with the Law of 23 July 2016 on the audit profession (Law of 23 July 2016) and with International Standards on Auditing (ISAs) as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier" (CSSF). Our responsibilities under 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.

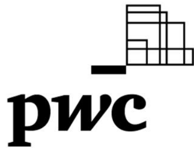
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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.

Other information

The Board of Directors 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.



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

Responsibilities of the Board of Directors for the consolidated financial statements

The Board of Directors 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 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 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 either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

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;

- conclude on the appropriateness of the Board of Directors' 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, 9 March 2020

Thierry Salagnac

Consolidated Statement of Comprehensive Income for the Year Ended 31 December 2019

	Notes	Year ended 31 December 2019 €000	Year ended 31 December 2018 €000
Revenue			
Interest income from purchased loan portfolios		71,925	71,283
Interest income from purchased loan notes		2,058	2,203
Interest income from joint ventures		6,118	554
Revaluation gains		129	1,334
Other income		348	231
Total revenue	5	**80,578**	**75,605**
Operating expenses			
Collection activity costs		(22,008)	(22,566)
Impairment	12	(35,897)	(2,239)
Net foreign currency gains / (losses)	7	187	(118)
Other operating expenses	7	(10,551)	(10,428)
Non-recurring items	7	(219)	(508)
Normal operating expenses		(10,332)	(9,920)
Total operating expenses		**(68,269)**	**(35,351)**
Operating profit		**12,309**	**40,254**
Finance income		508	472
Gain from repurchase of Senior Secured Notes		1,728	-
Finance costs		(22,461)	(20,158)
Interest expense - secured loan notes		(2,660)	(3,284)
Revaluation gain on secured loan notes		1,444	3,626
Finance costs - borrowings	8	(21,245)	(20,500)
Share of profit in associate	11	806	770
(Loss) / profit before tax		**(7,110)**	**21,338**
Tax charge	9	(1,520)	(1,016)
Comprehensive (loss) / income for the year		**(8,630)**	**20,322**

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 2019

	Notes	As at 31 December 2019 €000	As at 31 December 2018 €000
Assets			
Non-current assets			
Property, plant and equipment		73	22
Investment in associate	11	6,522	6,316
Goodwill	10	1,836	1,836
Total non-current assets		**8,431**	**8,174**
Current assets			
Cash and cash equivalents		26,474	37,310
Trade and other receivables	14	21,241	16,642
Purchased loan portfolios	12	241,665	309,949
Purchased loan notes	12	17,903	19,938
Investments in joint ventures	12	61,743	41,543
Inventory	13	26,025	20,401
Total current assets		**395,051**	**445,783**
Total assets		**403,482**	**453,957**
Liabilities			
Non-current liabilities			
Borrowings	22	304,232	316,424
Trade and other payables	15	1,172	1,281
Total non-current liabilities		**305,404**	**317,705**
Current liabilities			
Borrowings	22	70,153	84,019
Secured loan notes	22	16,414	19,709
Trade and other payables	15	9,890	13,050
Tax payable		691	1,408
Provisions	23	4,492	2,892
Total current liabilities		**101,640**	**121,078**
Total liabilities		**407,044**	**438,783**
Equity			
Share capital	16	1,250	1,250
Retained earnings		(4,812)	13,924
Total equity		**(3,562)**	**15,174**
Total equity and liabilities		**403,482**	**453,957**
Net Asset Value as per Offering Memorandum	18	**316,263**	**332,103**
Net Asset Value per share	16	**(2.850)**	**12.139**

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 2019 were approved by the Board of Directors and authorised for issue on its behalf by:

Christopher Ross-Roberts
Director
9 March 2020

Consolidated Statement of Cash Flows for the Year Ended 31 December 2019

	Notes	Year ended 31 December 2019 €000	Year ended 31 December 2018 €000
Cash flows from operating activities			
(Loss) / Profit before tax		(7,110)	21,338
Adjustments for:			
Interest income from purchased loan portfolios	12	(71,925)	(71,283)
Interest income from purchased loan notes	12	(2,058)	(2,203)
Interest income from joint ventures	12	(6,118)	(554)
Other income		(348)	(231)
Finance income		(508)	(472)
Impairment	12	35,897	2,239
Gain from repurchase of Senior Secured Notes		(1,728)	-
Revaluation gain - secured loan notes		(1,444)	(3,626)
Revaluation gains		(129)	(1,334)
Finance costs - borrowings	8	21,245	20,500
Interest expense - secured loan notes		2,660	3,284
Net foreign currency (gains) / losses	7	(187)	118
Share of profit in associate	11	(806)	(770)
Operating cash flows before movements in working capital		**(32,559)**	**(32,994)**
Change in trade and other receivables*	14	(1,154)	8,137
Change in trade and other payables*	15	(2,010)	(8,913)
Cash used in operating activities before collections and purchases		**(35,723)**	**(33,770)**
Tax paid		(636)	(3,795)
Collections in the year	12	124,906	133,671
Acquisition of purchased loan portfolios	12	(9,206)	(102,892)
Acquisition of purchased loan notes	12	(3,865)	(17,345)
Acquisition of joint ventures	12	(21,406)	(36,502)
Net cash generated from / (used in) operating activities		**54,070**	**(60,633)**
Cash flows from investing activities			
Acquisition of subsidiaries		(300)	(317)
Deferred consideration paid		(5,340)	-
Dividends received		600	-
Other transaction costs		-	(154)
Net cash used in investing activities		**(5,040)**	**(471)**
Cash flows from financing activities			
Dividends paid	16	(10,106)	-
Proceeds from borrowings		60,201	120,300
Repayment of borrowings		(69,857)	(50,761)
Senior Secured Notes repurchased		(15,400)	-
Revolving Credit Facility transaction and other fees paid		(133)	(811)
Repayment of secured loan notes		(4,511)	(4,414)
Finance costs paid		(20,060)	(18,094)
Net cash (used in) / generated from financing activities		**(59,866)**	**46,220**
Net movements in cash and cash equivalents		(10,836)	(14,884)
Cash and cash equivalents at the beginning of the year		37,310	52,194
Cash and cash equivalents at the end of the year		**26,474**	**37,310**

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

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

Consolidated Statement of Changes in Equity for the Year Ended 31 December 2019

	Share capital	Retained earnings	Total equity
	€000	€000	€000
Balance as at 1 January 2019	1,250	13,924	15,174
Dividend paid	-	(10,106)	(10,106)
Comprehensive loss for the year	-	(8,630)	(8,630)
Balance as at 31 December 2019	**1,250**	**(4,812)**	**(3,562)**

Comparative figures for the year ended 31 December 2018:

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

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

Notes to the Consolidated Financial Statements for the Year Ended 31 December 2019

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*).

