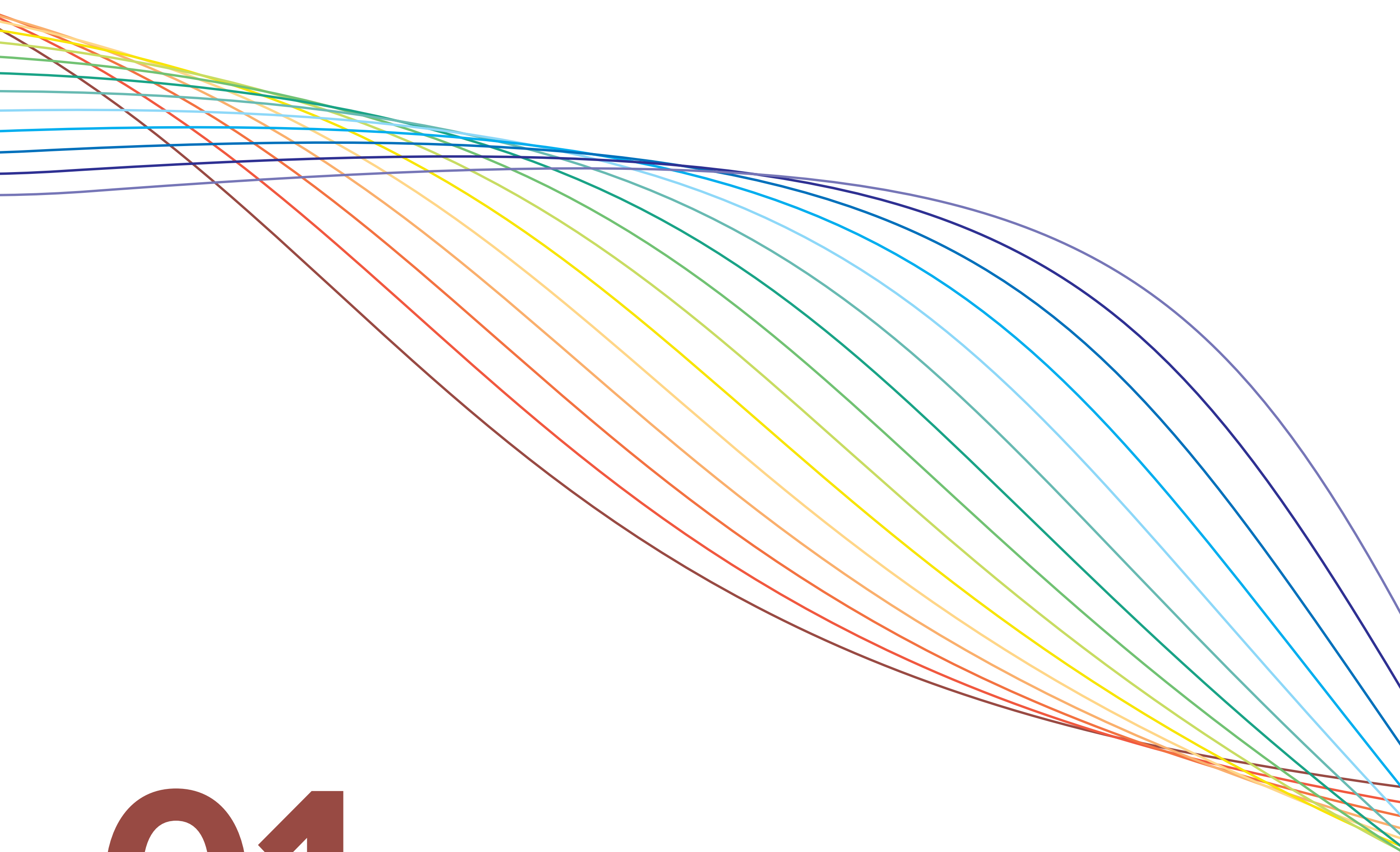
APS

ANNUAL REPORT 2018



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APS

01

LETTER FROM THE CEO

Dear investors, partners, and colleagues,

In the last calendar year, our company gained strong momentum. We strengthened our position in our traditional markets and thanks to successfully closed deals also established our presence in new ones. Expressed in the language of numbers, we finished transactions exceeding EUR 3.3 billion in nominal value. At a turnover of EUR 45.6 million, which is an increase of over 35% compared to 2017. We generated a net profit amounting to EUR 6.1 million.

We are nevertheless aware that neither we nor the whole financial sector are operating in a kind of parallel or virtual world that revolves solely around batches of loans and the total value of managed portfolios. Our transactions, as well as decisions made by banks and rules created by regulators, have a direct impact on individuals, communities, and whole countries. We therefore need to approach each opportunity with carefulness and humbleness. On the other hand, it is part of our mission to push for opening those national markets that are still stifled under the weight of decisions taken by the banking sector, which resulted in a global economic crisis with several economies reeling on the verge of state bankruptcy.

The latest economic crisis has taught us that the era of stability, predictable economic cycles, and carefree growth is over. The vast majority of all national

and supranational institutions have therefore agreed to measures aimed at preventing another crisis. Among the soft measures taken in South-eastern Europe are a call for closer collaboration among individual countries and the establishment of rescue funds. Hard measures include stricter regulatory rules and collaboration between banks and investors to eliminate the burden of high non-performing loan (NPL) ratios.

And while in many markets such as Cyprus and Romania the joint efforts of institutions and investors have already delivered results in the form of cleaned and healthy banks, in some other countries short-sighted ignorance of the problem still prevails. A third group includes countries such as Ukraine, Italy, and Greece, where the key players have realized that there are no simplistic solutions to complex problems and that, as experience has repeatedly confirmsed, a better time for eliminating NPLs will never come.

I will start my brief overview of the past year with Greece. APS has anchored its presence on the Peloponnese through successful acquisition of Arctos, a portfolio in the nominal value of EUR 2.3 billion purchased from Piraeus Bank. It is so far the largest transaction in the history of our group. Another achievement in South-eastern Europe is the purchase of a Romanian portfolio from the Greek Alpha Bank worth EUR 360 million. The results of our new activities in the region, such as those in Cyprus, will, however, be first apparent in the coming fiscal year.
In last year's report, I mentioned ongoing as well as planned entries to new markets. It is my great delight to announce the successful expansion of our operations to the markets of Bosnia and Herzegovina and Montenegro, which has further been confirmed by successful transactions.

As usual, I will end my business retrospective with a look at Central Europe. In Poland, we have established cooperation with the largest local bank, PKO, and Alior Bank. The most interesting event in the year pertaining to the Czech market was a bond issue by APS Finance a.s. worth EUR 20 million. The obtained funds will help our group with further expansion and restructuring. Our five-year bonds offer a 5% annual coupon. The manager of the historically first bond issue was J&T Banka, a.s.; the arranger role was fulfilled by J&T IB and Capital Markets, a.s.

Such was 2018 as seen through our eyes. Personally, I am very glad that with each challenge our mobilization potential and global importance continue to increase. The APS Group belongs among the most trustworthy brands in the business. And that is why I find our charity and foundation activities to be an integral part of our mission. A flagship of our corporate social responsibility (CSR) activities is the Seeding Knowledge fund, in which several of our subsidiaries are involved. Those subsidiaries that currently organize their own fundraising and charity events are planning to join them soon.

In closing, I would like to thank all my colleagues for their work efforts and the team spirit that drives APS forward. My thanks for collaboration and support go also to our business and investment partners. I believe that this fruitful collaboration will continue also in the coming years.

Sincerely,
Martin Machoň
Chairman of the Board and CEO

02

Company Profile

02

COMPANY PROFILE

During our 14-year existence, we have managed to take a leading position in 13 countries. We primarily operate in the markets of Central and South-eastern Europe. The core of our business consists of three pillars – alternative asset management, real estate investment, and debt recovery.

We carry out a full range of activities including third-party servicing, NPL portfolio management for institutional investors, and purchasing entire NPL portfolios. We are currently managing 86 NPL portfolios with a total nominal value of more than EUR 8.8 billion.

More than 800 professionals, among the best in the industry, are currently working for the group. They are able to take into account the specificities and volatility of each market and prepare tailor-made solutions for our clients.

— **86 NPL PORTFOLIOS UNDER MANAGEMENT**
— **EUR 8.8 BILLION** NET VALUE (NV) OF ACQUIRED ASSETS UNDER ADVISORY
— **ADVISOR TO 5 INVESTMENT FUNDS**
— HIGHEST **ETHICAL STANDARDS** FOR DEBT RECOVERY
— **OVER 500,000 LOANS** UNDER MANAGEMENT

Our company would not have achieved this without the highest ethical standards. This value has been an essential and integral part of our corporate strategy from the very beginning, and its meaning cannot be easily quantified in words. An equally important value for us is continuity. Long-term cooperation with national institutions and supranational regulators and banks makes APS a trustworthy and stable partner. A crucial part of the APS story is also the people working for APS – they are the know-how base for the entire group.

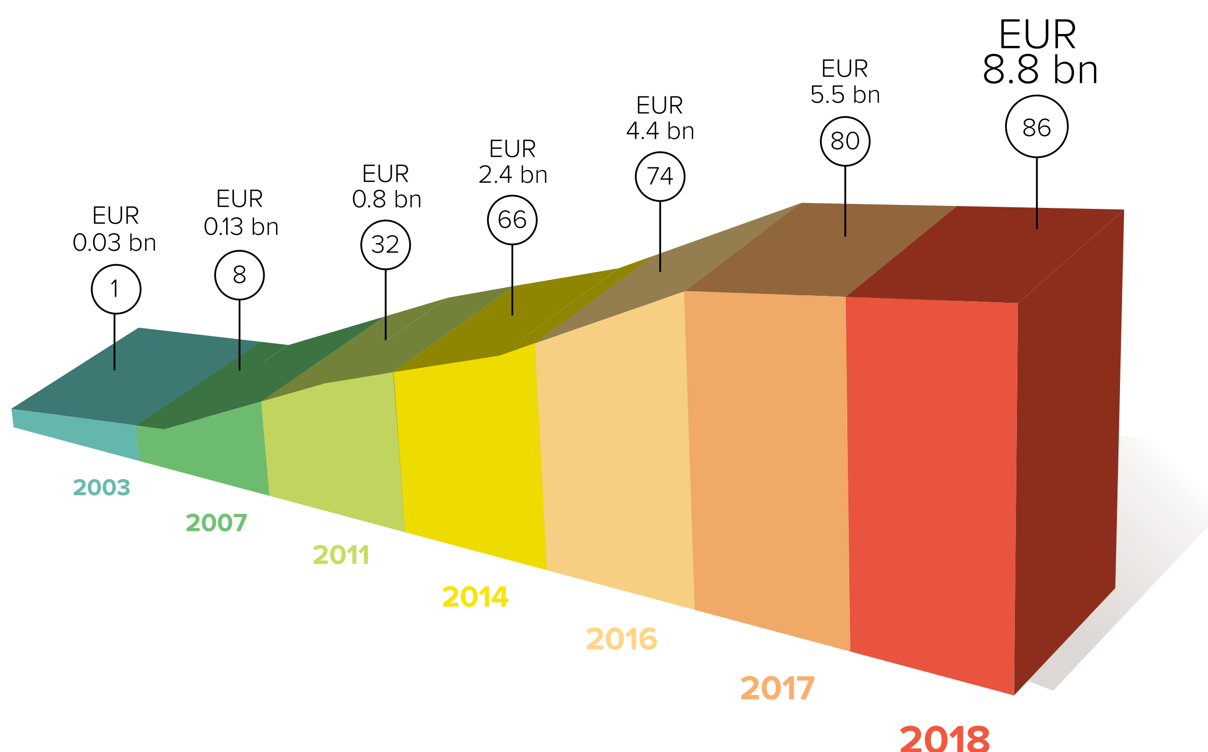
This is one of the reasons why distressed asset investment has become one of the most effective tools for bank recovery. Banks can thus achieve better liquid and are more resistant to sudden economic fluctuations. Then the entire economy profits. Indeed, this has been confirmed by economic developments in, for example, Romania and Cyprus. And the importance of this tool will grow with rising demand to solve problems with NPLs in the rest of Europe.

APS strategy is unfolding, which in the years to come will strengthen its role in existing markets and expand to others. Key markets that need to get rid of large amounts of NPLs include Italy, Spain, and Ukraine.

The way ahead of us and the successfully completed APS missions behind us show that even in a traditionally industrialized country located in the heart of Europe, a knowledge-based company with an international reach and the ability to mobilize international investors can emerge.

APS AT A GLANCE

Our story began in 2004, when APS – Asset Portfolio Servicing – was established as a captive servicer of Slavia Capital Group. Since then, we have evolved into an independent investment, recovery, and real estate group. Currently our headquarters is in Luxembourg and we have offices in Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Czechia, Greece, Hungary, Montenegro, Poland, Romania, Serbia, and Slovakia.



LEADING NPL INVESTMENT AND DEBT RECOVERY COMPANY IN CENTRAL EUROPE (CE) & SOUTH-EASTERN EUROPE (SEE)

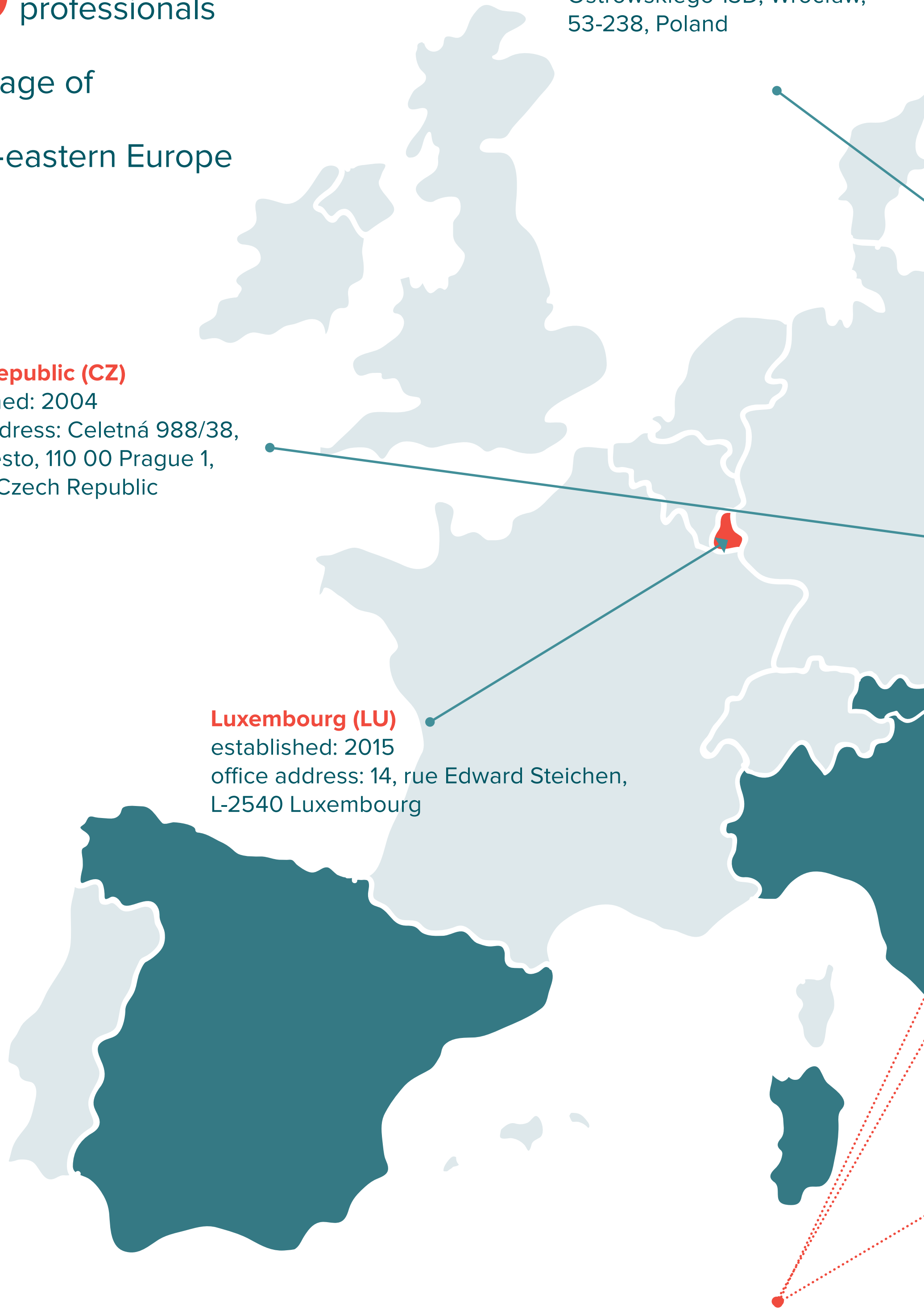
Partner of the International Finance Corporation (a member of the World Bank Group), the European Bank for Reconstruction and Development, and several major private investors

Presence in **13** European countries

with more than **800** professionals

enables complete coverage of

Central Europe & South-eastern Europe

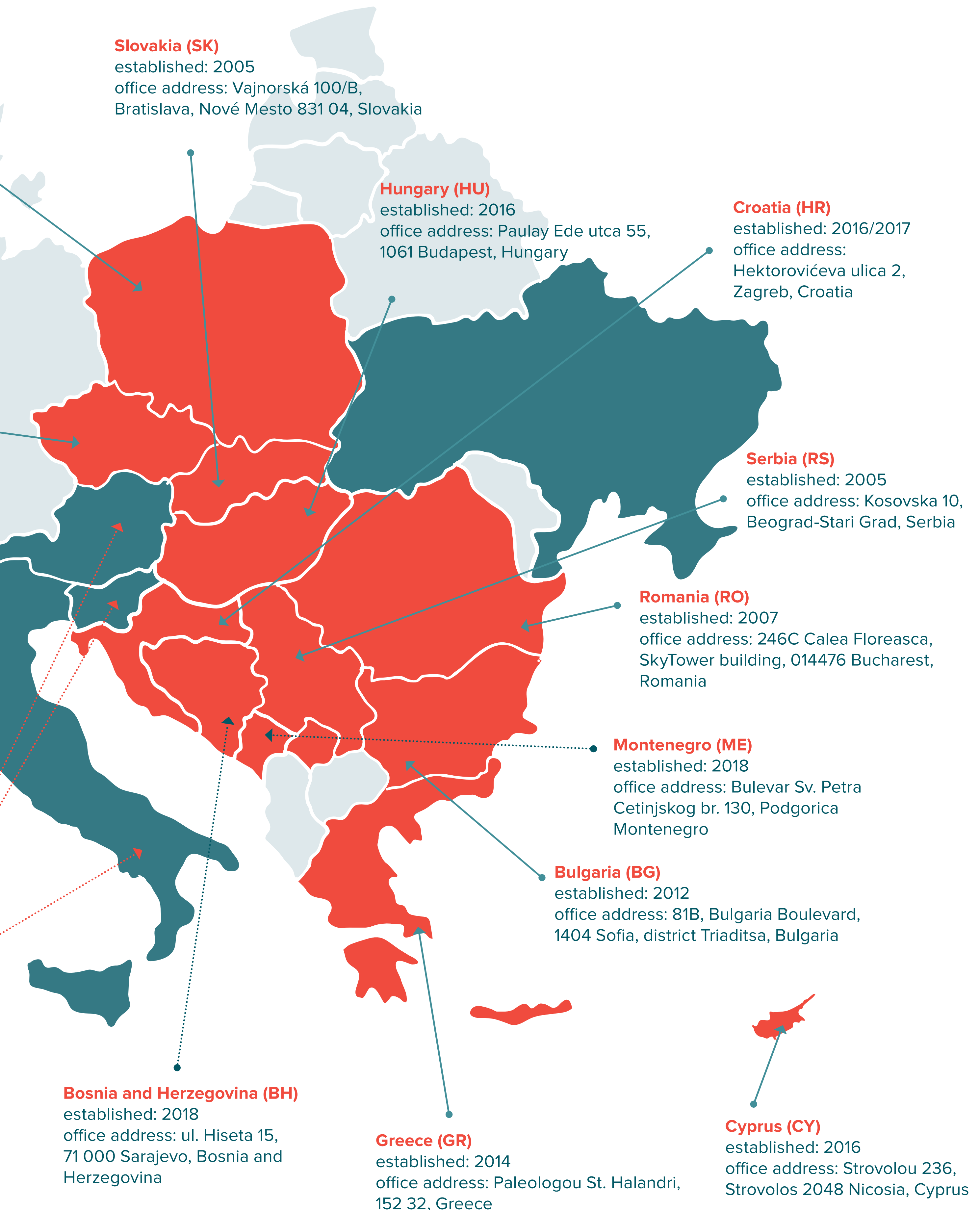


Poland (PL)
established: 2007
office address: Aleksandra Ostrowskiego 13D, Wrocław, 53-238, Poland