On 24 January 2020 the registered address of the Fund was changed from E Building, Parc d'Activité Syrdall, 6, Rue Gabriel Lippmann, L-5365 Munsbach, Grand Duchy of Luxembourg to 412F, route d' Esch, L-2086 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 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.

Significant changes in the current reporting year

On 18 January 2019, the Group increased the size of the Term Facility by €4.1m to €25.0m (see note 22 'Borrowings and facilities' for further information).

On 4 March 2019 the Board of Directors approved a dividend of €10.1m. This was fully paid on 13 March 2019.

On 1 April 2019 the Group acquired a secured non-performing loan portfolio originating in Spain for a purchase price of c.€8.9m.

On 3 May 2019 AFE repurchased Senior Secured Notes with a nominal value of €10.0m with a carrying value per the Financial Statements of c.€9.8m for a total consideration of c.€9.0m. On 25 June 2019 AFE repurchased Senior Secured Notes with a nominal value of €7.5m with a carrying value per the Financial Statements of c.€7.4m for a total consideration of c.€6.5m. On repurchase the Senior Secured Notes were cancelled with immediate effect.

On 14 May 2019 Alpha Credit Solutions 1 S.a r.l., a fully owned indirect subsidiary of AFE, successfully incorporated Atticus - Sociedade de Titularizacao de Creditos, S.A. ("Atticus STC, S.A."), a securitisation vehicle regulated by the Comissao Do Mercado De Valores Mobiliarios ("CMVM") in Portugal. The vehicle will serve as a platform for the acquisition and management of future NPL portfolio transactions in Portugal.

On 12 September 2019 the Group subscribed to loan notes and equity in a Luxembourg securitisation vehicle Precise Credit Solutions 5 SV S.a r.l ("PCS5") as part of a joint arrangement, which amounted to c.€5.4m. PCS5 in turn used these proceeds to acquire a Spanish NPL portfolio. The Group's economic share in this joint arrangement is 33.33%.

As part of another joint arrangement the Group subscribed to an additional c.€8.0m of loan notes and equity in PCS5 during October 2019 and November 2019 in connection with the acquisition of another Spanish NPL portfolio. The Group's economic share in this joint arrangement is 33.33%.

On 20 September 2019 AFE subscribed to 10% of the loan notes issued by Precise Credit Solutions 4 S.a r.l. ("PCS4"), an entity within the AnaCap Credit SCSp - Compartment A - AnaCap Credit Opportunities IV fund structure, in connection with facilitating the 1st close of the acquisition of a Portuguese REO portfolio. Total invested capital in respect of this 1st close amounted to c.€8.8m. On 31 October 2019 and 17 December 2019 AFE subscribed to additional loan notes issued by PCS4; on both occasions AFE subscribed to 10% of the loan notes being issued. Total consideration paid on each subscription was c.€1.0m and c.€0.8m respectively, each of which was then used to complete the 2nd and 3rd closes of the Portuguese REO portfolio acquisition.

In connection with the re-financing of the Portuguese REO portfolio acquisition AFE received c.€6.7m from PCS4 on 14 November 2019. This reduced the total capital AFE had invested in acquiring this portfolio to c.€3.9m

On 27 September 2019 AFE signed a commitment letter to subscribe to 33.33% of the asset backed notes to be issued by Tiberius SPV S.r.l. (compartment 6) in connection with facilitating the acquisition of an Italian secured SME NPL portfolio. On 27 September 2019 AFE paid c.€2.1m to Tiberius SPV S.r.l (compartment 6) being an advance payment of the notes subscription price in accordance with the commitment letter. On 30 September 2019 Tiberius SPV S.r.l (compartment 6) applied these proceeds to acquire the Italian secured SME NPL portfolio.

1. General information (continued)

On 27 September 2019 AFE paid €5.3m being the deferred consideration due in respect of an Italian portfolio that was acquired on 1 October 2018.

On 27 November 2019 AFE signed a commitment letter to subscribe to 33.33% of the asset backed notes to be issued by Tiberius SPV S.r.l. (compartment 6) in connection with facilitating the acquisition of another Italian secured SME NPL portfolio. On 28 November 2019 AFE paid c.€1.6m to Tiberius SPV S.r.l. (compartment 6) being an advance payment of the notes subscription price in accordance with the commitment letter. On 29 November 2019 Tiberius SPV S.r.l. (compartment 6) applied these proceeds to acquire the Italian secured SME NPL portfolio.

On 20 December 2019 AFE signed a commitment letter to subscribe to 33.33% of the asset backed notes to be issued by Tiberius SPV S.r.l. (compartment 6) in connection with facilitating the acquisition of two additional Italian secured SME NPL portfolios from two different sellers. On 27 December 2019 AFE paid c.€4.4m to Tiberius SPV S.r.l. (compartment 6) being an advance payment of the notes subscription price in accordance with the commitment letter. On 31 December 2019 Tiberius SPV S.r.l. (compartment 6) applied these proceeds to acquire the two Italian secured SME NPL portfolios. An additional c.€2.0m is payable by way of deferred consideration on 31 December 2020 in connection with one of the portfolio acquisitions.

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

There are no standards, amendments to standards or interpretations that are effective for annual periods beginning on 1 January 2019 that have a material effect on the Financial Statements of the Fund.

The following new and revised standards and interpretations have been issued but not endorsed or effective for these Financial Statements and have not been early adopted, each having an effective date of 1 January 2020:

- *Definition of Material – Amendments to IAS1 and IAS8*
  The IASB has made amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors which use a consistent definition of materiality throughout International Financial Reporting Standards and the Conceptual Framework for Financial Reporting, which clarifies when information is material and incorporates some of the guidance in IAS 1 about immaterial information.
  In particular, the amendments clarify:

  - that the reference to obscuring information addresses situations in which the effect is similar to omitting or misstating that information, and that an entity assesses materiality in the context of the Financial Statements as a whole, and
  - the meaning of ‘primary users of general purpose financial statements’ to whom those Financial Statements are directed, by defining them as ‘existing and potential investors, lenders and other creditors’ that must rely on general purpose financial statements for much of the financial information they need.

- *Definition of a Business – Amendments to IFRS 3*
  The amended definition of a business requires an acquisition to include an input and a substantive process that together significantly contribute to the ability to create outputs. The definition of the term ‘outputs’ is amended to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits.

  The amendments will likely result in more acquisitions being accounted for as asset acquisitions.

- *Revised Conceptual Framework*
  The IASB has issued a revised Conceptual Framework which will be used in standard-setting decisions with immediate effect. Key changes include:

  - increasing the prominence of stewardship in the objective of financial reporting
  - reinstating prudence as a component of neutrality
  - defining a reporting entity, which may be a legal entity, or a portion of an entity
  - revising the definitions of an asset and a liability
  - removing the probability threshold for recognition and adding guidance on derecognition
  - adding guidance on different measurement basis, and
  - stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the Financial Statements.