Czech Republic (CZ)
established: 2004
office address: Celetná 988/38, Staré Město, 110 00 Prague 1, Prague, Czech Republic

Luxembourg (LU)
established: 2015
office address: 14, rue Edward Steichen, L-2540 Luxembourg

Expansion targets
Austria (AUT)
Slovenia (SI)
Italy (IT)


Slovakia (SK)
established: 2005
office address: Vajnorská 100/B,
Bratislava, Nové Mesto 831 04, Slovakia

Hungary (HU)
established: 2016
office address: Paulay Ede utca 55,
1061 Budapest, Hungary

Croatia (HR)
established: 2016/2017
office address:
Hektorovićeva ulica 2,
Zagreb, Croatia

Serbia (RS)
established: 2005
office address: Kosovska 10,
Beograd-Stari Grad, Serbia

Romania (RO)
established: 2007
office address: 246C Calea Floreasca,
SkyTower building, 014476 Bucharest,
Romania

Montenegro (ME)
established: 2018
office address: Bulevar Sv. Petra
Cetinjskog br. 130, Podgorica
Montenegro

Bulgaria (BG)
established: 2012
office address: 81B, Bulgaria Boulevard,
1404 Sofia, district Triaditsa, Bulgaria

Bosnia and Herzegovina (BH)
established: 2018
office address: ul. Hiseta 15,
71 000 Sarajevo, Bosnia and
Herzegovina

Greece (GR)
established: 2014
office address: Paleologou St. Halandri,
152 32, Greece

Cyprus (CY)
established: 2016
office address: Strovolou 236,
Strovolos 2048 Nicosia, Cyprus

03

COMPANY STRUCTURE

03

COMPANY STRUCTURE

APS Holding S.A. (the **"Company"**) was established as a public limited company (société anonyme) incorporated and existing under the laws of the Grand Duchy of Luxembourg and registered with the Luxembourg Trade and Companies Register (Registre de Commerce et des Sociétés) under reg. No. B 201461 on 16 November 2015.

The registered office of the Company is 14, rue Edward Steichen, L-2540 Luxembourg, Grand Duchy of Luxembourg.

The subscribed share capital of the Company is fixed at EUR 31,000. The Company is owned by the sole share-holder Martin Machoň.

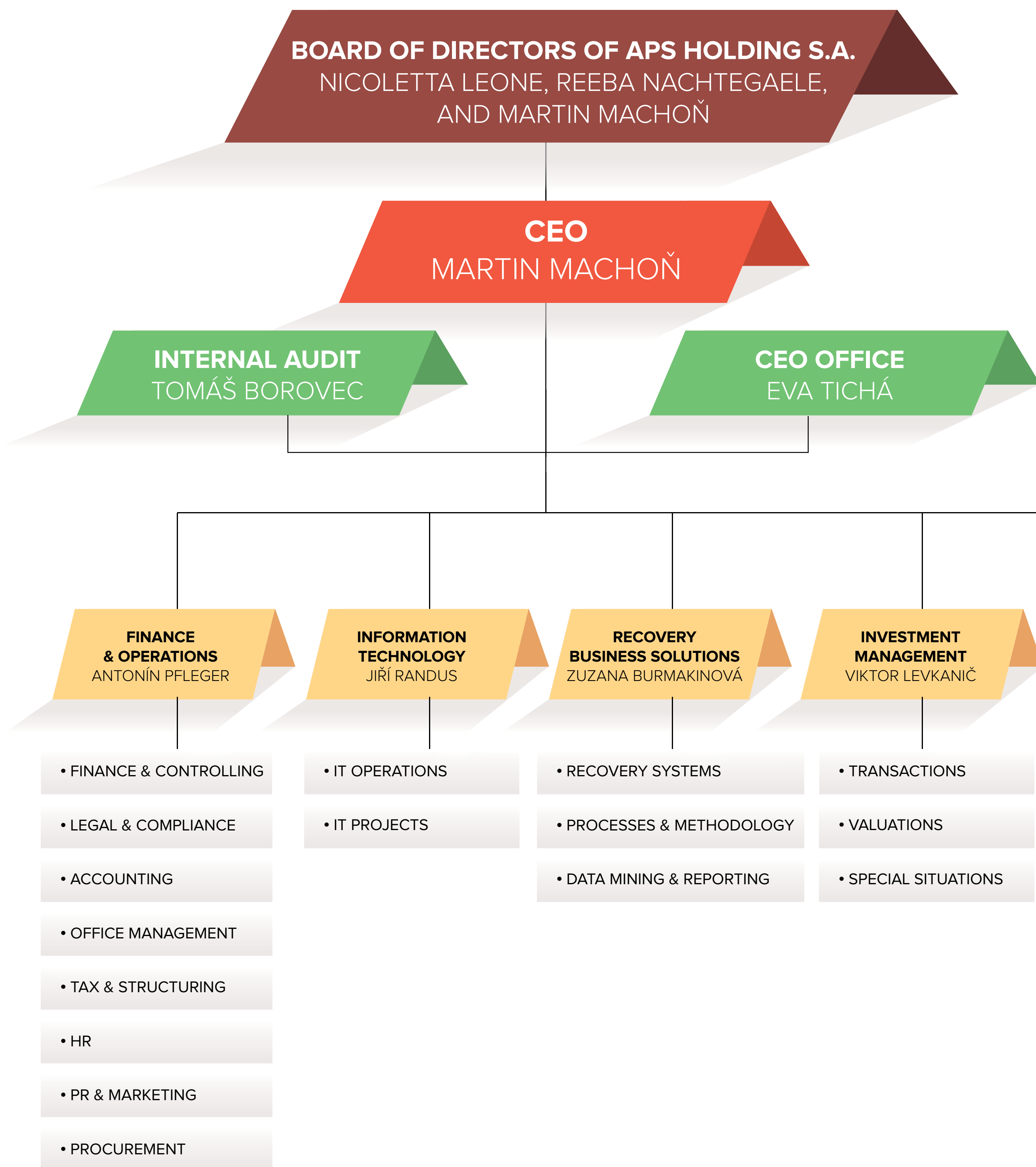
As the parent of the APS Group, the Company holds 100% ownership interest and/or issued share capital in the following companies:

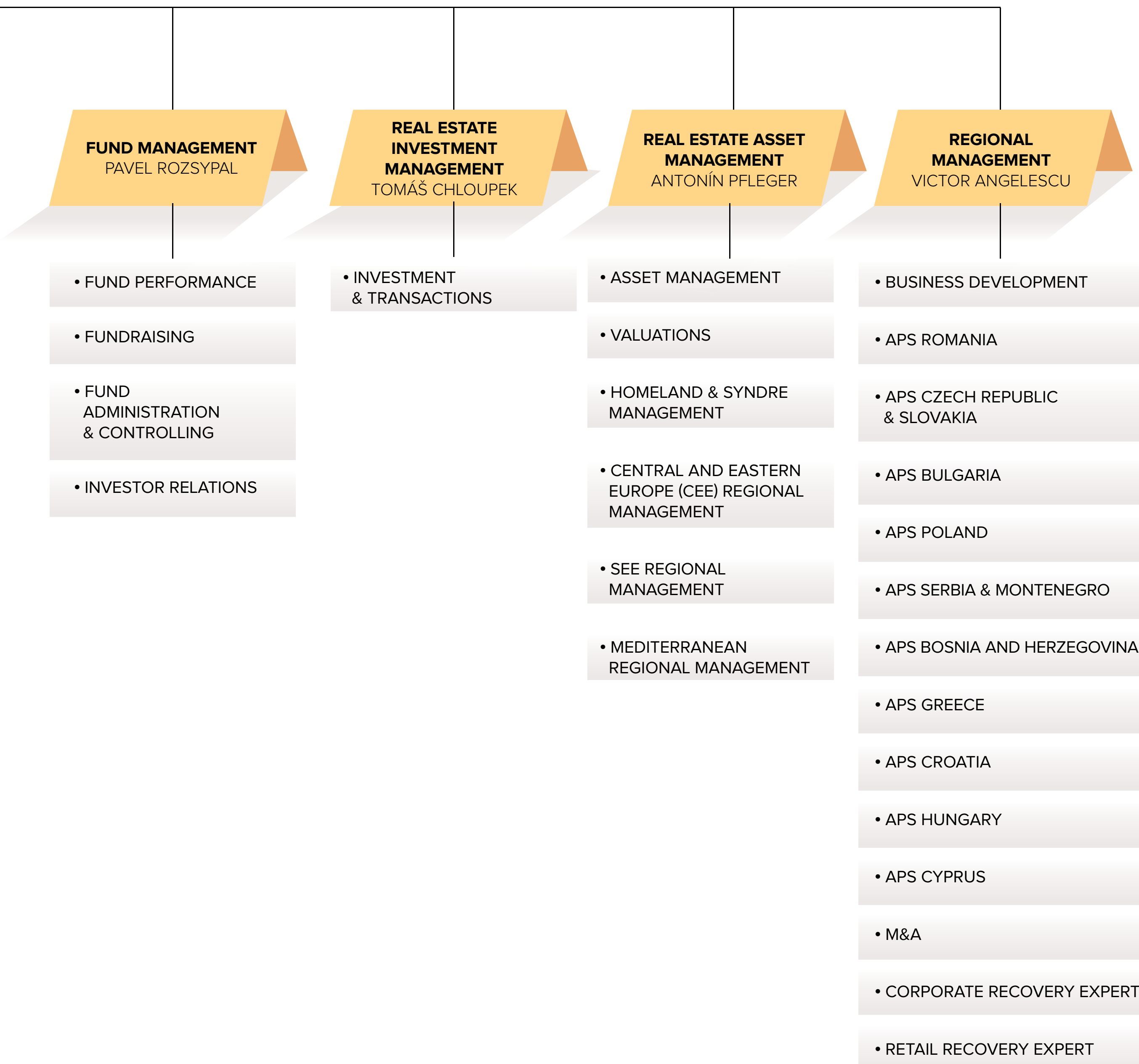
- APS Management Services s.r.o., AS Recovery a.s., and APS Finance a.s., all established and existing under the laws of the Czech Republic; and
- APS Investments S.à r.l. and APS Investment Funds S.à r.l., both established and existing under the laws of the Grand Duchy of Luxembourg.

The Company is administered by the Board of Directors (Conseil d'administration) with three members, comprising Nicoletta Leone, Reeba Nachtegaele, and Martin Machoň.

APS Holding S.A. is the parent company of individual APS Group entities through either direct or indirect ownership of shares or ownership interested in the group companies.

Organization chart of APS Group; as modified during 2018, the group comprised these main subsidiaries:


BOARD OF DIRECTORS OF APS HOLDING S.A.
NICOLETTA LEONE, REEBA NACHTEGAELE,
AND MARTIN MACHOŇ
CEO
MARTIN MACHOŇ
INTERNAL AUDIT
TOMÁŠ BOROVEC
CEO OFFICE
EVA TICHÁ
FINANCE
& OPERATIONS
ANTONÍN PFLEGER
INFORMATION
TECHNOLOGY
JIŘÍ RANDUS
RECOVERY
BUSINESS SOLUTIONS
ZUZANA BURMAKINOVÁ
INVESTMENT
MANAGEMENT
VIKTOR LEVKANIČ
• FINANCE & CONTROLLING
• LEGAL & COMPLIANCE
• ACCOUNTING
• OFFICE MANAGEMENT
• TAX & STRUCTURING
• HR
• PR & MARKETING
• PROCUREMENT
• IT OPERATIONS
• IT PROJECTS
• RECOVERY SYSTEMS
• PROCESSES & METHODOLOGY
• DATA MINING & REPORTING
• TRANSACTIONS
• VALUATIONS
• SPECIAL SITUATIONS


FUND MANAGEMENT
PAVEL ROZSYPAL
REAL ESTATE INVESTMENT MANAGEMENT
TOMÁŠ CHLOUPEK
REAL ESTATE ASSET MANAGEMENT
ANTONÍN PFLEGER
REGIONAL MANAGEMENT
VICTOR ANGELESCU
• FUND PERFORMANCE
• FUNDRAISING
• FUND ADMINISTRATION & CONTROLLING
• INVESTOR RELATIONS
• INVESTMENT & TRANSACTIONS
• ASSET MANAGEMENT
• VALUATIONS
• HOMELAND & SYNDRE MANAGEMENT
• CENTRAL AND EASTERN EUROPE (CEE) REGIONAL MANAGEMENT
• SEE REGIONAL MANAGEMENT
• MEDITERRANEAN REGIONAL MANAGEMENT
• BUSINESS DEVELOPMENT
• APS ROMANIA
• APS CZECH REPUBLIC & SLOVAKIA
• APS BULGARIA
• APS POLAND
• APS SERBIA & MONTENEGRO
• APS BOSNIA AND HERZEGOVINA
• APS GREECE
• APS CROATIA
• APS HUNGARY
• APS CYPRUS
• M&A
• CORPORATE RECOVERY EXPERT
• RETAIL RECOVERY EXPERT

MARTIN MACHOŇ
Owner and CEO

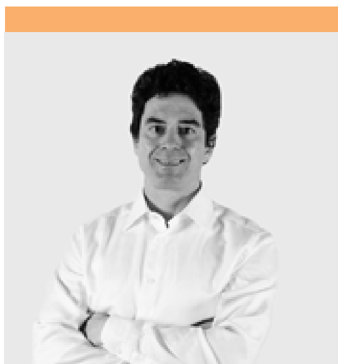
Martin has over 14 years of experience in distressed asset management and advisory and has been an integral part of APS from its inception. He has been involved in all phases of APS development since its founding in 2004. Prior to establishing APS, Martin held management positions at Société Générale and Lucent Technologies.

Antonín has 14 years of experience in financial management, operations, internal and external auditing, consolidation, and treasury and project management. Prior to joining APS, Antonín worked for 5 years at EY. Antonín has internationally recognized Fellow Member of the Chartered Association of Certified Accountants (FCCA) certification.

ANTONÍN PFLEGER
Chief Operations Officer/Chief Financial Officer

Jiří has over 20 years of management experience in service management, IT, telecommunications, and software development. Prior to joining APS, Jiří built and managed a global customer support department for a major telco supplier, ran payment integration programs with mobile phone app store providers, and acted as a technical authority within a software development division.

JIŘÍ RANDUS
Chief Technology Officer



Viktor has more than 16 years of experience in private equity, investment banking, and distressed assets within CEE and SEE. Viktor was previously head of Slavia Capital's investment banking and distressed asset activities in the region.

VIKTOR LEVKANIČ

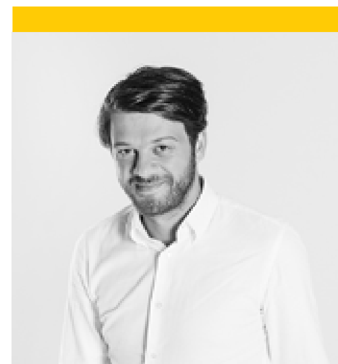
Chief Investment Officer

Pavel spent 15 years as a director managing private equity and M&A transactions in the CEE region. He was engaged with Lone Star Funds in the first large NPL transaction in the Czech Republic. Prior to joining APS, he served as Ambassador and Permanent Representative of the Czech Republic to the Organisation for Economic Co-operation and Development in Paris. Pavel is responsible for fundraising, performance management, and investor relations.

PAVEL ROZSYPAL

Fund Management Director

With over 10 years of experience in collecting receivables, Victor Angelescu is responsible for coordinating the activity of APS Romania and developing the APS Holding group in such SEE countries as Bulgaria, Serbia, and Greece. Prior to joining APS Romania, Victor held management positions at Eurobank EFG and ProfiCredit IFN.