  No changes will be made to any of the current accounting standards. However, entities that rely on the Framework in determining their accounting policies for transactions, events or conditions that are not otherwise dealt with under the accounting standards will need to apply the revised Framework from 1 January 2020. These entities will need to consider whether their accounting policies are still appropriate under the revised Framework.

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

- *Interest rate benchmark reform – Amendment to IFRS 7, IFRS 9 and IAS 39*
  The amendments modify some specific hedge accounting requirements to provide certain reliefs in connection with interest rate benchmark reform. The reliefs relate to hedge accounting and have the effect that IBOR reform should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness should continue to be recorded in the income statement. Given the pervasive nature of hedges involving IBOR-based contracts, the reliefs will affect companies in all industries.

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

3. Summary of significant accounting policies

Basis of preparation

The Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and interpretations issued by the IFRS Interpretations Committee ("IFRS IC") applicable to companies reporting under IFRS. The Financial Statements comply with IFRS as adopted by the European Union. The principal accounting policies that have been applied to these Financial Statements are set out below.

The 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. As at the date the Financial Statements were approved, €56.1m was available to draw from the Facility. Accordingly, the Board of Directors continue to prepare the Financial Statements on the going concern basis.

Due to the loss incurred in the year AFE's net assets as of 31 December 2019 are less than a quarter of its share capital; in accordance with article 480-2 of 'Commercial Companies Law of 10 August 1915 as amended' the Board of Directors will call the general meeting with its sole shareholder to discuss the current and future performance of the Group. The Board of Directors are confident that the Group will continue to have the full support of its sole shareholder.

Investment entity

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

Consolidation and accounting for subsidiary entities within the Group

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

Investments in associates

Investments in which AFE has significant influence are considered as investments in associates and are accounted under the equity method of accounting. Significant influence is defined as having between 20% and 50% of the voting power of the investee, or, when the investor holds less than 20% 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.

3. Summary of significant accounting policies (continued)

Investments in associates (continued)

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.

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.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing goodwill is allocated to Group's cash-generating units (CGU), that are expected to benefit from the synergies of the combination. In accordance with IAS 36, goodwill is tested at least on an annual basis for impairment, by comparing the carrying amount of the CGU with the recoverable amount of the CGU. The Group calculates the recoverable amount of the CGU by determining the higher of the fair value less cost to sell and its value in use.

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. 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

Notes to the Consolidated Financial Statements (continued)

3. Summary of significant accounting policies (continued)

Financial assets (continued)

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 effective interest rate ("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.

Initial recognition of financial instruments

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

Purchase price of portfolio

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

Put back warranty claims

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

Purchased loan notes

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

Purchased loan portfolios

The Group's purchased loan portfolios are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Each portfolio asset is a group of homogenous items and as such is treated as single asset. Such assets are classified as loans and receivables and are measured at amortised cost using the 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, investments in joint ventures and inventory (together, the "Group's Assets") are categorised as current in the Consolidated Statement of Financial Position because 1) the underlying loans and receivables within each of the portfolios are, for most part, "past due" on their contractual payment obligations; and 2) as part of the Group's normal operating cycle (84 months), each of the portfolios is evaluated every 3-6 months, and where necessary, the strategy to recover the maximum value from each portfolio is re-visited.

Derivative financial instruments

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

Notes to the Consolidated Financial Statements (continued)

3. Summary of significant accounting policies (continued)

Secured loan notes

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

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

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

Interest income and expense, the effective interest rate and impairment

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 expected loss method of impairment under IFRS 9.
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.

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.

Notes to the Consolidated Financial Statements (continued)

3. Summary of significant accounting policies (continued)

Provisions

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

Operating expenses

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

Collection activity costs

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

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

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

Other operating expenses

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

Functional currency

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

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

Foreign currency translation

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

Non-recurring items

Non-recurring items are those which are separately identified by virtue of their size and nature (i.e. outside of the normal underlying operating activities of the Group) to allow a full understanding of the underlying performance of the business. These are disclosed separately on the face of the Consolidated Statement of Comprehensive Income. Current year non-recurring items are explained in note 7.

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.

Notes to the Consolidated Financial Statements (continued)

3. Summary of significant accounting policies (continued)

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 cost that are directly attributable to the issue of the Notes. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the Consolidated Statement of Comprehensive Income over the period of the borrowings using the EIR.

Super Senior Revolving Credit Facility

Super Senior Revolving Credit Facility ("the Facility") is recognised at the time of drawdown because that is the point at which AFE assumes the contractual provision of repayment. The Facility is initially recognised at fair value and subsequently measured at amortised cost using the straight line method. Any fees paid on establishment of the Facility are recognised as transaction cost 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.

3. Summary of significant accounting policies (continued)

Offsetting financial instruments

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

Related party transactions

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

4. Critical accounting judgments and estimates

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

Critical judgments in applying accounting policies

The following are the critical judgments that have been made in the process of applying the Group'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. 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 portfolio 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.

4. Critical accounting judgments and estimates (continued)

Changes in estimates

The expected cash flows created from the forecasting models are regularly benchmarked at a portfolio level against actual performance; this informs the decision as to whether a change in carrying value of the portfolio may be required. The estimated future cash flows generated by the above process are the key estimate and judgment in the Financial Statements. A change in the expected future cash flows by +10% would increase the carrying value of financial assets as at 31 December 2019 by €37,166k. A change in the expected future cash flows by -10% would reduce the carrying value of financial assets as at 31 December 2019 by €36,570k.

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

5. Segmental reporting

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

	As at 31 December 2019	As at 31 December 2018
	€000	€000
Investment in associate	6,522	6,316
Purchased loan portfolios	241,665	309,949
Purchased loan notes	17,903	19,938
Investments in joint ventures	61,743	41,543
Inventory	26,025	20,401
Statement of Financial Position		
Total segment assets	403,482	453,957
Total segment liabilities	(407,044)	(438,783)
Segment net (liabilities) / assets	**(3,562)**	**15,174**

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

	Year ended 31 December 2019	Year ended 31 December 2018
	€000	€000
- United Kingdom	1,394	1,318
- Romania	2,021	4,052
- Poland	3,508	-
- Italy, Spain, Portugal	73,655	70,235
Total revenue	**80,578**	**75,605**

Notes to the Consolidated Financial Statements (continued)

5. Segmental reporting (continued)

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

	As at 31 December 2019	As at 31 December 2018
	€000	€000
- United Kingdom	6,418	8,553
- Romania	13,965	19,938
- Poland	20,096	20,692
- Italy, Spain, Portugal	313,379	348,964
Total	**353,858**	**398,147**

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

	Gross ERC 31 December 2019	ERC 31 December 2019
	€000	€000
- United Kingdom	8,518	8,518
- Romania	22,518	22,518
- Italy	204,805	204,805
- Spain	165,716	139,430
- Portugal	118,288	113,775
- Poland	34,420	34,420
Total	**554,265**	**523,466**

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 2019	As at 31 December 2018
	€000	€000
Fees charged		
Audit fees	429	375
Total fees charged	**429**	**375**
Fees payable at year end		
Fees payable	285	239
Audit fees payable at the end of the year	**285**	**239**

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 of the Group's Assets are as follows:

	Year ended 31 December 2019	Year ended 31 December 2018
	€000	€000
Management fees	6,258	6,125
Directors' fees	236	265
Legal and professional fees	701	640
Administration fees	1,100	1,325
Audit fees	429	375
Abort deal fees	435	446
Depositary charges	59	40
Other expenses	1,114	704
Non-recurring items*	219	508
Other operating expenses	**10,551**	**10,428**
Realised foreign currency losses / (gains)	307	(144)
Unrealised foreign currency (gains) / losses	(494)	262
Net foreign currency (gains) / losses	**(187)**	**118**

*Non-recurring items relate to costs incurred on structural changes and efficiencies being implemented (2018: costs incurred in relation to the acquisition of Galata).

8. Finance costs – borrowings

	Year ended 31 December 2019	Year ended 31 December 2018
	€000	€000
Fees on Revolving Credit Facility	380	481
Interest on borrowings	3,109	1,773
Interest on Senior Secured Notes and related Charges	17,756	18,246
Total finance costs - borrowings	**21,245**	**20,500**

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 2019, the Group's tax charge of €1.52m (2018: €1.02m) comprised Portuguese and other local tax charges. Further information on the Portuguese tax charges can be found in 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 2019	Year ended 31 December 2018
	Notes	€000	€000
(Loss) / profit before tax		(7,110)	21,338
Standard income tax rate applicable in Luxembourg		24.94%	26.01%
Theoretical taxation (benefit) / charge		(1,773)	5,550
Effect of profit not subject to income tax		1,618	(5,475)
Taxation (benefit) / charge on ordinary activities before other taxes		**(155)**	**75**
Other taxes (Net Wealth Tax etc.)		75	209
Provisions	23	1,600	732
Taxation charge		**1,520**	**1,016**

10. Goodwill

As at 31 December 2019, the Group's goodwill amounts to €1.84m (2018: €1.84m). Goodwill arose in 2018 on the acquisition of 100% of the share capital in a Spanish asset manager, Galata Asset Management S.L. As of the end of 2019 no impairment was identified based on the test performed under IAS 36.

11. Investment in associate

The Group owns 30% of the issued share capital of Phoenix Asset Management SpA ("PAM").

The terms of the holdings means 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.

On 16 April 2019 PAM declared a dividend payable to the Group in the amount of €600k; this was received by the Group on 1 July 2019.

Below is a reconciliation of the movements in the carrying value of the Group's interest in PAM as at 31 December 2019:

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 2019	As at 31 December 2018
	€000	€000
Interest in net assets at beginning of year	6,316	5,392
Dividend declared during the year	(600)	-
Share of profit in associate	806	770
Costs capitalised in connection with the conversion of the warrants	-	154
Interest in net assets of associate at the end of the year	**6,522**	**6,316**

Notes to the Consolidated Financial Statements (continued)

11. Investment in associate (continued)

The tables below provide summarised financial information of PAM for the year ended 31 December 2019.

Statement of Financial Position of PAM as at 31 December 2019 (unaudited)

	As at 31 December 2019	As at 31 December 2018
	€000	**€000**
Assets		
Non-current assets	169	93
Current assets		
Cash and cash equivalents	6,122	6,599
Trade and other receivables	1,942	1,456
Total current assets	**8,064**	**8,055**
Total assets	**8,233**	**8,148**
Liabilities		
Current liabilities	919	1,364
Equity		
Share capital	71	71
Retained earnings	7,243	6,712
Total equity	**7,314**	**6,783**
Total equity and liabilities	**8,233**	**8,148**

Statement of Comprehensive Income of PAM for the year ended 31 December 2019 (unaudited)

	Year ended 31 December 2019	Year ended 31 December 2018
	€000	**€000**
Revenue	7,821	7,536
Depreciation	(50)	(33)
Other expenses	(3,666)	(3,848)
Operating profit	**4,105**	**3,655**
Finance cost and tax charge	(1,418)	(1,088)
Comprehensive income for the year	**2,687**	**2,567**

Notes to the Consolidated Financial Statements (continued)

12. Financial assets

	As at 31 December 2019	As at 31 December 2018
	€000	€000
Expected falling due after one year:		
Purchased loan portfolios	133,321	256,454
Purchased loan notes	12,708	15,845
Investment in joint ventures	46,565	40,815
Total	**192,594**	**313,114**
Expected falling due within one year:		
Purchased loan portfolios	108,344	53,495
Purchased loan notes	5,195	4,093
Investment in joint ventures	15,178	728
Total	**128,717**	**58,316**

The movements in purchased loan portfolios were as follows:

	As at 31 December 2019	As at 31 December 2018
	€000	€000
Purchased loan portfolios as at beginning of year	309,949	266,203
Portfolios acquired during the year	9,206	102,892
Interest income from purchased loan portfolios	71,925	71,283
Collections in the year*	(107,595)	(121,711)
Impairment	(34,927)	(2,239)
Less: movement in inventory and other receivables	(6,893)	(6,479)
Purchased loan portfolios at the end of the year	**241,665**	**309,949**

*Collections in the year also includes collections from the sale of inventory which the Group has acquired following a foreclosure process or other repossession strategy in order to maximise recoveries.

The movements in purchased loan notes were as follows:

	As at 31 December 2019	As at 31 December 2018
	€000	€000
Purchased loan notes as at beginning of year	19,938	10,181
Loan notes acquired during the year	3,865	17,345
Interest income from purchased loan notes	2,058	2,203
Collections in the year	(8,087)	(10,875)
Revaluation gain	129	1,334
Other movements	-	(250)
Purchased loan notes at the end of the year	**17,903**	**19,938**

Purchased loan notes represent the interests of the Group in investment vehicles (or compartments in these investment vehicles) where the Group does not exercise control, with each vehicle/compartment holding a single underlying loan portfolio. The Group has exposure to the underlying portfolios by way of purchasing notes issued by these entities as a mechanism to fund the original purchase of the loan portfolios and thereafter to distribute cash generated on loan collections. Purchased loan notes in the Consolidated Statement of Financial Position represent the Group's total interest in these entities measured at amortised cost, using the EIR method.

Notes to the Consolidated Financial Statements (continued)

12. Financial assets (continued)

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's 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.

The movements in investments in joint ventures were as follows:

	As at 31 December 2019	As at 31 December 2018
	€000	€000
Joint ventures as at beginning of year	41,543	-
Joint ventures acquired during the year	23,417	41,275
Interest income from joint ventures	6,118	554
Collections in the year	(8,532)	(492)
Impairment	(970)	-
Net foreign currency gain	167	206
Joint ventures at the end of the year	**61,743**	**41,543**

In addition to collections from the Group's Assets, €692k was received in the period from the deferred consideration owing from the disposal of purchased loan portfolios.