VICTOR ANGELESCU

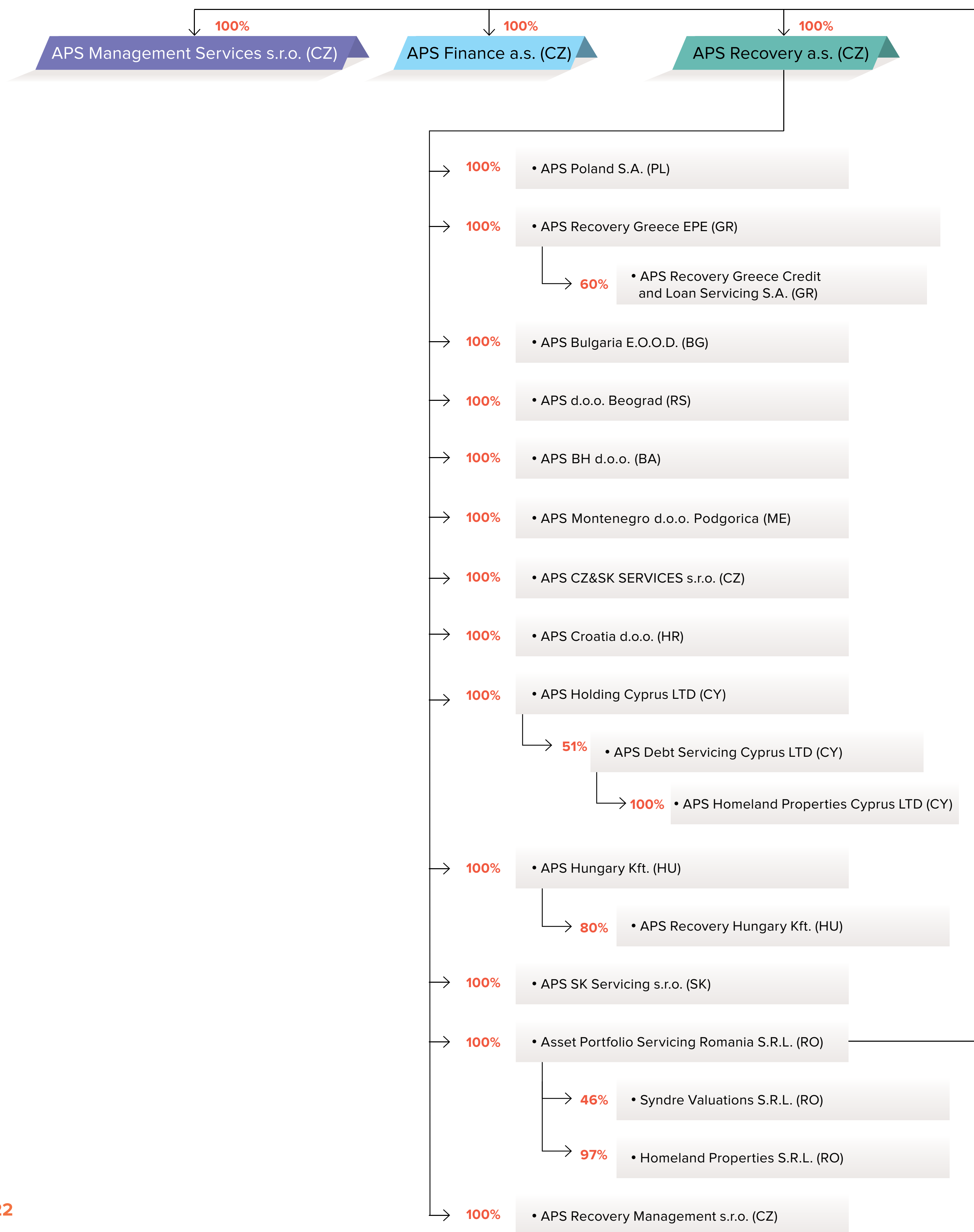
SEE Regional Director

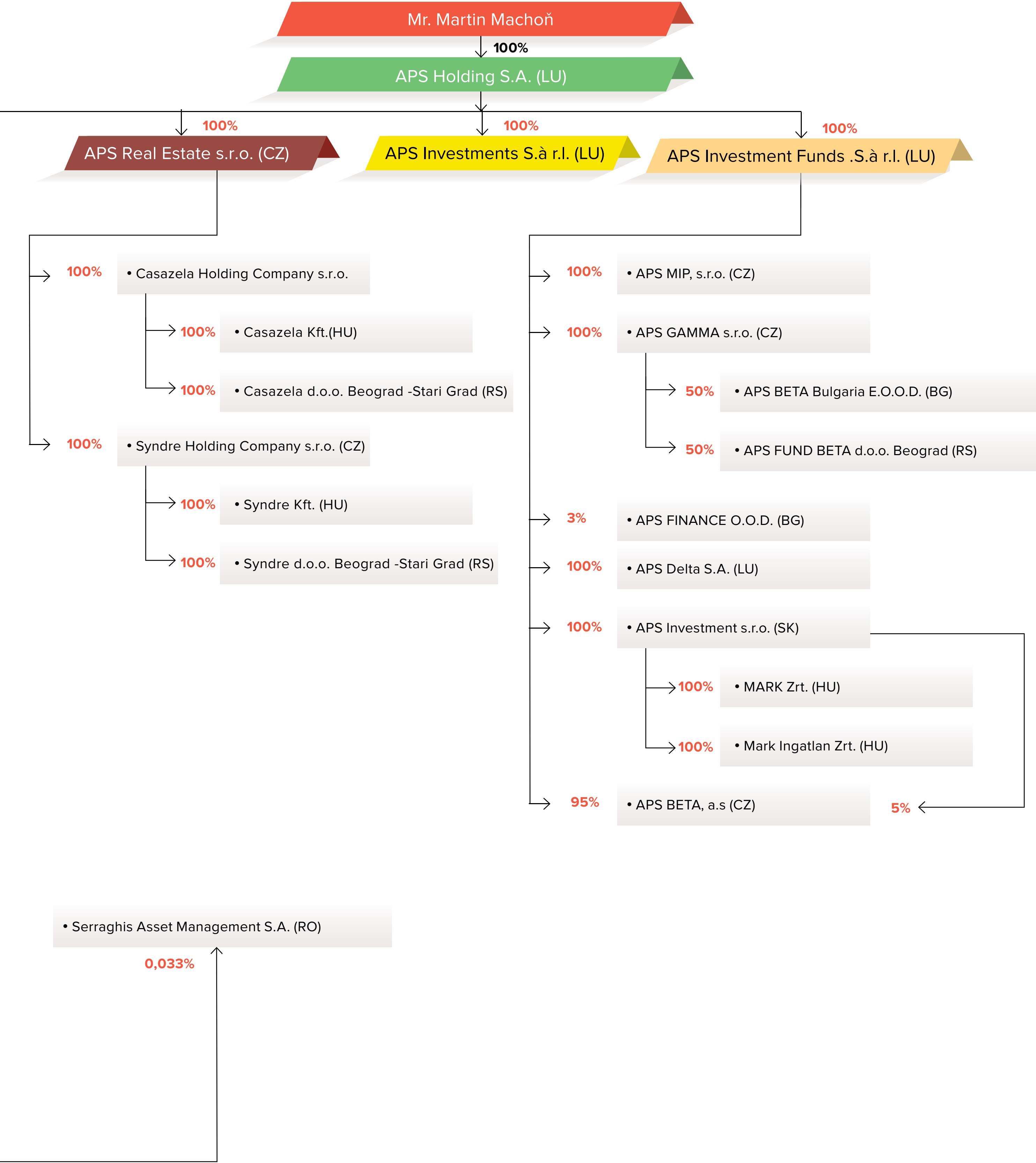
Zuzana has more than 10 years of experience in financial services, including consumer finance and retail business. Prior to joining APS, Zuzana was COO at an international collections company with business in Russia and Ukraine.

ZUZANA BURMAKINOVÁ

Recovery Business Solutions Director

APS Holding Ownership Structure
as of 31 December 2018




Mr. Martin Machoň
100%
APS Holding S.A. (LU)
100%
APS Real Estate s.r.o. (CZ)
100%
APS Investments S.à r.l. (LU)
100%
APS Investment Funds .S.à r.l. (LU)
100%
• Casazela Holding Company s.r.o.
100%
• Casazela Kft.(HU)
100%
• Casazela d.o.o. Beograd -Stari Grad (RS)
100%
• Syndre Holding Company s.r.o. (CZ)
100%
• Syndre Kft. (HU)
100%
• Syndre d.o.o. Beograd -Stari Grad (RS)
100%
• APS MIP, s.r.o. (CZ)
100%
• APS GAMMA s.r.o. (CZ)
50%
• APS BETA Bulgaria E.O.O.D. (BG)
50%
• APS FUND BETA d.o.o. Beograd (RS)
3%
• APS FINANCE O.O.D. (BG)
100%
• APS Delta S.A. (LU)
100%
• APS Investment s.r.o. (SK)
100%
• MARK Zrt. (HU)
100%
• Mark Ingatlan Zrt. (HU)
95%
• APS BETA, a.s (CZ)
5%
• Serraghis Asset Management S.A. (RO)
0,033%

04

History

04

HISTORY

Continuous achievement, development, constructing and enhancing our position as a leader in the Central and South-eastern European market, and further extension into new markets have marked the history of our 14-year existence. We succeeded in establishing APS on a European-wide scale as a credible and respected partner.

APS was established in 2004 as a member and captive servicer of Slavia Capital Group. What started in a small office in Prague, with great devotion and team spirit soon led to our first achievement taking the form of a portfolio which was underwritten by Česká spořitelna (a member of Erste Group) with a NV of EUR 25 million.

In the same year, the present sole shareholder – Martin Machoň – was employed to construct greenfield projects under a Czech license as a supervisor. He showed unique skills and a competitive business spirit and quickly extended the entrusted company, chose the finest experts on the market to join APS, and obtained a minority share in APS.

In 2005, APS performed its first cross-border transactions in Serbia and Slovakia and progressively expanded its operations and services.

In 2007, we saw a year of remarkable expansion. With the backing of London- and US-based investors, new investment platforms were established in Poland and Romania.

In 2009, Slavia Capital consolidated its NPL portfolio and raised new capital for a Slovak–Cypriot investment structure named Serraghis Loan Management. Furthermore, a considerable securitization fund from Verde in Poland was acquired.

In 2012, greenfield expansion into Bulgaria, where we successfully obtained the first corporate NPL portfolio ever to be marketed in that country, took place.

In 2013, by launching APS Fund Alpha, APS marked another momentous step in its history. The initiation of our respected relationship with the International Finance Corporation (IFC; a member of the World Bank Group) was another turning point in our development in 2013. In Eastern and Southern Europe, the renowned IFC partnered with us to tackle NPL markets.

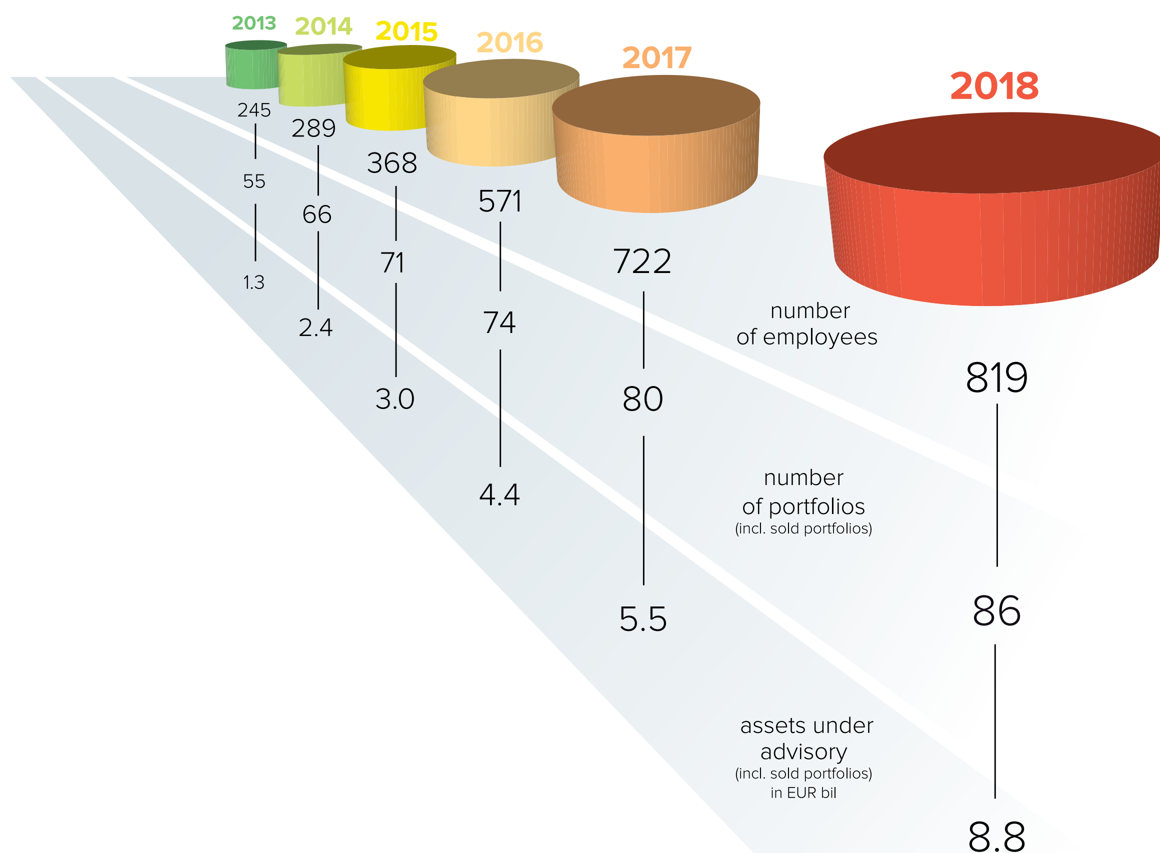
In 2014, APS won for investors its first secured retail portfolio from Volksbank Romania with a NV surpassing EUR 500 million.

In 2015, Martin Machoň, CEO and previously a minority shareholder, purchased the majority interest from Slavia Capital Group and became the sole shareholder. We launched a brand-new real estate investment services division in the same year, thereby broadening the range of our product portfolio.

In 2016, we executed the largest transaction of its type in South-eastern Europe and acquired management of portfolios with a total value of EUR 1.3 billion. We continued growing and entered the markets in Croatia, Hungary, and Cyprus – where we successfully participated in NPL portfolio auctions. Moreover, this year was marked by the launch of APS Delta, a Luxembourg non-regulated securitization vehicle.

In 2017, APS Romania reached the milestone of 10 years on the market. Additionally, APS acquired Hellenic Bank Public Company Ltd's NPL and real estate management business in Cyprus, thereby initiating the full operation of the new Real Estate division. The aim of the collaboration was based on a joint-venture model to support the recovery of the Cypriot economy.

In 2018, our presence was significantly extended. We launched operations in Greece by securing the biggest deal in our 14-year history – Piraeus Bank's NPL portfolio with a NV exceeding EUR 2.3 billion. The APS Real Estate wing took over part of the commercial leasing portfolio originally held by the Real Estate Division of Immigon and started managing contracts with a total value of EUR 13 million. Finally, we proceeded to set up offices in Bosnia and Herzegovina and Montenegro.



05

Our Strengths

05

OUR STRENGTHS

At APS, being a trustworthy and reputable partner to a broad range of institutions and companies is something we greatly value. We build our partnerships on expertise, experience, and strong ethical principles.

At APS, we heal banks and help to resolve distressed asset situations.

We manage more than 500,000 corporate and retail debts across Central and South-eastern Europe.

APS entered the highly challenging world of distressed debt in 2004. Since then, we have built a strong international infrastructure with hundreds of employees and gradually entered 13 countries in Central and South-eastern Europe. In each country, we have established a team of top experts with deep and detailed knowledge of local market specifics and the competitive environment. Thanks to them, we can stay one step ahead of our competitors and take part in transactions that are not only profitable for our investors but also have a positive impact on local communities and economies.

Distressed debt experts since 2004.

We are acquiring, advising, and servicing portfolios of not only NPLs but also sub-performing loans and performing loans as well as monetizing finance businesses. Today, our services are sought and valued by the most demanding partners, including the Internation-

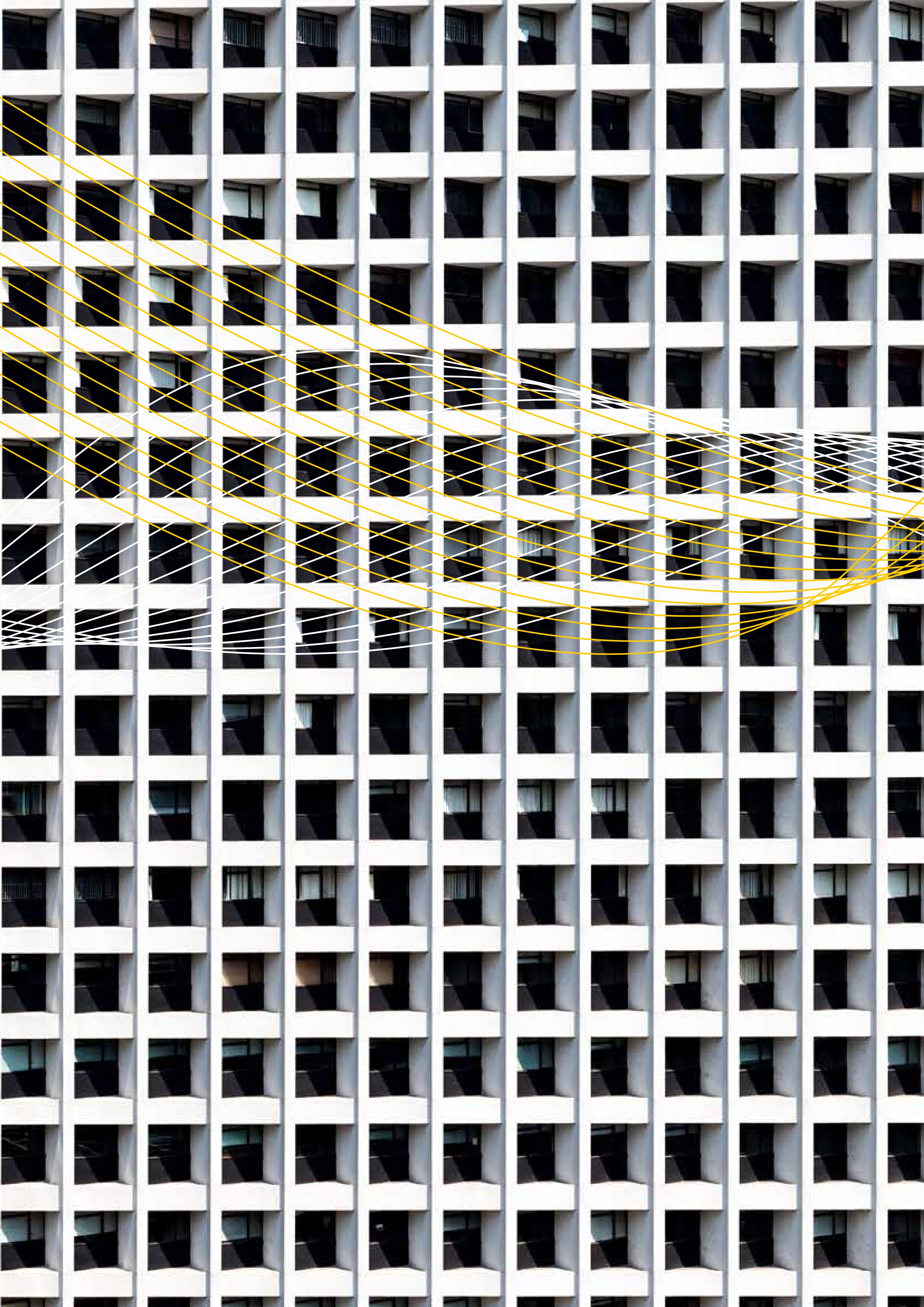
A trusted partner to the International Finance Corporation, the European Bank for Reconstruction and Development (EBRD), large financial houses, investment funds, and private investors.

al Finance Corporation (IFC; a member of the World Bank Group), the European Bank for Reconstruction and Development, AnaCap Financial Partners, large financial houses from both Europe and the US, investment funds, and private investors.