Where a contractual arrangement gives the Group and another party collective control of the arrangement, and where unanimous consent is required for both strategic and financial decision making, the arrangement is deemed to be jointly controlled. As such the transactions are deemed to be joint ventures and have been accounted for as such. Investments in joint ventures in the Consolidated Statement of Financial Position represent the Group's total interest in these entities.

Investments in joint ventures

The tables below provide summarised financial information of Tiberius S.r.l. (compartment 5) for the year ended 31 December 2019. The Group holds 50% of the asset backed notes issued by Tiberius S.r.l. (compartment 5) and the contractual arrangement in place with the other investor gives the Group collective 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.

The below financials are prepared using local Italian GAAP and reflect 100% of the financial results.

Statement of Financial Position of Tiberius S.r.l. (compartment 5) as at 31 December 2019 (unaudited)

	As at 31 December 2019	As at 31 December 2018
	€000	€000
Assets		
Non-current assets	35,186	40,786
Current assets		
Cash and cash equivalents	481	1,067
Trade and other receivables	544	35
Total current assets	**1,025**	**1,102**
Total assets	**36,211**	**41,888**
Liabilities		
Long term liabilities	34,256	30,000
Current liabilities	1,955	11,888
Total liabilities	**36,211**	**41,888**

12. Financial assets (continued)

Investments in joint ventures (continued)

Statement of Comprehensive Income of Tiberius S.r.l. (compartment 5) for the year ended 31 December 2019 (unaudited)

	Year ended 31 December 2019	Year ended 31 December 2018
	€000	€000
Other income	3,024	758
Other expenses	(3,024)	(758)
Operating profit	**-**	**-**
Tax charge	-	-
Comprehensive income for the year	**-**	**-**

The tables below provide summarised financial information of Tiberius S.r.l (compartment 6) for the year ended 31 December 2019. The Group holds 33.33% of the asset backed notes issued by Tiberius S.r.l. (compartment 6) and the contractual arrangement in place with the other investor gives the Group collective 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.

The below financials are prepared using local Italian GAAP and reflect 100% of the financial results.

Statement of Financial Position of Tiberius S.r.l. (compartment 6) as at 31 December 2019 (unaudited)

	As at 31 December 2019
	€000
Assets	
Non-current assets	28,793
Current assets	
Cash and cash equivalents	865
Trade and other receivables	127
Total current assets	**992**
Total assets	**29,785**
Liabilities	
Long term liabilities	23,452
Current liabilities	6,333
Total liabilities	**29,785**

Statement of Comprehensive Income of Tiberius S.r.l. (compartment 6) for the year ended 31 December 2019 (unaudited)

	Year ended 31 December 2019
	€000
Other income	183
Other expenses	(183)
Operating profit	**-**
Tax charge	-
Comprehensive income for the year	**-**

Notes to the Consolidated Financial Statements (continued)

12. Financial assets (continued)

Investments in joint ventures (continued)

The tables below provide the summarised financial information of Aneto NS FIZ ("Aneto") for the year ended 31 December 2019. Though the Group holds 60% of the investment certificates issued by Aneto, the contractual arrangement gives both parties collective 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.

The below financials are prepared using local Polish GAAP and reflect 100% of the financial results.

Statement of Financial Position of Aneto as at 31 December 2019 (unaudited)

	As at 31 December 2019	As at 31 December 2018
	€000	€000
Assets		
Non-current assets	34,240	34,939
Current assets		
Cash and cash equivalents	883	1,232
Trade and other receivables	528	2
Total current assets	**1,411**	**1,234**
Total assets	**35,651**	**36,173**
Liabilities		
Current liabilities	27,937	35,244
Equity		
Retained earnings	7,714	929
Total equity	**7,714**	**929**
Total equity and liabilities	**35,651**	**36,173**

Statement of Comprehensive Income of Aneto for the year ended 31 December 2019 (unaudited)

	Year ended 31 December 2019	Year ended 31 December 2018
	€000	€000
Other income	9,619	941
Other expenses	(1,913)	(7)
Finance cost	8	(5)
Operating profit	**7,714**	**929**
Tax charge	-	-
Comprehensive income for the year	**7,714**	**929**

12. Financial assets (continued)

Investments in joint ventures (continued)

The tables below provide the summarised financial information of Precise Credit Solutions 5 SV S.a r.l. for the year ended 31 December 2019. The Group holds 33.33% of the loan notes and equity issued by Precise Credit Solutions 5 SV S.a r.l (compartments A and B) and the contractual arrangement in place with the other investor gives the Group collective 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.

The below financials are prepared using local Luxembourg GAAP and reflect 100% of the financial results.

Statement of Financial Position of Precise Credit Solutions 5 SV S.a r.l. as at 31 December 2019 (unaudited)

	As at 31 December 2019
	€000
Assets	
Non-current assets	29,238
Current assets	
Cash and cash equivalents	2,770
Trade and other receivables	8,942
Total current assets	**11,712**
Total assets	**40,950**
Liabilities	
Long term liabilities	37,897
Current liabilities	1,971
Equity	
Share capital	1,082
Total equity	**1,082**
Total equity and liabilities	**40,950**

Statement of Comprehensive Income of Precise Credit Solutions 5 SV S.a r.l. for the period ended 31 December 2019 (unaudited)

	Period from Incorporation to 31 December 2019
	€000
Other income	668
Other expenses	(667)
Operating profit	**1**
Tax charge	(1)
Comprehensive income for the year	**-**

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.

13. Inventory

	As at 31 December 2019	As at 31 December 2018
	€000	€000
Inventory	26,025	20,401
Total	**26,025**	**20,401**

Inventory are collateral assets, mainly real estate, repossessed as part of the management of secured non-performing loan portfolios. All inventory within the Group is held through real estate owned companies ("REOCOs") in the jurisdiction in which the asset resides.

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

	Year ended 31 December 2019	Year ended 31 December 2018
	€000	€000
Opening inventory	20,401	15,456
Purchases	773	5,373
Re-possessions	11,237	4,374
Disposals	(6,386)	(4,802)
Closing balance	**26,025**	**20,401**

14. Trade and other receivables

	As at 31 December 2019	As at 31 December 2018
	€000	€000
Collections receivable	11,311	10,863
Other receivables	9,930	5,779
Total	**21,241**	**16,642**

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 and 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.

15. Trade and other payables

	Notes	As at 31 December 2019	As at 31 December 2018
		€000	€000
Trade payables		743	2,323
Deferred and contingent consideration		2,209	5,635
Amounts due to related parties	17	143	301
Accrued expenses		6,795	4,791
Trade and other payables - current		9,890	13,050
Deferred and contingent consideration - non-current		1,172	1,281
Total trade and other payables		**11,062**	**14,331**

Notes to the Consolidated Financial Statements (continued)

16. Share capital

	As at 31 December 2019	As at 31 December 2018
	€000	€000
Share capital at beginning of year	1,250	1,250
Total share capital at end of year	**1,250**	**1,250**

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

On 4 March 2019 the Board of Directors approved a dividend of €10.1m. This was fully paid on 13 March 2019.

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 2019	As at 31 December 2018
	000	000
NAV attributable to Class A shares	€(3,562)	€15,174
No. of remaining Class A shares	1,250	1,250
NAV per Class A shares	**€(2.85)**	**€12.14**

17. Related party transactions

	As at 31 December 2019	As at 31 December 2018
	€000	€000
Due to related parties		
Carne Global Fund Managers (Luxembourg) S.A.	4	50
AnaCap Investment Manager Limited	90	107
AnaCap Luxembourg S.à r.l.	49	144
Total	**143**	**301**

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 was €6,258k (2018: €6,125k).

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

During the year, the Group incurred charges of €672k (2018: €749k) 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.

17. Related party transactions (continued)

	Year ended 31 December 2019	Year ended 31 December 2018
	€000	€000
Fees charged		
Directors' fees	236	265
Total fees charged during the year	**236**	**265**
Fees payable		
Directors' fees payable	154	136
Directors' fees payable at the end of the year	**154**	**136**

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 the fair value of the purchased loan portfolios and purchased loan notes (net of servicing fees), less fair value of the secured loan notes (net of servicing fees), plus the fair value of investments in associates.

To factor into the NAV calculation investment activity that has occurred since the Offering Memorandum was prepared, the Adjusted NAV calculation now also includes the fair value of investments in joint ventures (net of servicing fees) and the fair value of Galata. For the purposes of the Adjusted NAV calculation, the carrying value of the investments in associates and the purchase price paid for the acquisition of Galata (discounted) have been used. The Adjusted NAV forms the basis of the management fee calculation paid each quarter.

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

	As at 31 December 2019	As at 31 December 2018
	€000	€000
NAV according to the Consolidated Statement of Financial Position	(3,562)	15,174
Adjustments:		
Cash and cash equivalents	(26,474)	(37,310)
Trade and other receivables	(21,241)	(16,642)
Trade and other payables (current and non-current)	11,753	15,739
Borrowings (current and non-current)	374,385	379,730
Fair value movement	(18,598)	(24,588)
Adjusted NAV	**316,263**	**332,103**

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	Ownership % as at 31 December 2019	Ownership % as at 31 December 2018	Current status
ACOF II Portugal Limited	Guernsey	100%**	100%**	Active
AFE Spain Limited	Guernsey	100%	100%	Active
AFE Asset Management S.à r.l.	Luxembourg	100%	100%	Active
Alpha Credit Holdings S.à r.l.	Luxembourg	100%	100%	Active
Alpha Credit Holdings 3 S.à r.l.	Luxembourg	100%	100%	Active
Alpha Credit Holdings 7 S.à r.l.	Luxembourg	100%	100%	Active
Alpha Credit Solutions 1 S.à r.l.	Luxembourg	100%	100%	Active
Alpha Credit Solutions 2 S.à r.l.	Luxembourg	100%	100%	Active
Alpha Credit Solutions 4 S.à r.l.	Luxembourg	100%	100%	Active
Alpha Credit Solutions 5 S.à r.l.	Luxembourg	100%	100%	Active
Alpha Credit Solutions 6 S.à r.l.	Luxembourg	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	100%	100%	Active
Prime Credit 3 S.à r.l.	Luxembourg	100%	100%	Active
Prime Credit 6 S.à r.l.	Luxembourg	100%	100%	Active
Prime Credit 7 S.à r.l.	Luxembourg	100%	100%	Active
Sagres Holdings Limited*	Malta	0%	0%	Active
Silview S.L.U.	Spain	100%	100%	Active
Tiberius SPV S.r.l.* (Compartments 1-4)	Italy	0%	0%	Active
Tiberius III REOCO S.R.L	Italy	100%	100%	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	100%	100%	Active
Galata Asset Management, S.L.	Spain	100%	100%	Active
Episódio Válido - S.A.	Portugal	100%	100%	Active
Atticus STC, S.A.	Portugal	100%	0%	Active
Átila, Unipessoal LDA	Portugal	100%	0%	Active

Only two subsidiaries have employees, Galata Asset Management, S.L and Átila, Unipessoal LDA, having 8 employees (2018: 5) and 1 employee at 31 December 2019 respectively.

* In accordance with IFRS 10 these entities have been deemed to be under the control of the Group and have therefore been consolidated in the Financial Statements. IFRS 10 determines there to be control when the Group is exposed to the majority of the variable returns and has the ability to affect those returns through power over an investee.

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

20. Financial risk management

Credit risk

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

The Group's principal activity is the acquisition and monetisation of pools of 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 and classified as POCI (Purchased or Originated Credit-Impaired) financial assets. 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. The carrying value estimation also takes into account collaterals, whenever applicable. The Group also holds purchased loan portfolios classified as Stage 1 for an amount of €6.4m. 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, purchased loan notes and investments in joint ventures 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.

The below table shows how the impairment charge recognised in Q4 2019 can be attributed by geography:

Country	Carrying value pre Q4 impairment	Q4 impairment charge	Carrying value post Q4 impairment
	€000	€000	€000
- Italy	140,143	(9,809)	130,334
- Spain	120,825	(20,807)	100,018
- Portugal	86,431	(4,689)	81,742
- Romania	14,129	(164)	13,965
- United Kingdom	6,707	(289)	6,418
- Poland	20,185	(89)	20,096
Total	**388,420**	**(35,847)**	**352,573**

Carrying values in the above table take into account the carrying values of purchased loan portfolios, purchased loan notes, investments in joint ventures, inventory and also the carrying value of receivables which relate to advances made by REOCOs for property acquisitions (c.€5m, see note 14 for further information). The impairment charge is largely driven from Spain, where timing delays are being experienced due to slower court processes.

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 assets 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 2019 were €35.1m (31 December 2018: €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.