In 2018, we managed assets with a total nominal value of EUR 8.8 billion.

We are continually expanding our market portfolio and always looking for new markets and investment opportunities. Currently, we are exploring the markets of Western Europe, characterized by large investment volumes and therefore attractive for global investors. We are also closely monitoring the promising distressed debt markets of South-east Asia. Our goal is clearly defined: to create great long-term profits for investors, debtors, and local economies.

Through APS, non-productive capital returns to the market.



06

Services

06

SERVICES

KEY BUSINESS LINES

In 2018, our business lines comprised three main areas. The first is our strong Investments business line consisting of the Investment Management division and the Fund Management division. The traditional Debt Recovery management of debts serviced by us or on our books was carried out mainly through our local branches. Then there is also our expanding Real Estate division.

INVESTMENTS

Our investment and fund management teams provide complex professional services related to investments into all classes of distressed assets. We serve as an investment advisor across the lifetime of the investment: starting with deal origination and acquisition and followed by performance management and administration related to the ownership and management of the transactions. We identify investment opportunities across the CEE and SEE region, targeting portfolio transactions as well as acquisitions of operating entities with portfolios on the books. When processing the acquisition of the distressed asset, APS is engaged in comprehensive investment advisory services such as portfolio valuation, collateral analyses, recovery strategies analysis, and due diligence support. Our team manages the transaction through financial closing and continues with fund administration, reporting, and performance and cash flow management.

Our advised transactions are funded by funds and accounts advised by APS as well as institutional investors and family offices. On a deal-by-deal basis, we also co-invest alongside reputable institutional pan-European and global investors. We are a trusted partner to the world's top financial institutions and private investors as well as supranational institutions, including the IFC, a member of the World Bank, and the EBRD.

DEBT RECOVERY

We have always provided recovery services covering the full range of soft, field, and legal collection activities. We focus mainly on corporate collection and also on retail recovery. Our clients are small and large banks, insurance companies, funds, telcos, and institutional partners. The company employs hundreds of call centre and recovery specialists. APS puts a great emphasis on supporting collection processes with technology. The competency and expertise of the recovery specialists are also vital to us. Sharing best practices across countries helps our specialists to expand their horizons and find more effective processes and technological solutions.

REAL ESTATE

Recently we also started to develop a real estate platform – a business line focusing on advisory and transaction support to investors, commercial property developers, corporates, and homeowners for their personal and business property needs. We also offer valuation and management of real estate portfolio investments and financial real estate advisory for both commercial and personal properties.

DEBT RECOVERY

Debt recovery is one of the core services that APS provides, and we have been doing so since our inception. Today, we are a full-scope service provider to many institutional investors in NPL portfolios as well as to banks, leasing providers, and telecommunications and utility companies.

Within debt recovery, APS provides services in the following segments:

- Unsecured retail claims,
- Mortgages (including managing the eviction process according to applicable laws),
- Secured corporate claims, and
- Other complementary services such as financial reports and car repossession.

To provide first-class service, APS relies on the following elements.

1.1 PEOPLE

APS has always relied significantly on developing and growing its own employees. We have had many success stories of booming carrier paths within the group, including reaching group- and country-management positions. We are proud to provide space and time to internal talents who pay us back with their great results. Dedication, motivation, and talent combined with appropriate training and know-how sharing is the keystone of APS culture.

The internal pool of employees is then supplemented by specific skill sets from the market by recruiting experienced experts from banks, advising companies, law firms, and other businesses. This can be seen in particular during the opening of new recovery subsidiaries in new jurisdictions, where the majority of the staff has to be recruited from the market and then acquire know-how from the group through long- or short-term relocations, trainings, and on-site visits.

1.2 SYSTEMS

The core recovery system that APS uses is Capone, state-of-the-art recovery software that has been significantly tailored to the specific uses of APS. Capone, which has been used at APS for several years, has proven itself to be a great tool for managing, tracking, and optimizing collection strategies and processes. The system is also a first-class source of data for the purpose of reporting to APS itself and to its clients and investors.

The advantage of the system is that it is constantly being developed and adjusted to the specifics of local markets, and it also enables the use of group know-how and common features. A high level of flexibility also enables full integration with the systems of our customers, leading to automatic and regular data exchanges.

Capone has been recently integrated with VSoft, an application for field collectors that enables online (and on-site) access to all Capone data as well as real-time reporting of field activities.

Of the many IT implementations over this past year, it is worth noting APS cooperation with VSoft. The parties operate under a framework agreement and a confidentiality agreement. In this respect, they run implementations of common services, working on the implementation of **VSoft Mobile Workforce** at APS entities. As VSoft Mobile Workforce is an off-the-shelf IT product, its implementation went quickly and brought such satisfying results as: auto-

mated field debt collection actions; higher security levels for employees, data (in accordance with the General Data Protection Regulation [GDPR]), and documentation; and real-time information about tasks and clients. Cooperation with the solution supplier went smoothly and met the group's quality requirements. The success of this implementation at the APS Poland office enabled further offices to continue automation at new locations. We are sure this investment into new technology will help us to increase the comfort of our everyday work and the quality of our customer service.

1.3 FLEXIBILITY

Group know-how regarding the collection, standardization, and development of processes is a great basis for any debt recovery activity. On the other hand, many cases (or portfolios) require a special approach and out-of-the-box thinking. This is especially true when the borrower is an influential person or when entering a new market with a very different environment, such as Greece with its 45%+ share of NPLs.

COMPLEMENTARY PRODUCT: CAR REPOSSESSION

APS is very successful at car repossession, especially with our largest client, where we have held the top position among all repossession agencies for the past eight consecutive months. We therefore handle cases with special situations. For example, we have repossessed 48 of 50 cars for a single corporate debtor within 14 days, including all administrative work such as registration checks and technical certificate changes. We have repossessed one car in Ukraine, two cars in Romania, and one car in Italy. These extraordinary activities help us in strengthening our reputation with the client and the market as a whole.

RECOVERIES IN GREECE

Managing recoveries in the Greek market after almost nine years of economic recession and financial crisis is without a doubt a challenge that requires proper portfolio strategies, a solid software infrastructure, and attracting talented people to do the job. Regardless of whether the portfolio that needs to be recovered is secured or unsecured and includes small business (SB) loans, mortgages, or retail lending products, the number one priority is always to establish two key factors about any debtor.

a) The debtor's ability to repay based on realistic financial assumptions about long-term paying behaviour.

b) The debtor's willingness to pay in terms of incentives and the prioritization of overall debts.

It is critical to establish a solid relationship with the debtor, either through regular verbal communication over the phone or face-to-face meetings that solidify commitment to any payment plan or alternative solution.

Identifying true sources of income as well as total net disposable income is another challenge, especially in a market that is currently experiencing an "improved" unemployment rate of around 25%, which is much higher among younger people. At the same time, a significant outflow of billions of euros to other markets during the first stages of the crisis from a large segment of the population and an unknown amount of free cash flow outside the banking system, the majority of which was untaxable, increased the challenges for successful recovery.

Having a robust operational strategy in place with clearly defined steps and escalation points for either legal or pre-legal actions is key to succeeding recovering delinquent portfolios in the Greek market. Given the lack of consistency from Greek banks regarding their collection strategies over the past 6–7 years for a number of reasons, the results can be seen as extremely positive.

1.4 NEW SERVICES AND PRODUCTS

To meet the needs of our customers and broaden the range of our services, we have in recent years introduced new services, such as Customer Care.

Customer Care Projects

Phone actions and dedicated campaigns: outgoing or inbound (hotlines) for:

- **Help desks**: A helpline is a tool for two-way communication with customers.

First, it provides the customer, in a supportive manner, with the reliable and accurate information necessary to make a choice between products and helps them to make purchasing decisions.

Additionally, helplines are a good method for obtaining information about customers and their preferences and expectations to better match the demands of potential purchasers. Many companies offer the possibility to use a hotline that is free or payable in part. Customers can get the information they require, mainly about the product or service of interest to them (e.g. the company's available offer, terms and conditions for product warranties, locations of points of sale or service points). Making a contact number available helps to create the image of a company that cares for its customers and provides services at the right quality.

- **Active telephone sales (cross-selling and up-selling):** You can use the telephone to actively seek customers who might be interested in your additional offers, that is engage in telesales. In that regard, the telephone is a wonderful means of impulse communication.

Our staff, trained in your products, initiate contact with a prospective customer for your company. During a professionally conducted conversation, they present the offer for a selected product/service. Surveys show that 70% of purchasers are more willing to buy the products and services of a company that actively contacts its customers. This is demonstrated through increased sales volumes, which results in improved financial performance for your company.

- **Telephone surveys and information campaigns:** Telesales and SMS campaigns provide valuable information about the effectiveness of marketing activities. More intensive helpline traffic may indicate that a message conveyed via various media has reached the right target group. Recording conversation themes and noting new FAQs, consultants build feedback bases for advertising messages. The project group supervisor assists in grouping the themes which arise, which facilitates the consultants' work. In turn, reports on the conversations provide a source of consumer responses and confirm that the information has effectively reached the right target group.

1. Customer preference surveys:

Telephone scanning of the market consists of gathering information about prospective customers by telephone. The information bases thus created are a vast source of knowledge about consumers and their expectations, preferences, and proposed solutions. Such surveys are preceded by preparing a customer base. This comprises the precise selection of surveyed market segments and the selection of people who meet your criteria for prospective customers. The knowledge obtained as a result of the survey will help you to create an attractive offer or introduce changes in your existing proposals that are favourable to purchasers, which makes them more desirable.

2. Customer opinion surveys:

Surveys conducted by telephone (telesurveys) are less expensive and faster and monitor the market more precisely than surveys conducted with traditional methods, and the aggregated data in electronic format are easy to process and analyse. Customers calling the company are an invaluable source of ideas and information about how to improve a product or service. They often know the company's offer well enough to be able to inspire you to extend it and enhance an offered product with new functions. We can formulate similar conclusions based on contacts with customers in a campaign that you design. Our consultants can assess customers' moods and attitudes towards the product or service you offer and are therefore ideal for capturing such ideas from conversations.

- **Database updates and arranging business meetings:** By contacting your prospective customers, our specialists obtain information about their level of interest in a product/service and set the scene for salespeople to arrange a meeting with customers interested in the offer. Additionally, during a telephone conversation, our consultants can find out a lot about the company or people a salesperson will visit and what times it is the easiest to find people to talk to. Because telemarketers are continually available by telephone, customers can communicate any changes in their schedules to salespeople by telephone. In this way, better prepared for direct conversations with customers, salespeople use their time much more productively and, above all, do what they are good at: talking and selling to clients and thus generating revenue for themselves and for your company.

Well-prepared and updated databases play an important role in sales and marketing activities by significantly affecting their effectiveness and reducing the costs of campaigns by as much as 50%.

- **Information about promotions or special offers:** The effectiveness of push marketing strategies broadly lies in intensifying communication with dealers and partners. With a database of a specific target group, segmented in relation to the prepared offer, an outsourced call centre can reach at least 2,000 companies per day with information about a promotion in its final stages. In such a situation, demand can increase by as much as 30%, and you can dispose of a specific product in stock. It is enough, jointly with an APS call centre, to properly plan campaigns and train consultants to attain the intended effect.

INVESTMENT MANAGEMENT

The year 2018 was a year of continued, steady deleveraging in CESEE region. The NPL ration of significant euro area institutions' NPL ratio has been dropping since 2014 to 4.2% at the end of 2018, nearly half the 2014 level. In 2019, the trend is set to continue as a previously published directive by the European Council is expected to be implemented in the second quarter of the year. Among other effects, it will impact the timeline over which banks are required to denounce the formation of new NPLs. The so-called NPL backstop will affect banks' capital adequacy ratios as it will force them to fully provision unsecured debt three years after their default. In addition, the directive aims to set the foundations for faster enforcement and recovery of collateral through accelerated extrajudicial collateral enforcement (AECE) mechanism and to set unified requirements and obligations for credit servicers and credit purchasers across the EU. The above developments initiated by the European Council are expected to provide a rich pipeline in the region for the next 3–5 years but also hamper entry into new countries via the stringent requirement for a credit acquiring license.

In 2018, more than EUR 200 billion of non-performing exposures were transacted in the European market, marking a record year. The western part continued its declining tendency. Deleveraging activity continued in Romania, Croatia, Slovenia, and Hungary, whereas activity picked up in Greece, Cyprus, Italy, and Spain, as major NPL transactions took place in 2018. In Spain and Italy, large volumes were transacted but these markets were dominated by a few large one-off transactions. In the Hellenic space, the first portfolios were transacted in Cyprus and the first secured portfolios were disposed of in Greece. Last but not least, Russia, Ukraine, and Turkey are attracting investor attention as they hold leading positions in NPL volumes in this region, but the approach of investors is still rather conservative and prudent as opposed to that in other European emerging markets.

European Central Bank – Financial Stability Review, November 2018

Deleveraging through write-offs and NPL disposals continues thanks to various supranational initiatives that aim towards more strict regulations of the banking sector in terms of capital adequacy and NPL ratios. In addition, the European Banking Authority (EBA), the European Central Bank (ECB), and the European Commission continue their efforts to develop a well-functioning NPL transaction platform in order to create liquidity, reduce information asymmetry, reduce market failures of the past, and stimulate secondary NPL markets. Vibrant NPL markets, namely Greece, Cyprus, Portugal, Italy, Bulgaria, Slovenia, Hungary, Croatia, Ireland, Poland, Romania nd Spain, have above average NPL ratios, but pending and future transactions may reverse the situation.

STRENGTHENING OUR CORE MARKETS AND ENTERING NEW ONES

In Romania, in cooperation with our partners, we have successfully closed a transaction for servicing a secured NPL portfolio sold by Greek Alpha Bank with a total unpaid balance of ca EUR 360 million. Once again, we managed to be successful in the largest transaction within the past 18 months in Romania and strengthen our position as a market leader. Additionally, in 2018 we have underwritten our first large single ticket with a development angle and a back-to-back structure. This EUR 50 million nominal value deal marks our solid entry into the single tickets market, where we expect a lot more traction in the coming years.

In the Czech Republic, we have been servicing together with DDM an unsecured retail portfolio from Moneta Money Bank with an exposure of EUR 17.53 million.

In Bosnia and Herzegovina, we have underwritten a secured portfolio with an unpaid balance of EUR 420 million sold by HETA. In contrast to the past, Bosnia and Herzegovina, a small Balkan country with a considerably high volume of NPLs, does not lag behind its neighbours in terms of distressed asset deals. With some pioneer transactions already closed, the first servicing platforms are being established, which, along with investor-friendly regulations being on the government agenda, should contribute to the growth in the local distressed-debt market.

In Greece, in consortium with the IFC, the EBRD and, Balbec we have underwritten an unsecured portfolio as part of the Arctos project sold by Piraeus Bank with a nominal value of EUR 2.3 billion. Our local platform was granted a servicing license by the Bank of Greece in September 2018. Greece is the last of the EU markets to be progressively opened to investors. The current NPL ratio stood at around 45% and is the highest in Europe, while the total NPL stock is about EUR 100 billion. We expect about 30–40% of that amount to be available for sale. As Greek banks face pressure from the ECB and the Bank of Greece to decrease the NPL ratio to 35% by the end of 2019, we expect more activity in the market in the coming year, which could establish Greece as the third largest NPL market and one of our key markets to focus on in 2019.

In Cyprus, APS is one of the most important servicers as it manages a EUR 2.5 billion portfolio from Hellenic Bank. In December 2018, we concluded a contract with the Bank of Cyprus to purchase for our investors a EUR 245 million unsecured retail portfolio. Cyprus has the second highest NPL ratio in Europe after Greece at 34%.

LOOKING AHEAD

In 2018, APS primarily focused on NPL transactions in CEE and SEE. We managed to close several deals in our core markets and expand to new markets, namely Greece, Cyprus, and Bosnia and Herzegovina. In 2019, our focus will be to further strengthen our investment management capabilities and execute more deals in the area of debt restructuring & special situations in existing markets as well as expand geographically into new markets such as Italy, Spain, Ukraine, and Asia.

The Italian market is maturing quickly as recovery times have improved and the regulatory setting has become more predictable. Deal flow was one of the largest in Europe and is on track to set a record for 2018 once pending deals have been completed. As the market is picking up, in 2019 we see ourselves scanning the Italian market opportunistically for smaller-sized portfolios.

The Spanish NPL market is one of the most active non-core markets in Europe, having divested more than EUR 135 billion of non-core assets since its peak in 2013 but with a sizeable book of unresolved NPLs remaining, estimated at over EUR 100 billion. We see an opportunity to enter a segment of smaller-sized portfolios expected to be sold mainly as secondary/ tail sales of portfolios previously acquired by larger players.

In Ukraine, deal flow is not so lively yet, but there are some interesting opportunities in the pipeline that are drawing investor attention. Activity on the local NPL market is gradually increasing, but the country's political situation is discouraging investors as returns are difficult to predict in such an uncertain environment.

In Asia, the slowing economic growth of China is set to affect smaller Asian countries. As a result, "first-mover" activities may be observed in this region in the coming year.

INVESTMENT PROCESS

Our unified and precisely defined investment process enables us to follow numerous transactions simultaneously while creating a synergic effect using internal and external resources. Regarding key internal resources participating in projects, our transactions department combines a team of experienced investment managers leading individual transactions with a team of dedicated analysts working on valuation models. Our projects usually engage as external sources local legal advisors, property appraisal advisors, and experts with experience in NPL recovery.

We engage the most reputable and highly experienced advisors in order to obtain quality inputs for our valuation models, which enables us to determine the real value of the portfolios assessed. The involvement of local APS recovery teams is crucial for defining recovery strategy and targets on a granular, case-by-case basis.

Within the investment process, the most important phase is due diligence, which combines legal review, real estate collateral review, and financial due diligence for complex transactions. During the legal phase, a comprehensive legal review is conducted of receivables and documentation related to a portfolio. This is performed by local lawyers who have experience with similar portfolios in the region. Simultaneously, property appraisal advisors are engaged to assess the real estate collateral used to secure the receivables.

Based on the due diligence findings, internal and external experts on recovery strategy prepare tailor-made recovery strategies on a case-by-case basis. Outcomes of the due diligence process and conclusions from roll-up meetings are summarized for application in the valuation models prepared by our valuation department. Assumptions used in the valuation models are discussed not only with local managers responsible for the collection process, but also with external lawyers and experts on recovery and the specifics of the local market.

Transaction structure is discussed simultaneously, experts on tax and financial transaction advisory are included, and the most suitable deal structuring solution is selected. As we have established an extensive servicing network, the transition between the signing and closing of a transaction and the management of the acquired portfolio is smooth.

Our Business Development divisions successfully prepared the launch of three new subsidiaries (Greece, Bosnia and Herezgovina, Montenegro) that will act as servicing platforms for new deals the acquisition of which APS supported with underwriting and other activities. Preparations included searching for office premises, initiating the recruitment process, adjusting relevant IT systems, and implementing APS corporate governance.

APS ADVISED FUNDS AND VEHICLES

Serraghis Loan Management

- Established in 2009
- Investment period 2010–2012
- Non-regulated investment vehicle from Cyprus
- Invested in 32 portfolios worth EUR 650 mil.
- All types of NPLs and distressed assets
- CEE and SEE
- APS the exclusive investment advisor
- At the end of 2018, the performance of Serraghis Loan Management reached ca 98%, proving the portfolios' potential – expected IRR is 17–19% with an expected overall net cash multiple of over 2. Due to diversification, performance oscillates around the target performance.

APS Fund Alpha

- Established in 2013
- Investment period 2013–2014
- Fully invested in December 2014
- Qualified Investor Fund regulated by the Czech National Bank
- Investors are family offices and HNWI operating under the jurisdictions of Czechia, Slovakia, Hungary, Cyprus, Malta, USA, UK
- As of 31 December 2018, invested in 13 portfolios with total nominal value of EUR 1.2 billion
- All types of NPLs and distressed assets
- CEE and SEE
- APS has been the exclusive the investment advisor
- The performance of APS Fund Alpha reached ca 95% due to the shift of some key recoveries from the end of 2018 to 2019. The overall performance of APS Fund Alpha is within expected volatility. Expected IRR for the fund is 14%. For investors, the net break-even point was reached and exceeded in December 2017.

Fund Beta

- Established in 2013
- Investment period 2014–2018
- Non-regulated investment vehicle from Czechia. (delicencing from regulated Qualified Investors Fund was completed in early 2018)
- Special fund created by APS to partner with the IFC
- All types of NPLs and distressed assets
- Invested in 4 Romanian portfolios with nominal value of EUR 1.07 billion
- APS has been the exclusive investment advisor
- The performance of APS Fund Beta reached ca 88% in 2018, compared to 82% in 2017. Further gradual improvements in overall performance are expected for 2019. Weakness is caused by recovery time shifts and delayed cases (cases with debtor appeals).

APS Delta

- Established in 2016
- First investment in Q1/2016 with additional resources committed
- Open for investment
- Luxembourg unregulated securitization vehicle with an independent Luxembourg-based administrator
- Investors include distressed credit funds and supranational institutions
- For investors that prefer to invest on a deal-by-deal basis
- Target investors to commit EUR 10–50 million each
- Assets held in dedicated bankruptcy-remote compartments
- Investors hold bonds issued by the compartment
- Investors receive distributions on a monthly basis
- So far, investment performance oscillates within expected range, with a couple of assets lagging slightly behind their target. New portfolios overperformed significantly in both 2018 and 2017. In general, the outlook for 2019 remains optimistic for all acquired portfolios.

FOCUS IN 2019

In 2019, our focus will remain on APS Epsilon, the first commingled Luxembourg-based regulated fund advised by APS, intended for large institutional investors focusing on distressed assets. The recovery process for portfolios acquired through APS Epsilon will be managed by local APS servicing subsidiaries. In terms of territory, APS Epsilon will invest in the region of Central and South-eastern Europe. APS Epsilon targets approximately EUR 300+ million from large institutional investors and IFIs.

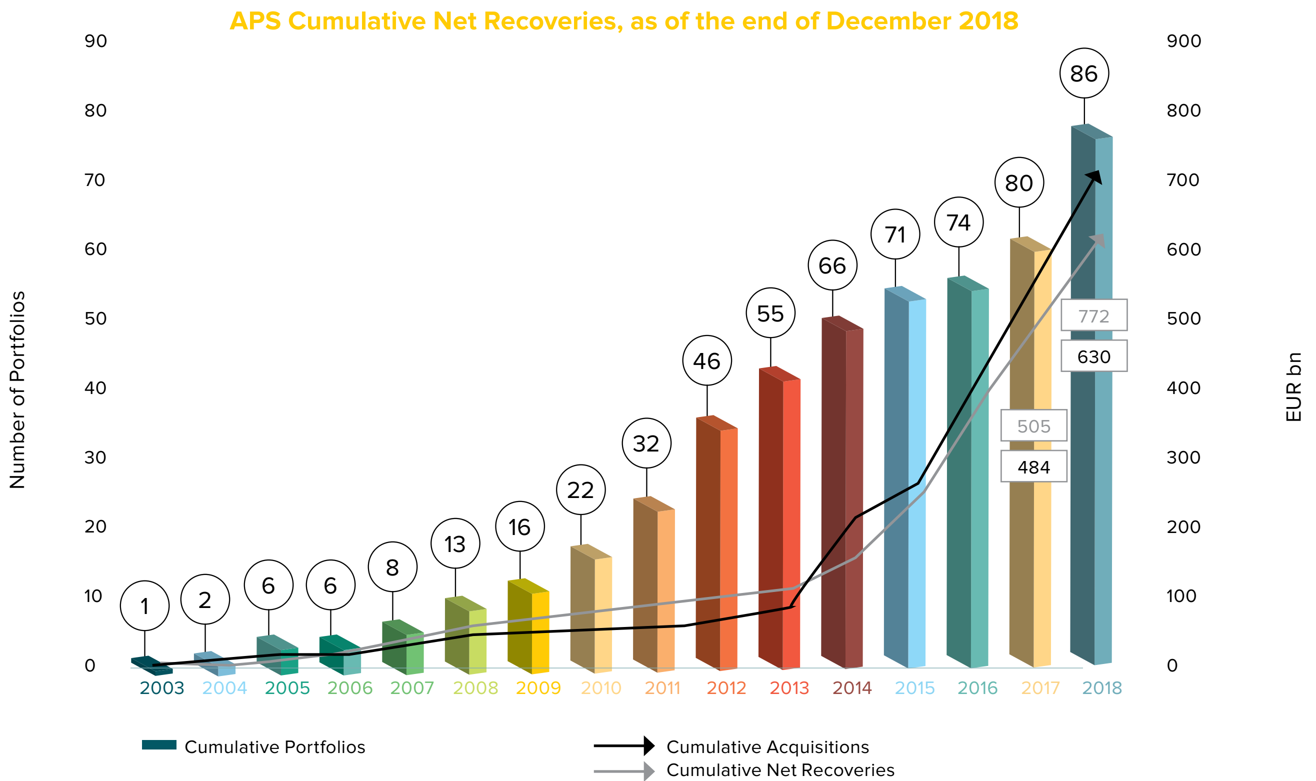
As part of the fundraising efforts for Epsilon, we have been able to demonstrate to our investors the substantial value of our investment management. This is reflected in the new fee structure which increases revenue streams for APS and represents an important step on the path towards full-fledged, stand-alone investment management within APS.

APS Epsilon

- Luxembourg-based commingled fund for large investors with a preference for investing from EUR 50 million; APS to act as general partner
- Investment period: 3 years from first closing;Targeted investment: EUR 300+ million;Region: CESEE
- Expected break-even point in 1.5 years, proven by track record;Target of 18–20% IRR (gross), with expected multiple of 1.5
- Favorable risk profile: portfolios are secured by real estate and inherently diversified

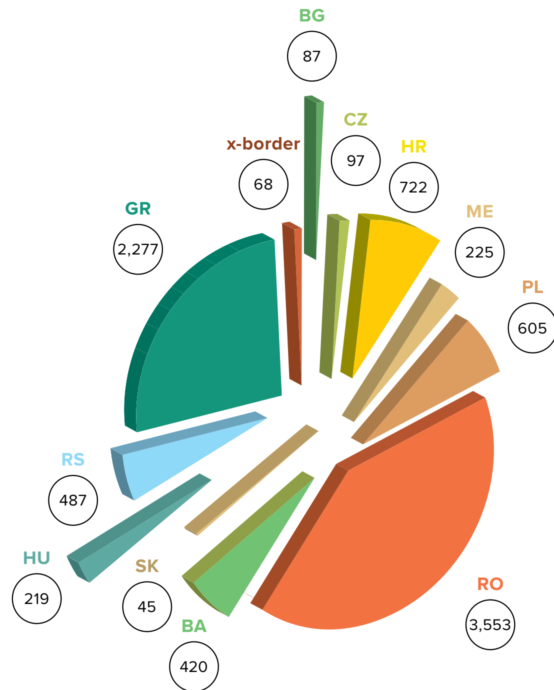
APS IN SUMMARY AND NUMBERS

APS is an advisor to several investors, investment vehicles, and funds located in various jurisdictions that invest in all types of distressed assets.

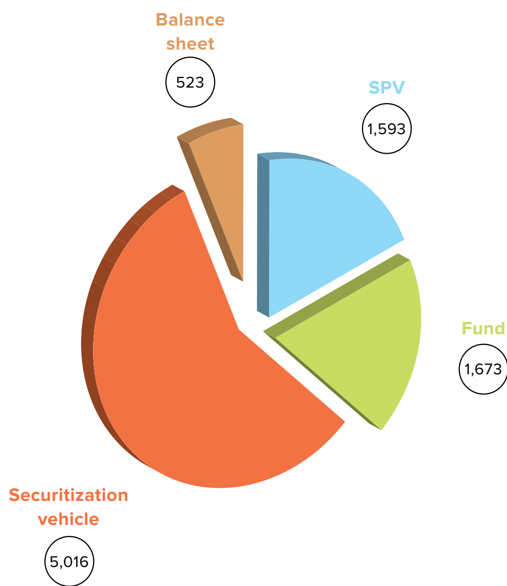


As of 31 December 2018, assets under advisory by APS had reached EUR 8.8 billion in nominal value. Cumulative acquisitions had reached EUR 771 million, and cumulative net recoveries EUR 629 million.

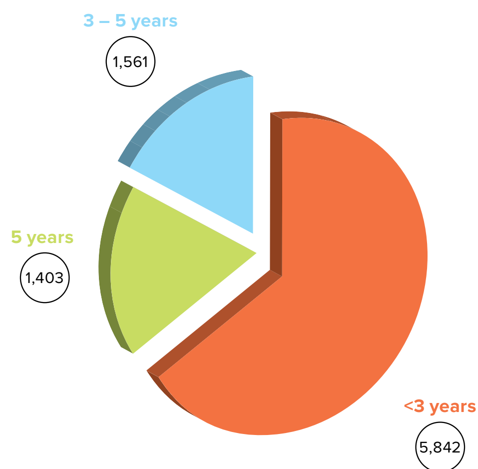
NOMINAL VALUE BY COUNTRY
Grand Total (EUR m)



NOMINAL VALUE BY ENTITY
Grand Total (EUR m)



NOMINAL VALUE BY AGE
Grand Total (EUR m)



06

REAL ESTATE

APS group has established a Real Estate division – a business line focusing on large-scale real estate investments, development projects, and project management and subsequent asset management services for both institutional and private equity investors.

Following our continued success in the area of distressed assets, we decided to make further use of our accumulated knowledge of real estate market opportunities. Headquartered in Prague, our Real estate division has been staffed with top specialists to provide management and transaction support in Central and South-eastern Europe.

We focus on value-added and opportunistic investment strategies. The value-added strategy entails adding value to investment properties relatively quickly and exiting with capital gains within an investment period of three to five years. Examples of the value-added strategy include refurbishment, change of use (i.e. conversion of a C-class office building into a residential scheme), and expansion of a logistics park. The opportunistic strategy typically involves ground-up development, a complete overhaul of an existing building, or land development.

For our business partners, we provide comprehensive services encompassing identification of opportunities, due diligence and valuation, and management of acquisition processes that result in successful transactions. We also provide stable cash flow to owners through transparent asset management and confidently manage disposal activities in order to close profitable transactions.

The APS Real Estate Division is based on three key pillars:

(i) Investment;

(ii) Asset management platform; and

(iii) Real estate development.

INVESTMENT

Real estate investment focuses mainly on large-scale real estate investments with APS equity contributions exceeding EUR 5 million.

Our focus is on joint ventures with both institutional and private equity investors in Western Europe, the CEE region, and the Balkans.

The main target is value-added and opportunistic assets within an investment period ranging between three and five years.

ASSET MANAGEMENT PLATFORM

Asset management is a key element for investors in order to maximize returns on their investment. Our services include new lease agreement negotiations and existing lease agreement renegotiations to achieve full occupancy, tenant mix optimization, service charge budget overviews to decrease any possible leakage of net operating income, and repositioning strategies for investment properties.

The asset management platform is currently active in several jurisdictions, including Serbia, Hungary, and Croatia. Our Serbian team also covers the real estate markets in Bosnia and Herzegovina and Montenegro. In 2019, expansion to Greece, Cyprus, and Slovenia is planned.

The asset management platform consists of asset management and real estate brokerage services and real estate valuations.

ASSET MANAGEMENT AND REAL ESTATE BROKERAGE

Asset management and real estate brokerage provides a wide range of services including property and asset management, servicing of real estate owned (REO) portfolios, sourcing of real estate investment opportunities including project management and development, and real estate brokerage services.

REAL ESTATE VALUATIONS

This business line offers dynamic, well-researched real estate appraisal-related services for all segments of investment properties, tailored to each of our client's needs – in terms of the owner, purchaser, lender, and investor.

The extensive range of real estate valuation services includes due diligence services for secured NPL and/or REO portfolios, real estate valuations for tax and sales purposes, and valuations for third parties. Our services include appraisals, consultation and advisory assignments, feasibility and highest and best use analyses, and market analyses.

Apart from real estate appraisal services, our team is also equipped to provide other valuation advice including for audits, company restructuring, secured finance, valuation services for loan applications, taxation, insurance, legal matters, internal management, and mergers & acquisitions.

REAL ESTATE DEVELOPMENT

The real estate development platform focuses mainly on investments with APS equity contributions under EUR 5 million that employ value-added and opportunistic investment strategies.

In 2018, two main development projects were under preparation. In Bucharest, APS started a residential development project consisting of 448 modern apartments with a total built up area of 36,000 m^2. This development scheme amounts to EUR 45 million.

In addition to the above, in 2018 the APS Real Estate division underwrote and took under management a portfolio originally held by the Austrian VB Real Estate Services GmbH. This performing leasing portfolio is secured by several commercial properties in Central Europe, including a Viennese hotel and a 22,000 m^2 football stadium located in Tyrol. The total value of the managed contracts amounts to EUR 13 million.

06

BUSINESS DEVELOPMENT

The Business Development team, established only in mid-2016, has become a regular contributor to the growth of the APS group. The team's main responsibility is to introduce APS and its standards, policies, and services to new markets and coordinate all APS units in supporting such set-ups. Business Development also provides support to newly established entities during the first year of operation to ensure full compliance with the group's requirements and enable a smooth hand-over to new management.

WHAT WAS ACHIEVED IN 2018

In 2018, APS expanded to Greece and Bosnia and Herzegovina. In addition, preparations for entry into Montenegro were finalized and purchase of a major portfolio was expected in early 2019.

Business Development also continued providing support to the new branches set up in 2017, APS Croatia, APS Cyprus, and APS Hungary, which all have become important contributors to the group's economic results and growth.

Greece

In the last quarter of 2017, APS Recovery Greece Credit and Loan Servicing S.A. was established as a joint venture with a local partner, and the plans for 2018 were to obtain the necessary licence from the Bank of Greece and develop a fully operational servicer in Athens.

The license was finally obtained in the second half of 2018, and APS started to develop a fully operational team, with a local Country Manager, Anthony Messados, and management. By the end of the year, all preparations were finalized, including hardware and software infrastructure, and the company was ready to start servicing a major EUR 2.3 billion portfolio of unsecured retail loans purchased by APS Delta starting from early 2019 with about 50 employees.

The plans for 2019 are to launch full servicing of the aforementioned portfolio and establish APS Greece as an important player on the NPL market in Greece. New opportunities for further portfolio acquisitions or potential third-party servicing will also be monitored.

Bosnia and Herzegovina

APS BH d.o.o. was established as a local servicer for future acquisitions before the summer of 2018, and the first employees joined just after that. APS BH is going to be specialized in servicing secured corporate NPLs and a major (EUR 0.4 billion) portfolio acquisition is planned for early 2019. Currently, a team of approximately 20 professionals is being led by Anis Aganovic.

APS BH d.o.o. has 2 offices in Bosnia and Herzegovina: one in Sarajevo (the Federation of Bosnia and Herzegovina) and one in Banja Luka (Republika Srpska). The plan is to develop the company into a major NPL servicer on the local market.

WHAT WE PLAN FOR 2019

Montenegro

A major part of the preparations already took place in 2018, including the incorporation of APS Montenegro d.o.o., but the final target to launch full operations is Q1 2019. With an office in Podgorica, the capital of Montenegro, APS is targeting to service (not only) a EUR 0.2 billion secured corporate NPL portfolio and therefore become a major player on the local market.

Debt recovery processes will be managed locally, but synergies are expected especially with the Serbian branch of APS, as certain supportive functions (reporting and IT) will be shared and both branches are managed by the current Country Manager of APS Belgrade Miloš Tanko.

Spain, Italy, Slovenia, Ukraine, and others

APS is constantly evaluating business opportunities in other countries, especially in the Mediterranean region, and future expansion might happen in 2019 or the following years.