20. Financial risk management (continued)

Liquidity risk (continued)

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	83,301	34,783	334,833	-	452,917
Secured loan notes	2,771	11,421	8,928	746	23,866
Trade and other payables	9,890	1,172	-	-	11,062
Total	**95,962**	**47,376**	**343,761**	**746**	**487,845**

Comparative figures for the year ended 31 December 2018:

	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
Total	**118,721**	**46,613**	**41,291**	**340,936**	**547,560**

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, purchased loan notes and investments in joint ventures 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 2019	As at 31 December 2018
	€000	€000
Gross ERC	554,265	620,031
ERC	523,466	585,122

A maturity analysis of the Group's Assets (excluding inventory), cash and cash equivalents, trade and other receivables (excluding advances made by REOCOs for property acquistions (see note 14)), borrowings and facilities as at 31 December 2019 is presented below:

	Notes	Financial assets €000	% of total	Borrowings and facilities €000	% of total
Within one year	12 / 22	171,432	47.1%	73,031	18.7%
After one year		192,594	52.9%	317,768	81.3%
Total		**364,026**	**100%**	**390,799**	**100%**

Comparative figures as at 31 December 2018:

	Notes	Financial assets €000	% of total	Borrowings and facilities €000	% of total
Within one year	12 / 22	108,564	25.7%	88,920	21.2%
After one year		313,114	74.3%	331,232	78.8%
Total		**421,678**	**100%**	**420,152**	**100%**

20. Financial risk management (continued)

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 2019, €54.9m 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 3.0% plus IBOR, and this rate decreases at various intervals over the term of the agreement. As at 31 December 2019, €20.8m of the facility was drawn. No commitment fee is payable under the Term Facility agreement.

The following table shows the impact on finance costs if the EURIBOR had increased by 100 basis points. Given that EURIBOR was negative during 2018 and 2019, a decrease in EURIBOR would not have had a material impact on finance costs, as the Notes accrue interest at 5% + EURIBOR, with EURIBOR being subject to a 0% floor.

	Year ended 31 December 2019	Year ended 31 December 2018
	€000	€000
Increase in finance cost	1,790	1,846
Total impact on the Statement of Comprehensive Income for the year	**1,790**	**1,846**

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 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 financial 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 carrying value of the Group 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.

Notes to the Consolidated Financial Statements (continued)

20. Financial risk management (continued)

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 2019	Year ended 31 December 2018
	€000	€000
Equity and net assets		
Polish Zloty (PLN)	(2,010)	(2,069)
Sterling (GBP)	(642)	(855)
Loss		
Polish Zloty (PLN)	(2,010)	(2,069)
Sterling (GBP)	(642)	(855)

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 2019	Year ended 31 December 2018
	€000	€000
Equity and net assets		
Polish Zloty (PLN)	2,010	2,069
Sterling (GBP)	642	855
Profit		
Polish Zloty (PLN)	2,010	2,069
Sterling (GBP)	642	855

The Board of Directors consider 10% to be a good indication as to the reasonable possible change that could arise from foreign currency fluctuations given the current economic environment.

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

	As at 31 December 2019	As at 31 December 2018
	€000	€000
Equity	(3,562)	15,174
Borrowings	374,385	400,443
Less: Cash and cash equivalents	(26,474)	(37,310)
Total	**344,349**	**378,307**

Notes to the Consolidated Financial Statements (continued)

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 (the below analysis does not include inventory as this is not considered a financial asset under IFRS):

Financial assets	Book value 31 December 2019	Fair value 31 December 2019
	€000	€000
Purchased loan portfolios*	241,665	208,850
Purchased loan notes	17,903	17,315
Investments in joint ventures	61,743	60,467
Cash and cash equivalents	26,474	26,474
Trade and other receivables	21,241	21,241
Total	**369,026**	**334,347**

Financial liabilities	Book value 31 December 2019	Fair value 31 December 2019
	€000	€000
Borrowings	374,385	349,101
Secured loan notes	16,414	17,860
Trade and other payables	11,062	11,062
Total	**401,861**	**378,023**

Comparative figures for the year ended 31 December 2018:

Financial assets	Book value 31 December 2018	Fair value 31 December 2018
	€000	€000
Purchased loan portfolios*	309,949	286,479
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
Total	425,382	401,196

Financial liabilities	Book value 31 December 2018	Fair value 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
Total	**434,483**	**387,349**

* The fair value of purchased loan portfolios is net of amounts owing to secured loan note holders, whereas the book value of purchased loan portfolios is gross of amounts owing to secured loan note holders.

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's 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.

Notes to the Consolidated Financial Statements (continued)

21. Financial assets, liabilities and instruments (continued)

Fair value estimation

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

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

Valuation models

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

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

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

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

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

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

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

Financial instruments not measured at fair value – fair value hierarchy

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

The following table shows the financial instruments split into their respective categories as at 31 December 2019:

	Level 1	Level 2	Level 3
	€000	€000	€000
Purchased loan portfolios	-	-	241,665
Purchased loan notes	-	-	17,903
Investment in joint ventures	-	-	61,743
Investment in associate	-	-	6,522
Senior Secured Notes	(303,110)	-	-
Revolving Credit Facility	-	(50,969)	-
Term Facility	-	(20,306)	-
Secured loan notes	-	-	(16,414)
Total	**(303,110)**	**(71,275)**	**311,419**

21. Financial assets, liabilities and instruments (continued)

Financial instruments not measured at fair value – fair value hierarchy (continued)

Comparative figures as of 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)
Total	**(319,133)**	**(81,310)**	**358,037**

The Consolidated Statement of Financial Position value of the Group's 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's 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, purchased loan notes and investments in joint ventures 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.

22. Borrowings and facilities

	As at 31 December 2019	As at 31 December 2018
	€000	€000
Expected falling due after one year		
Senior Secured Notes	300,626	316,424
Secured loan notes	13,536	14,808
Term Facility	3,606	-
Total	**317,768**	**331,232**
Expected falling due within one year		
Revolving Credit Facility	50,969	60,908
Term Facility	16,700	20,402
Senior Secured Notes	2,484	2,709
Secured loan notes	2,878	4,901
Total	**73,031**	**88,920**

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). On 3 May 2019 AFE repurchased Senior Secured Notes with a nominal value of €10.0m with a carrying value per the Financial Statements of c.€9.8m for a total consideration of c.€9.0m. On 25 June 2019 AFE repurchased Senior Secured Notes with a nominal value of €7.5m with a carrying value per the Financial Statements of c.€7.4m for a total consideration of c.€6.5m. On repurchase the Senior Secured Notes were cancelled with immediate effect.

Notes to the Consolidated Financial Statements (continued)

22. Borrowings and facilities (continued)

The Notes are guaranteed on a senior secured basis (the "Guarantees") by ACOF II Portugal Limited, AFE Spain Limited, Alpha Credit Holdings S.à r.l., Alpha Credit Solutions 1 S.à r.l., Alpha Credit Solutions 4 S.à r.l., Prime Credit 3 S.à r.l., Prime Credit 6 S.à r.l. and Prime Credit 7 S.à r.l. (together, the "Guarantors") and the Facility is guaranteed by the Guarantors and by AFE.

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

The assets of the Group, excluding amounts owing to secured loan note holders, have been pledged as security for the Senior Secured Notes, the Super Senior Revolving Credit Facility and the Term Facility. For the year ended 31 December 2019 the Group remained compliant with all covenants outlined on the Senior Secured Notes and the Super Senior Revolving Credit Facility.