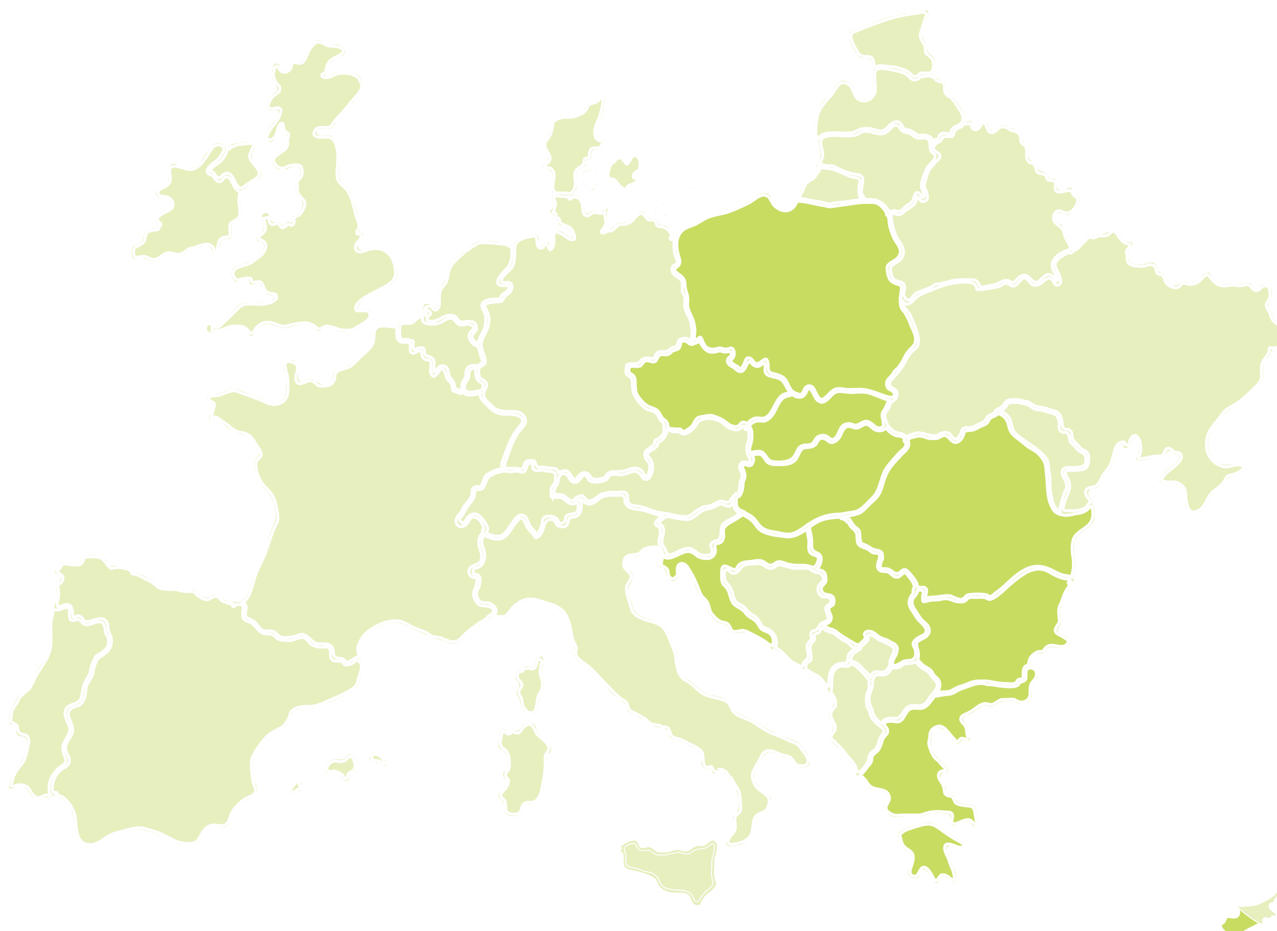
07

HIGHLIGHTS 2018

07

HIGHLIGHTS 2018

In 2018, the group closed several landmark deals which not only secured our position on our traditional markets but also underlined our ongoing expansion into new markets. We have launched operations in Greece, Bosnia and Herzegovina, and Montenegro. This also means new opportunities and challenges for the next fiscal year.



CROATIA

As of 31 December 2018, APS Croatia was servicing two corporate and retail NPL portfolios with a nominal value EUR 450 million, a decrease of EUR 300 million from acquisition at the beginning of 2017. Through the management of these portfolios, APS Croatia obtained excellent financial results, exceeding EUR 1.1 million in net profit.

In addition to the great results with a total gross recovered amount of EUR 30 million, APS Croatia took on a large role in due diligence processes for several large and potentially new secured corporate projects offered on the market. Due diligence processes in 2018 ended with positive signs for next year's secured acquisition portfolios.

Looking into 2019, APS Croatia is eager to win new business, focusing mainly on acquiring a new secured portfolio and hoping the due diligence processes will be successful; expand our business to real estate to bring fresh challenges into the company; and increase or maintain the profitability of current portfolios.

HUNGARY

For APS Hungary, 2018 was a prosperous year for development. After the acquisition of the ROSIE portfolio in late 2017, total assets under management increased to EUR 190 million, which drove APS into the top 5 Hungarian collection agencies with a niche in residential mortgage collection. At the same time, the branch expanded, which made our operations easier and more flexible. The branch was also able to strengthen and optimize its operations, which resulted in decent profits above the average collection curve for its investors.

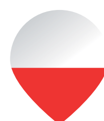
In 2019, our aim is to open new business lines and asset classes focusing on real estate. Within the asset class, in addition to exploring the distressed real estate market, our aim is to provide high-quality management and assessment services to our partners by building on our extensive experience in collection. We strongly believe that this will provide significant added value, which our partners need for continuous growth.

GREECE

In October 2018, APS Greece obtained a licence to service the full spectrum of NPLs in Greece, which prepared the ground for it to become a fully operational servicer. This was followed by onboarding of the new Country Manager, Anthony Messados, and the first members of management, covering HR, Compliance, and IT & Reporting.

The target was to be ready to bring onboard a portfolio of more than 130,000 debtors and 200,000 tickets from a Greek systemic bank acquired by APS Delta, the affiliated securitization vehicle based in Luxembourg, which was planned for Q1 2019.

The plan for early 2019 is to onboard the remaining employees, mostly in the Recovery department, to finalize the takeover of the aforementioned portfolio. In addition, many processes will need to bet set up or fine-tuned – including the new owner of the portfolio, the Bank of Greece and APS group. Long-term plans for 2019 and onwards are to make APS Greece an important player on the NPL market in Greece. New opportunities for further portfolio acquisitions or potential third-party servicing arrangements are regularly monitored and APS is participating in all tenders for major portfolios of various NPL types as the Greek NPL is extremely robust. EUR 81.8 billion of NPLs were reported by the Bank of Greece as of December 2018. APS remains committed to the Greek market, which remains a priority for the group's future growth.



POLAND

Over the course of 2018, APS Poland acted as a servicer for 38 corporate clients within dedicated cooperation agreements (third-party servicing).

We have prepared over 10,000 economic reports and recorded and analysed the market. The figures show 22 portfolio transactions and 9 tenders in the banking sector. During different collection activities, we have managed to service a portfolio worth EUR 420 million.

In 2019, APS Poland's targets include strengthening the position of APS on the Polish market according to existing capabilities and resources as well as acquiring new third-party servicing projects and activities related to purchased portfolios. From the operational point of view, the goal is to set up the full application of our compliance policy to operational processes to minimize risks and limit negative formal implications from institutions acting on behalf of the Polish regulator.

ROMANIA

Mars, the former Alpha Bank portfolio of non-performing corporate loans, was the main source of interest for the first five months of 2018 until the project officially started on 14 May. Avala is another project originating from Alpha Bank, which we won in 2018. It is a single-deal corporate ticket secured with a multifunctional (commercial and office) plot and residential real estate assets in Romania with a market value of EUR 34.5 million.

In the second half of 2018, we managed to increase our contribution margin for current servicing portfolios and also gain new clients: Patria Bank and Credit Fix. Moreover, considering how the Romanian market has evolved in recent years, we have considered new business opportunities. We kept promoting our contact centre service while trying to establish partnerships with some of the biggest accounting companies in Romania.

In 2019, we want to maintain our identity as the best recovery company in the corporate segment, generate an AMF of EUR 9.7 million from our current corporate portfolios and an AMF of EUR 1.9 million from our current retail portfolios, and last but not least take good care of our greatest asset, our employees, by implementing new retention measures, better induction plans, and more.

CYPRUS

The year 2018 was successful for APS Cyprus as we further extended our set up as a fully functional servicing platform and focused on delivering company goals and targets. Most importantly, 2018 was robust in performance, with revenue and profit before tax exceeding EUR 18 million and EUR 4 million, respectively.

The Recovery and Real Estate departments continued their momentum from the previous years and produced strong results. Several major cases have been resolved and the Real Estate department achieved all onboarding and sales targets.

On the business development front, APS Cyprus explored new opportunities on the local market. The main success was an agreement in December 2018 on a servicing contract for the EUR 245 million in unsecured retail loans from the Bank of Cyprus.

For the upcoming year, our vision remains to continue delivering all financial and recovery targets and explore new business opportunities. We are optimistic that APS Cyprus will continue its growth and sound performance.

SERBIA

The year 2018 was very productive and progressive for APS Serbia. The Onyx portfolio developed in the expected way, and the Savka (a Banca Intesa portfolio) and Emerald (several claims from Heta in both Montenegro and Serbia) deals were closed and started earning revenue. While managing five portfolios, the Serbian office achieved higher revenue and earnings before interest, taxes, depreciations, and amortization (EBITDA) than expected. Our office has grown in numbers as we grew to 17 employees, and we are very proud of our student project, where after graduation students will have the opportunity to become an APS member. Internally, the Serbian office has accomplished compliance with internal APS rules and policies. The plan for 2019 is to support closing of the Tara project in Montenegro and establish an office in Podgorica. In Serbia, we want to continue managing all portfolios according to our plans and monitor the market while focusing on acquisition of additional significant NPL portfolios expected to be on the market in Q3 and Q4.

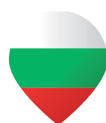
CZECH REPUBLIC

In the Czech Republic, APS has won one of the largest third-party servicing tenders in recent years. The clients are insurance companies, parts of the Generali Group, and are currently no. 1 and 5 on the market, both with the biggest share. The cooperation fully

covers collection processes including soft collection, legal collection, enforcement, and other types of legal procedures. We also provide collection services for five insurance companies in the Czech Republic, which makes us one of the leading collection agencies (within insurance) in the country. Our prospect for 2019 is to provide high-quality collection services to at least two more insurance companies. We also want to extend more financial services than only debt collection by initiating relationships with strong partners in financial services. As one of the most valuable things in debt collection is contact with debtors, we want to utilize such contacts to provide further financial services.

SLOVAKIA

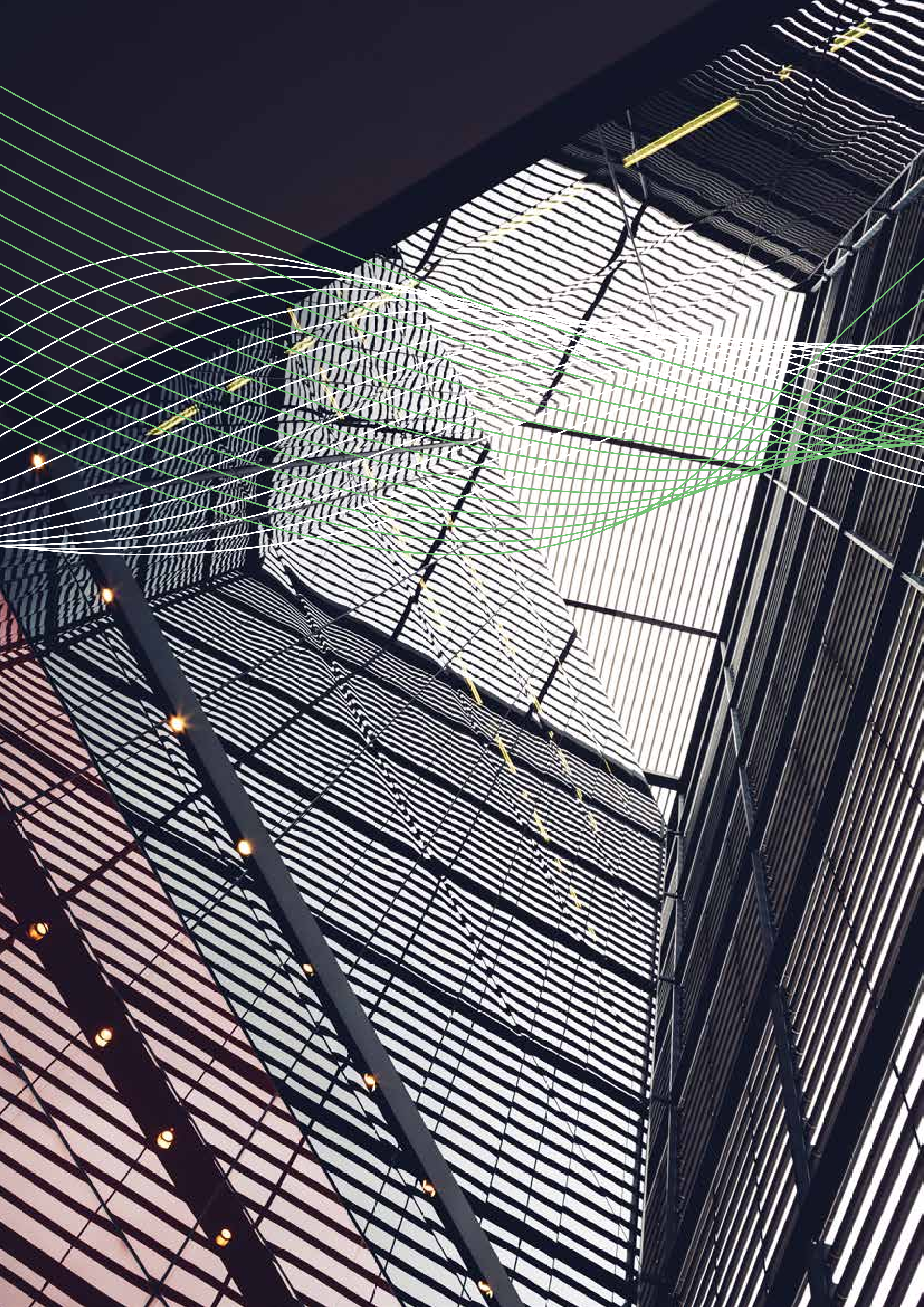
In Slovakia, we extended cooperation with one of the most famous non-banking loan providers and we carried out soft collection processes within the DPD 90+ segment. It is remarkable that since our beginning we have built up a significant lead of 18% and our nearest competitor is one of the top 3 collection agencies on the market.

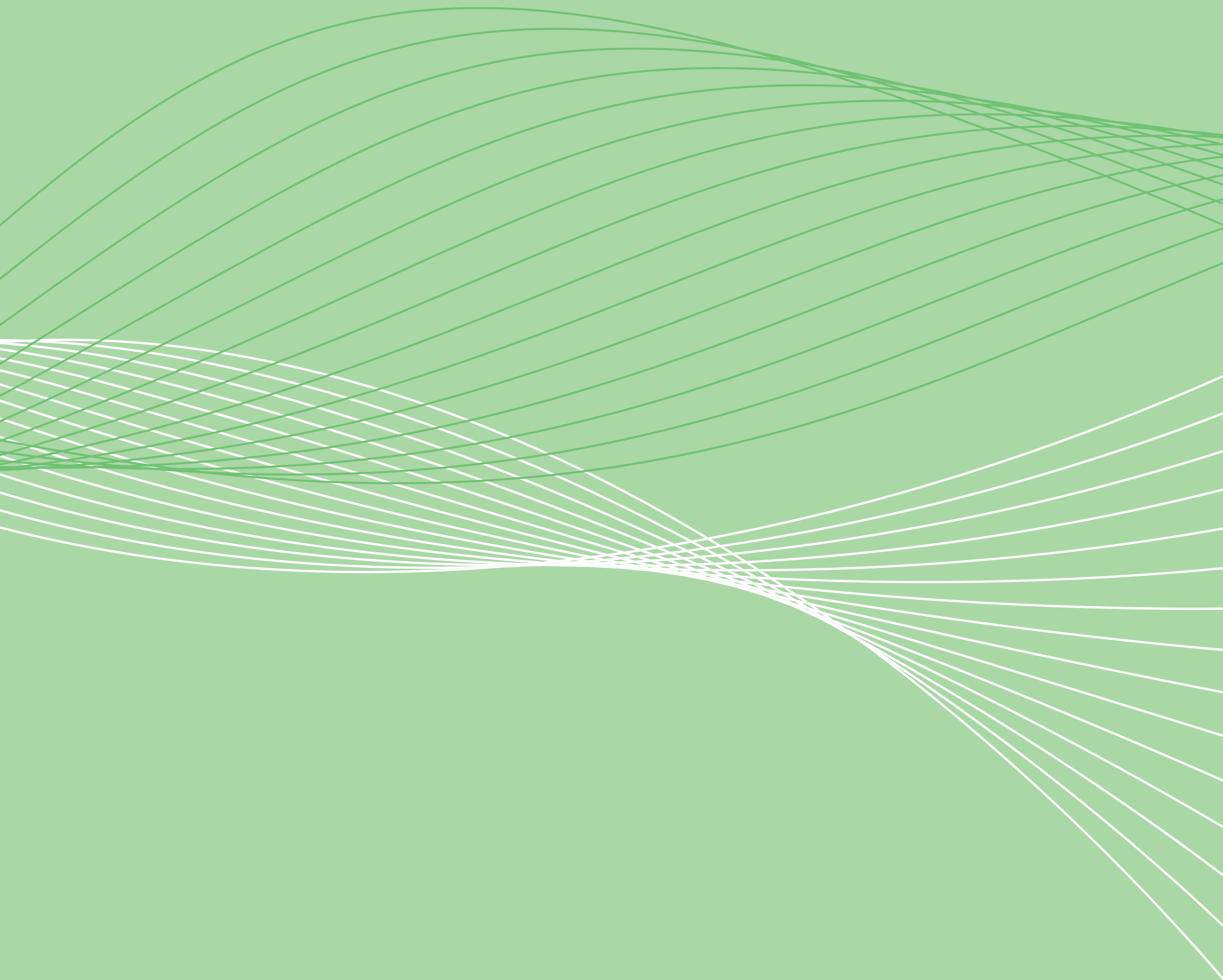


BULGARIA

The year 2018 was dynamic for APS Bulgaria as it extended its call centre department dealing with phone collection for debtors not suitable for enforcement or court cases. In addition, a new collection workflow was set up, tested, and implemented, and it brought positive results in the second half of the year. As a result of the newly developed and implemented workflow for retail collection, we overperformed on our main portfolio TBI (total collections for 2018 were EUR 2.3 million).

By the end of the year, we won a tender for providing third-party services to the biggest electricity company in the country. This is also how we set the basis for a new business line for APS Bulgaria in 2019. As for 2019, we want to exceed the budget for 2019, develop corporate activities in Bulgaria even further, and maintain our good performance.





08

Values and Vision

08

VALUES AND VISION

APS is an asset management company with a focus on alternative assets: distressed debt, real estate investment, and debt recovery. Starting in 2004, we have established ourselves as a market leader in the CESEE region. We offer comprehensive services based on a deep knowledge of both business procedures and market specifics.

We strive to be perceived as a partner who is respected in the business for excellent knowledge, highly professional skills, and ethical foundations. We value long-term partnerships, and we come with solutions that are not only profitable to our partners but also benefit local communities.

We believe that quality is not something that happens accidentally. Instead, it is built through careful and patient work, avoiding easy and short-sighted solutions.

We value not only expertise but also integrity, and we take these qualities in account also when hiring new employees. From our employees, we expect hard work and adherence to our principles. In exchange, we offer them unique professional opportunities and we respect their needs and desires to balance their work with other aspects of their lives. We are not afraid of challenges and we see them as opportunities to grow professionally.

APS is a market leader in the region of Central and South-eastern Europe, working with global market leaders as business partners. It is both a big honour and an obligation for us, and we are doing our best to keep pace with them in providing services at top standards.

In the years to come, we wish to strengthen our position in our traditional markets and expand to new and maybe also less usual distressed debt markets. We also want to strongly focus on developing the fund management and real estate parts of our business.

VISION:

1. Strong position in our traditional markets

2. Exploring business opportunities in further countries

3. Being a top player in the fields of debt recovery services and distressed asset investments

We are committed to acting in good faith with honesty, trust, and respect.

We provide opportunities for professional growth and internal promotion.

We are market leaders in Central and South-eastern Europe.

We follow best practices.

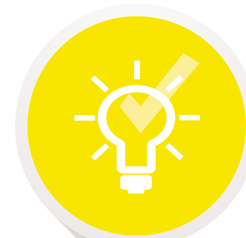
We focus on employee needs and respecting their work–life balance.

We act responsibly, effectively, and above all transparently.

We value integrity.

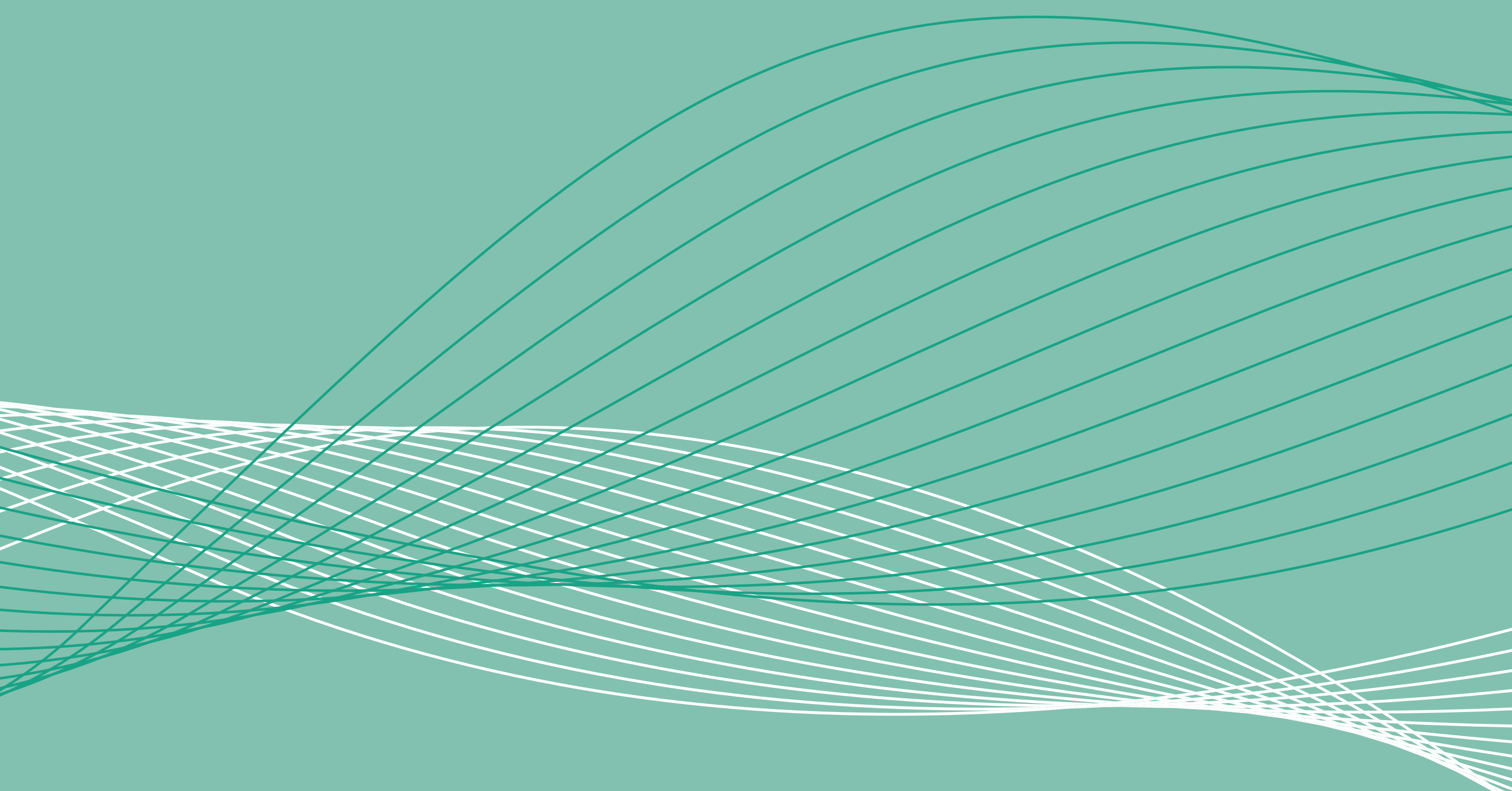
Our company is a team of dynamic, professional, and loyal individuals.

We apply the latest technology related in particular to automation and digitization.



We are always improving our skills and developing ourselves in challenging environments.

We value long-term relationships.



09

Corporate Social Responsibility

09

CORPORATE SOCIAL RESPONSIBILITY

Corporate Social Responsibility (CSR) is a part of the group's corporate culture and is based on the values, behaviour, and goals we seek to fulfil every day. Our mission is, first and foremost, to create sustainable value for our partners and employees. At APS, we believe that creating space for this value combined with good business practices will help us to boost our performance on the market and maximize the social and environmental efficiency of the company.

Over the course of 2018, APS globally took part in several CSR events and activities mainly connected to environmental efforts, philanthropy, and volunteering while applying CSR principles further in its strategy.

For **APS Cyprus**, 2018 was a year of raised awareness regarding various women's and men's health conditions. Throughout this period, the branch took part in supporting Europa Donna, the European Breast Cancer Coalition and a non-profit organization that raises awareness of breast cancer and its prevention.

For the second year in a row, **APS Bulgaria** supported the International Woman's Club (IWC), a non-profit organization welcoming and assisting newcomers to Bulgaria and furthering knowledge and understanding of Bulgaria, as well as their Charity Bazaar, which is held every year on the first Sunday in December in Sofia.

The support was based on volunteer work in a stall (selling products) for the entire duration of the bazaar.

Various companies donate the products for each stand to the bazaar, and all sales revenue goes directly to the IWC treasury. The Charity Bazaar is one of the biggest charity events in Sofia and usually collects more than EUR 200,000 in one day. The money is then distributed and used for a number of campaigns supporting children with different needs in Bulgaria.

One country to the west, **APS Serbia** was also active and in April 2018 concluded a charitable donation agreement with KBC Zemun, a local hospital in Belgrade, to donate 10 computers and 4 laptops to the hospital's science and health activities.

There were also many CSR projects in **Romania** in 2018.

- Throughout the year, APS worked with children through the Seeding Knowledge Foundation.

The foundation offers extracurricular training for diligent students with limited material means, providing them with the support and guidance needed for complete and harmonious development until they reach the age of 18. More information about the foundation can be found at their official website: www.seedingknowledge.foundation.

- APS also took part in a food market for a child born without a tibia.

This activity was linked with Romania's National Day and encouraged employees to cook as many traditional dishes as possible and then sell them to

their colleagues at reasonable prices. The resulting amount was given to the parents of the child together with a donation from APS Romania.

- At Christmas, APS Romania bought apparel and accessories for homeless and poor children.

The donation was made through a non-governmental organization that battles child poverty and homelessness. The products were then given to representatives of the organization.

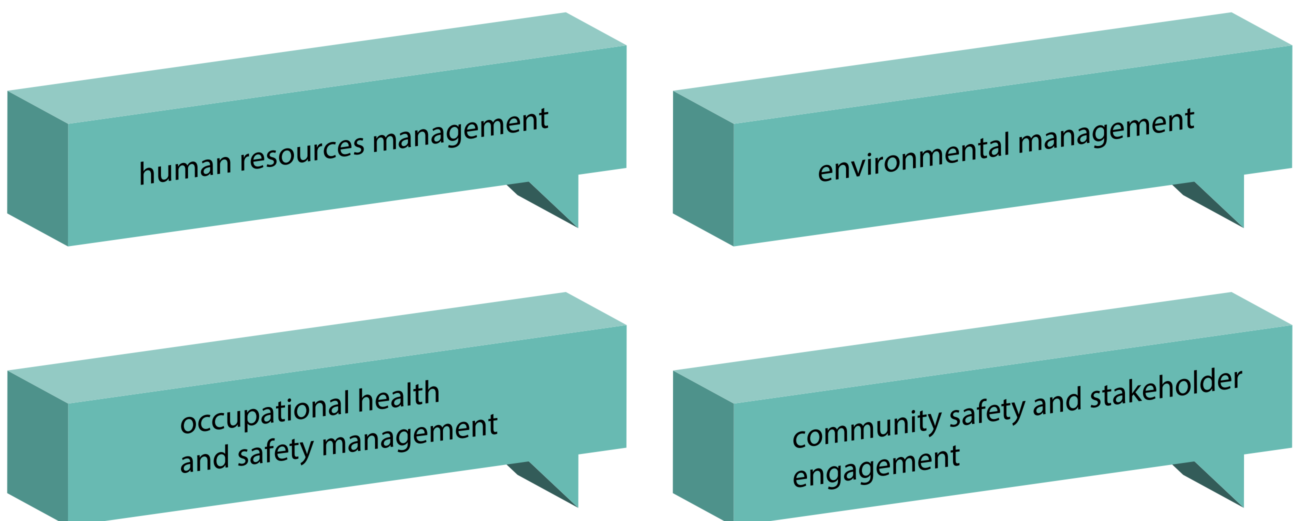
APS Romania remains very dynamic in the amount of work dedicated to CSR projects.

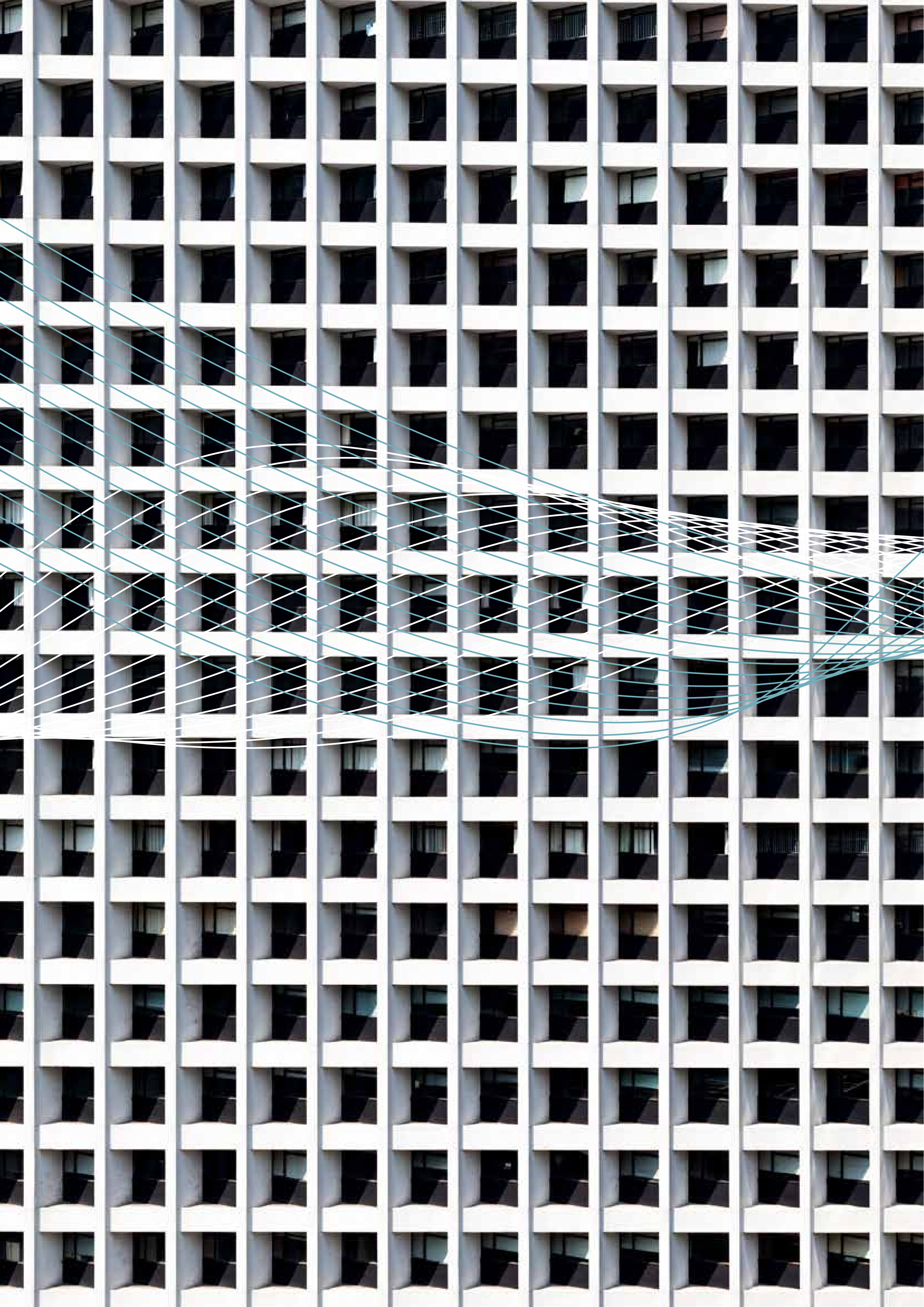
For **APS in Prague**, 2018 was the first official year of a CSR initiative with the main focus on the idea of philanthrophy.

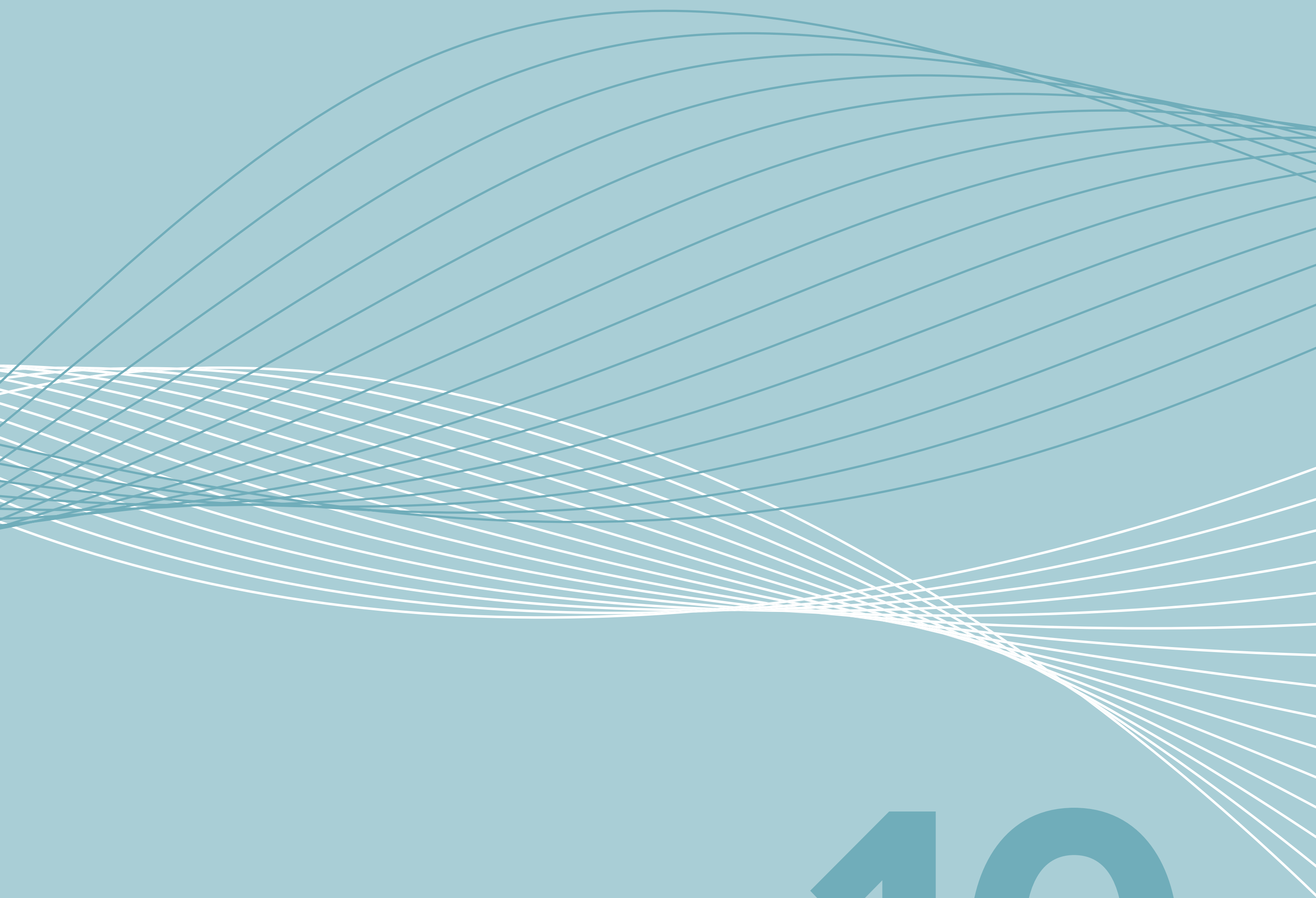
- In September 2018, we supported the civic organization Armáda Spásy through a donation of clothes to its members.
- In December 2018, the annual charitable sale of Christmas sweets took place. We have managed to collect money to run garden therapy for a retirement home in the town of Velke Mezirici (in the Vysocina Region) throughout 2019.
- Furthermore, we became the main partner of a three-day course focused on strengthening management in non-profit organizations, where we got the chance to not only help these organizations financially, especially mostly share our knowledge and skills with them and get acquainted with the meaningful projects they want to develop. We mostly communicated with the non-profit organization Naděje, which is an organization dedicated to seniors who need medical equipment and therapeutic aids.

APS also recognizes that its business operations can lead to environmental and social impacts and therefore is committed to following good environmental and social practices and has adopted an Environmental and Social Management Policy in line with IFC E&S Performance Standards on Sustainability.

THE KEY AREAS OF THE ENVIRONMENTAL AND SOCIAL MANAGEMENT SYSTEM AT APS ARE:







10

Directors' Report

10

DIRECTORS' REPORT

THE MARKET SITUATION IN 2018

The distressed debt market in emerging Europe in 2018 once again showed growing trends with respect to traded volumes, dominated by RE-asset-backed portfolios, and more value-added products offered. Banks and other financial institutions are more widely acknowledging that deleveraging their balance sheets and cooperating with distressed debt specialists represents the most effective and efficient solution to NPLs. This idea is strongly supported also by European authorities, currently developing concepts and tools that could enhance secondary NPL markets across Europe.

The number of traded portfolios and their nominal values were increasing across emerging Europe. Benefiting from our good reputation, excellent expertise, and innovative approach, we kept up with the market and reconfirmed our leading position in Central and South-eastern Europe.

Similarly as in 2017, our results for 2018 surpassed our targets in both NPL portfolio acquisitions and NPL-servicing business-backed corporate and retail portfolios across our markets, including landmark transactions in Romania, Bosnia and Herzegovina, Montenegro, Slovenia, Serbia, and Croatia. In addition, we have established three new branches (in Bosnia and Herzegovina, and Montenegro) and, with major deals concluded in these countries, we successfully launched our operations with the aim of positively impacting local economies.