As at 31 December 2019 AFE had a €90.0m (2018: €90.0m) Super Senior Revolving Credit Facility available to use to help facilitate its working capital requirements (the "Facility"). The Facility can be increased up to an amount equal to the higher of €90.0m and 17.5% of ERC. Interest accrues on the Facility at a rate of 3.50% p.a. for amounts drawn (the "Margin"), with commitment fees being 35% of the Margin. As at 31 December 2019, €50.8m (31 December 2018: €60.9m) had been drawn as a loan from the Facility, and €4.1m (31 December 2018: €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 2019 equal to €35.1m (31 December 2018: €25.7m). 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. As at 31 December 2019, the LTV Ratio was 66.0% and the SSRCF LTV Ratio was 3.7%.

On 18 January 2019, Alpha Credit Solutions 6 S.a r.l. ("ACS6") upsized the Term Facility by €4.1m, increasing the total Term Facility available to draw on to €25.0m. As at 31 December 2019, €20.8m (31 December 2018: €20.7m) had been drawn. Interest accrues at a rate equal to the Margin and EURIBOR. At 31 December 2019 the applicable Margin was 3.00%. In accordance with the Term Facility agreement, ACS6 was required to ensure that leverage as at 31 December 2019 did not exceed 55%. As at 31 December 2019, leverage was 39.0%.

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
As at 1 January 2019	**37,310**	**(400,443)**	**(19,709)**	**(382,842)**
Cash flows	(10,836)	29,344	4,511	23,019
Repurchase of Senior Secured Notes	-	17,500	-	17,500
Foreign exchange adjustments	-	(365)	-	(365)
Finance cost	-	(20,421)	(2,660)	(23,081)
Other non-cash movements	-	-	1,444	1,444
As at 31 December 2019	**26,474**	**(374,385)**	**(16,414)**	**(364,325)**

Comparative figures for the year ended 31 December 2018:

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

Notes to the Consolidated Financial Statements (continued)

23. Commitments and contingencies

Portuguese tax liability

On 4 January 2019 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 2016 – 2017. This notification has been expected in light of the Portuguese tax charge that was settled in 2018 relating to financial years 2013 – 2015. An adequate provision for this potential tax charge has been made in the Financial Statements.

In light of this, an accrual has also been made to recognise that there may be potential Portuguese tax charges for 2018 and 2019, which has been calculated in a similar manner. The total tax provision reflected in the Financial Statements as at 31 December 2019 is €4.5m (2018: €2.9m).

Brexit

The Group maintained a consistent focus on risks arising as a result of uncertainties related to the United Kingdom's 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.

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.

COVID-19

The Group are aware of the outbreak of coronavirus ("COVID-19") and have remained close to developments in order to assess the potential market impact and implications it may have. Whilst difficult to quantify any potential impact the Group acknowledges the impact COVID-19 may have on economic growth, with any slowdown in economic growth potentially leading to falls in asset prices and a lessened ability to meet collections forecasts.

24. Ultimate parent entity

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

25. Subsequent events

On 17 January 2020, ACS6 increased the existing Term Facility it had available from €25.0m to €31.3m. The termination date of the Term Facility has extended from 21 January 2022 to 21 January 2023.

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)

26. 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 2019	Year ended 31 December 2018
	€000	€000
(Loss) / Profit before tax	**(7,110)**	**21,338**
Finance costs	22,461	20,158
Share of profit in associate	(806)	(770)
Net foreign currency movements	(187)	118
Impairment	35,897	2,239
Collections from portfolios	124,906	133,671
Gain from repurchase of Senior Secured Notes	(1,728)	-
Revenue	(80,578)	(75,605)
Other income	348	231
Cash collected on behalf of secured loan noteholders	(3,212)	(4,414)
Non-recurring items	219	508
Dividends received	600	-
Finance income	(508)	(472)
Normalised and Adjusted EBITDA	**90,302**	**97,002**

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

	Year ended 31 December 2019	Year ended 31 December 2018
	€000	€000
Net cash generated from operating activities	**54,070**	**(60,633)**
Portfolio acquisitions	34,477	156,739
Other income	348	231
Taxation paid	636	3,795
Cash collected on behalf of secured loan noteholders	(3,212)	(4,414)
Working capital adjustments	3,164	776
Non-recurring items	219	508
Dividends received	600	-
Normalised and Adjusted EBITDA	**90,302**	**97,002**

Reconciliation of core collections to Normalised and Adjusted EBITDA:

	Year ended 31 December 2019	Year ended 31 December 2018
	€000	€000
Core Collections in the year	**124,906**	**133,671**
Other income	348	231
Operating expenses	(68,269)	(35,351)
Net foreign currency movements	(187)	118
Impairment	35,897	2,239
Cash collected on behalf of secured loan noteholders	(3,212)	(4,414)
Non-recurring items	219	508
Dividends received	600	-
Normalised and Adjusted EBITDA	**90,302**	**97,002**

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 the AIF as per December 31, 2019 was 196.24% of the AIF's net asset value based on the gross method and 196.24% of the AIF's net asset value based on the commitment method.

Risk management

The AIFM has established and maintains a dedicated risk management system to identify, measure, manage and monitor on an ongoing basis 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

In 2019, Carne expanded its management structure and placed it on a broader basis. Mr. Pascal Dufour has been appointed as Conducting Officer for Information Technology and Country Head of Carne. He also serves as Chief Operating Officer. Mr. Luc de Vet, Carne's European Alternative Investment Funds Leader, has been appointed as an additional Conducting Officer for Valuation. In February 2019, Mr. Cord Rodewald joined Carne, who was subsequently appointed as Conducting Officer for Portfolio Management. Finally, Mr. Ross Thomson assumed responsibility for Distribution, Client Relationship and Internal Audit in September.

With effect from 31 July 2019, Duncan Smith resigned and Yazid Oudina was appointed as Director.

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.

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

Proportion of the total remuneration of the staff of the AIFM attributable to AnaCap Financial Europe S.A. SICAV-RAIF, as of December 31, 2019[1]

The proportion of the total remuneration attributable to Anacap Financial Europe SA SICAV RAIF has been calculated on a pro-rata basis and on the basis of the total AUM of AIFs managed by the AIFM.

	Number of beneficiaries	Total remuneration (EUR)[2]	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[3] by the AIFM during the financial year	10	€ 1,552,439	0.459%	0.133%	0%

The investment manager remuneration for the year ended 31 December 2019 allocated to the Fund is £55,000 for the Identified Staff within the Investment Manager.

[1] 31 December is the financial year end of the AIFM
[2] Total remuneration = sum of fixed remuneration and variable remuneration paid during the AIFM's financial year
[3] Identified Staff comprises = Chief Executive Officer, Conducting Officers and Head of Legal and Compliance