STRATEGY

The main activities of our group remain debt recovery services, distressed asset and special situation investment management, and real estate. These are the areas that continue to form the core of our business, with a special focus on our newly formed Real Estate division, which is currently in the process of establishing its position on the market.

We strive to maintain our debt recovery services at the highest professional level with ethical standards and efficient collection guaranteed. We focus on all major NPL, PL, and RE portfolio auctions within our traditional markets, and we are expanding into new territories. Our strategy is tightly connected to our company values. We always look to the future and aim to establish long-lasting business with a solid network of reliable partnerships built on trust. This remains our main strategy also for 2019.

With hard work while following our ethical and professional standards, we will continue to strengthen our leading position on the market. We consider expansion to be the foundation for growth, and growth is our primary strategy. We are open to moving into other non-European markets, while we retain great interest in the European market with a focus on South-eastern Europe.

We are adapting our internal structure, processes, and systems to match our growth and expansion. Our corporate governance undergoes regular internal audits in order to improve the management system and adopt best practices and international standards.

FINANCIAL STATEMENTS

We present the financial statements for the financial year 1 January–31 December 2018. The Board of Directors is of the opinion that the financial statements provide a true picture of the assets and financial situation of APS for 2018. The financial statements are presented in accordance with the International Financial Reporting Standards adopted by the European Union and have been audited by Deloitte Audit S.à r.l.

In 2018, our business delivered very positive results and confirmed significant income growth. Income has increased to more than EUR 45.6 million, which represents 36% growth over the prior year.

PROFIT AND LOSS

In 2018, we achieved net profit of EUR 6.1 million, which is 80% higher than in the prior year. The increase in profit is driven by high performance at APS Romania, APS Debt Servicing Cyprus, APS Serbia, and APS Croatia.

CASH FLOWS

The key sources of group's cash flow were operating activities and issuance of bonds which are publicly traded on the Prague Stock Exchange.

EQUITY

The company's capital structure is composed of 22 ordinary registered shares with a total nominal value of EUR 31,000. The company does not have any type of ordinary shares which are not connected to regular payment of dividends.

GROUP STRUCTURE CHANGES IN 2018

Following on our growth, we are continuously reviewing and shaping the group's structure to keep it dynamic and efficient.

The restructuring process (the "Restructuring") which was designed in 2017 with the aim of dividing its main business activities, came into life in 2018.

It split the business of APS Recovery a.s. into five separate legal entities each directly owned by the holding company APS Holding S.A. with effect from 1 January 2018.

The corporate structure after the Restructuring provides for separation of fiduciary risks related to underwriting and recovery processes as well as improved corporate governance of the new divisions.

On the level of APS Holding S.A., the Restructuring comprised establishment and set up of APS Management Services s.r.o., APS Investments S.à r.l., and APS Investment Funds S.à r.l. Effective from 1 January 2018, APS Recovery a.s. (formerly APS Holding a.s.) divided its business activities as follows:

APS Recovery a.s.
- renamed from APS Holding a.s.
- to remain as a holding company for all local servicing subsidiaries

APS Investments S.à r.l.
- to provide underwriting, fund management, and other services to investment vehicles and funds

APS Management Services s.r.o.
- to provide management and other services to APS group entities

APS Real Estate s.r.o.
- to carry out real-estate management and other related services

APS Investment Funds S.à r.l.
- to serve as a holding company for investment funds and vehicles

RISK MANAGEMENT AND INTERNAL CONTROL

We are exposed to a variety of financial risk factors, including market risk, currency fluctuation risk, credit risk, interest fluctuation risk, liquidity risk, and operating risk arising from the organization's financial instruments. We have defined a set of guidelines for risk management to follow.

When evaluating a client's creditworthiness, we prepare thorough financial and non-financial analyses. The non-financial analysis takes into consideration qualitative indicators and publicly accessible information about the client as well as information obtained directly from the client.

Assets and liabilities in foreign currencies, including off-balance sheet items, represent a currency risk to which we are exposed. We conduct our business transactions in such currencies as EUR, USD, CZK, PLN, RSD, BGN, HRK, HUF, BAM, and RON.

Interest fluctuation risk relates to the possibility of losses arising from fluctuations in interest rates. Given our portfolio of assets and liabilities, our risk from fluctuating interest rates is relatively minor. Term deposits in banks have been arranged to cover the short-term.

We define liquidity risk as the possibility of losses on our revenues and our own resources resulting from the company's inability to cover its liabilities on time without incurring unnecessary losses.

We define operating risk as the possibility of losses on our revenues and our own resources resulting from shortcomings in the internal control system and the organization of the risk management system. This risk is a function of internal control mechanisms, information systems, lack of employee perfection, and operational processes. This risk exists in all products, services, and processes. It occurs daily in all companies which process transactions.

HUMAN RESOURCES

At APS, we aim to establish long-term relationships with our staff founded on trust and mutual respect. We provide our employees with working conditions to motivate them to achieve their optimal performances. We provide equal conditions for employees, a friendly environment, and possibilities for career growth and further education. At APS, we are well aware that only our qualified and motivated employees make it possible for us to be a success on the highly demanding and competitive distressed asset market.

We organise various non-working team activities for our employees throughout the year to build team spirit. Moreover, we provide our employees with various workshops for both soft skills and increasing their qualifications.

At APS, we comply with all legal working regulations applicable to employers. Compliance with legal and internal regulation is subject to regular monitoring, and if there should happen to be any possible problems, we implement the remedy immediately.

DIVERSITY

The company ensures diversity through equal opportunities for all employees, regardless of religion, gender, sexual orientation, race, ethnics, age, etc. Employees have complete freedom to avow any the afore mentioned characteristics and not be discriminated against. This is ensured by internal rules such as our Code of Ethics, regular employee trainings, and the overall corporate culture promoted by the top management of APS. The company employs people from different countries around the world with different culture heritages and backgrounds. A recent example of raising APS employee' awareness is a donation to the Prague Pride Festival 2019 by our Seeding Knowledge charity.

ENVIRONMENT

We are aware of the need for the sustainable development of society. For this reason, we view all our activities from the perspective of their potential negative influence on the environment. At APS, we follow very strict social and environmental standards set by the World Bank and its International Finance Corporation. For this purpose, we introduced our own system to steer and reduce potential environmental and social risks during our daily activities. Following these

standards excludes cooperation with clients or debtors whose activities are connected with excessive environmental burdens (see the IFC Exclusion List; examples include companies producing or trading in radioactive materials and companies conducting excessive fishing) or whose activities are unethical or violate human rights.

GOING CONCERN AND OUTLOOK

The annual financial statements have been prepared on a going concern basis, and it is the opinion of the Board of Directors that the financial statements provide a fair presentation of our business and financial results. We confirm that the going concern assumption has been satisfied.

The period of 2018 was active in both portfolio acquisition and servicing, and we believe this trend will continue throughout 2019.

The Board of Directors emphasizes that every assessment of future conditions necessarily involves an element of uncertainty.

With regard to the aforementioned, APS will continue to focus on its growth strategy in both existing and new markets, where we see a significant supply of promising investment opportunities. In South-eastern Europe, several landmark transactions worth EUR 100 million commenced in 2018 have already been awarded to us and are in the pre-completion phase, subject to regulatory approvals.

Recently, investors' attention has shifted southwards, with Greece and Italy being the most promising NPL markets with NPL amounts of over EUR 100 billion and EUR 300 billion, respectively. Numerous sizeable distressed asset portfolios are currently being traded and more are in the pipeline. Greece, where the first NPL transactions are being completed, represents a vast NPL market still relatively unknown to investors. APS has been closely monitoring the local market for several years, and as a consequence we entered the market in 2017 approaching several transactions with the aim of at least one deal to be completed in 2018, which was achieved with the Arctos deal. We consider the Greek market to be strategic for our further growth in SEE and expect local banks to continue delivering ambitious NPLs reduction targets resulting in over EUR 40 billion of NPLs supplied within the next 3–5 years across all NPL asset classes. With this in mind, we are building up fully fledged operations and managed to successfully complete the licensing procedure with the Bank of Greece.

The Italian market is, compared to Greece, more saturated and competitive and also more geographically fragmented with more complexities. Following one of our major investors, we are establishing an operational presence in northern Italy, aiming to start providing collections services to its already acquired portfolios. We are also monitoring the local debt acquisition market: we have recently participated in several transaction processes and are looking to select an appropriate first transaction.

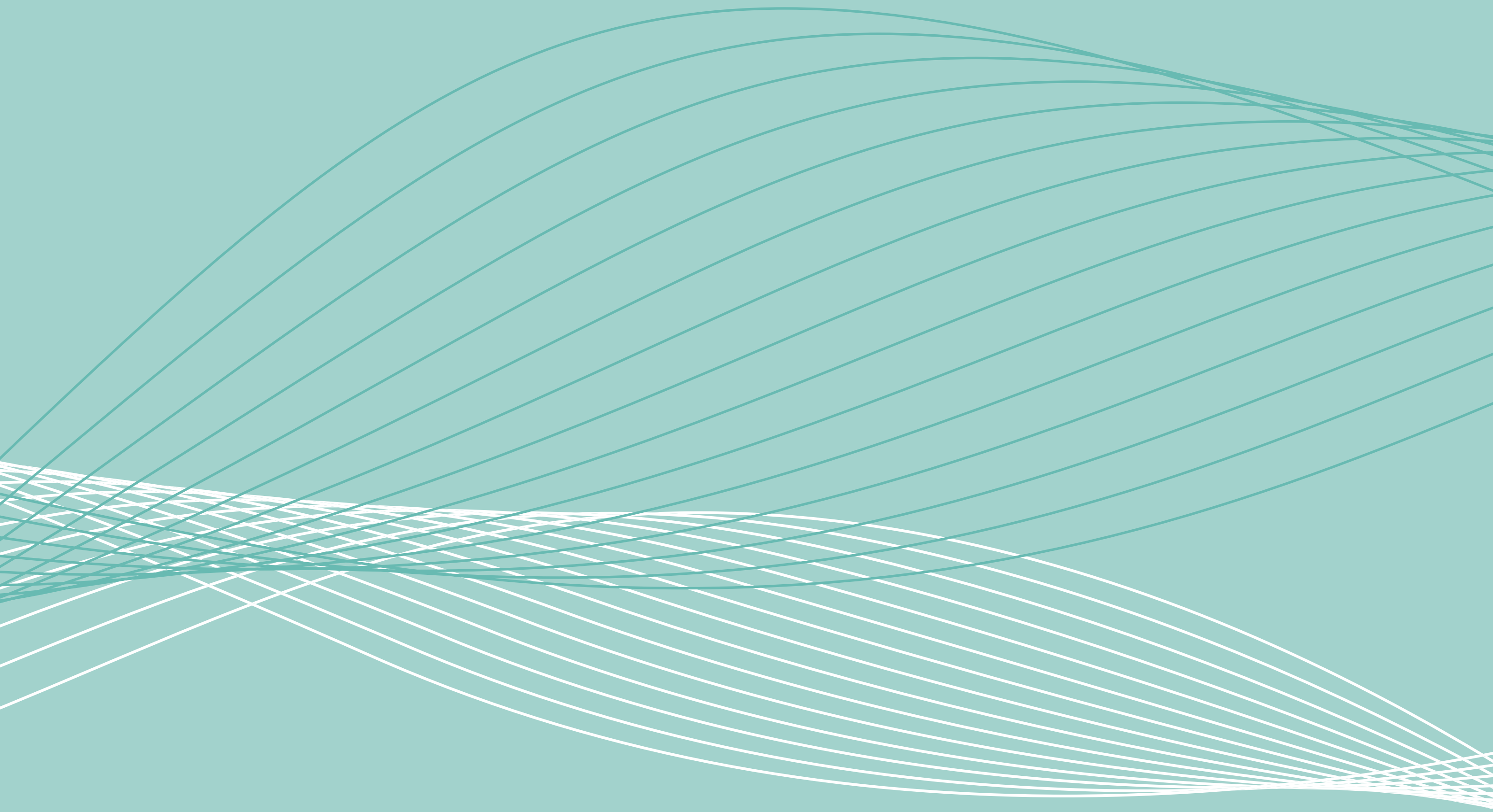
Another market with vast NPL stock is Spain, the most competitive market in Southern Europe, with all major investors and servicers present. With local banks selling portfolios as well as servicing operations, the Spanish market produces the largest transactions in the region. Aiming to establish a business presence there, we are targeting some of the medium-sized primary and secondary local transactions as well as reviewing opportunities to acquire operating servicing platforms. As for the other countries attracting investors' interest, Turkey, Ukraine, and Russia represent the markets worth looking at in near future.

The changing regulatory environment (the GDPR, NPL-related regulations, and other changes) has had a profound impact also on the European NPL market, resulting in more standardized procedures and requirements. While these measures have proved to be an effective way of reducing the asymmetries between potential buyers, they also make the entire process more cumbersome and time-consuming.

RESEARCH AND DEVELOPMENT

APS Group has not performed any activities in the field of research and development during 2017 and 2018.

ANALYSIS
SEARCH
SCANNING



11

Compliance

11

COMPLIANCE

Compliance plays an essential role in helping to preserve the integrity and reputation of the group. With our compliance programme that is valid across the entire group, APS ensures that the members of its corporate bodies, directors, executives, officers, and employees as well as advisors and contractors comply with and all business and other activities are performed in compliance with the applicable regulations.

APS recognizes the importance of having effective and independent management of compliance, which is ensured in the areas of:

(i) compliance risk management,

(ii) anti-money laundering (AML) and counter terrorist financing (CFT),

(iii) application of applicable sanctions and embargoes,

(iv) protecting and processing personal data,

(v) fraud prevention and deterrence,

(vi) prevention of conflicts of interest, and

(vii) handling claims and complaints about APS operations.

For AML and CFT, APS has an advanced system of know-your-client (KYC) checks in place to ensure that each portfolio of debtors, new clients, investors, and suppliers are screened by a compliance officer for potential AML, CFT, and environmental and social risks. APS uses both manual and automatic KYC verification and complies with the policies of the International Finance Corporation and the European Bank for Reconstruction and Development – two of our biggest investors.

In 2018, APS established a framework compliance policy setting out compliance processes, organizational requirements, and regular reporting obligations for APS entities towards the group, based on the methodology of the Committee of Sponsoring Organizations of the Treadway Commission. The compliance function at APS is now carried out by the Legal & Compliance department, the head of which ensures the organizational and technical conditions necessary for the performance of compliance tasks at APS. The head of the department is supported by the Group Compliance Officer, subsidiaries' compliance officers, and other officers, some of whom also may act as data protection officers.

The Group Compliance Officer manages the work of compliance employees and is responsible for re-

porting significant compliance matters to the relevant executive and supervisory corporate bodies to ensure effective oversight of compliance within the group. Each compliance employee is subordinate to the Group Compliance Officer by way of dotted-line reporting. The Group Compliance Officer is subordinate to the Board of Directors in compliance matters and to the head of the department in organizational and technical matters to ensure the independence of compliance within the group.

The Board of Directors is responsible for approval of the group's annual AML and Environmental and Social Management System reports, approval of the group's annual programme for compliance, discussions of ad-hoc reports alerting them to compliance risks, and monitoring and assessment of the independence, adequacy, and effectiveness of compliance employees.

The Company's management is responsible for promoting an organizational culture that places high priority on effective compliance risk management and adherence to internal controls, including standards for the conduct, integrity, and ethical behaviour of APS staff at all levels. The management is also responsible for the establishment and oversight of a compliance programme within their field of business and the enforcement of adherence to the compliance standards by APS staff. Targeted training of all staff and awareness raising prevent any misconduct or economic or reputational damage.

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Consolidated financial statements

as at and for the year ended 31 December 2018 and report of the Réviseur d'Entreprise Agréé

Consolidated statement of profit or loss and other comprehensive income as at 31st December 2018

In thousand of Euros

	Notes	31. 12. 2018	Restated 31. 12. 2017 (note 4.1)
Revenue from NPL portfolio servicing	7.1	36 982	30 661
Other operating revenues	7.1	8 664	2 827
Operating revenue	**7.1**	**45 645**	**33 488**
Distribution and administrative expenses	7.2	-28 030	-26 854
Other operating expenses	7.2	-4 443	-271
Total operating expenses	**7.2**	**-32 473**	**-27 125**
Depreciation of tangible fixed assets	8.2	-189	-185
Amortisation of intangible assets	8.1	-2 910	-1 807
Operating profit		**10 074**	**4 371**
Profit from shares and participation in associated companies and joint ventures	8.3	-1	-24
Net realised and unrealised exchange gains/(losses)	7.3, 7.4, 7.5	-272	1 180
Other Interest income	7.3	27	27
Other interest expenses	7.5	-2 200	-2 171
Other Finance Income/Costs net	7.3, 7.4, 7.5	-444	546
Net financial result		**-2 889**	**-442**
Profit for the year before tax		**7 184**	**3 928**
Current tax	7.6	-1 793	-838
Deferred tax	8.6	729	302
Profit for the year after tax		**6 120**	**3 392**
Total profit/Loss for the year		**6 120**	**3 392**
Other comprehensive income, net of tax (subsequently reclassified through P&L)		-75	-3
Total comprehensive income for the year, net of tax		**6 045**	**3 389**
Profit for the year after tax attributable to:			
Parent company shareholders		3 980	2 597
Non-controlling interests	8.10	2 141	795
Total comprehensive income for the year, net of tax attributable to:			
Parent company shareholders		3 904	2 594
Non-controlling interests	8.10	2 141	795

Consolidated Statement of financial position as at 31st December 2018

In thousand of Euros

	Notes	31. 12. 2018	Restated 31. 12. 2017	Restated 1.1.2017
Non-current assets				
Property, Plant and equipment	8.2	395	652	542
Intangible assets	8.1	17 003	19 056	5 172
Goodwill	8.1	9 933	9 951	6 814
Shares in associates based on equity method	8.3	7	52	160
Purchased loan portfolios	8.4	12 451	4 187	6 255
Loan receivables	8.4	136	1 424	1 932
Deferred tax asset	8.6	223	35	0
Total non-current assets		**40 149**	**35 358**	**20 875**
Current assets				
Loan receivables	8.4	1 084	34	241
Trade and other receivables	8.4	17 046	14 719	6 397
Cash and short term deposits	8.4	13 326	8 054	9 148
Other short term assets	8.4	3 809	431	379
Total current assets		**35 264**	**23 239**	**16 166**
Assets classified as held for sale	8.11	497	0	90
Total assets		**75 910**	**58 598**	**37 131**
Equity				
Share capital	8.9	31	31	31
Other capital reserves		7 735	3 544	950
Total equity attributable to parent company share-holders		7 767	3 575	981
Equity attributable to non-controlling interests	8.10	9 064	7 638	0
Total equity		**16 830**	**11 213**	**981**
Non-current liabilities				
Bank and Other Loans	8.5	15 175	25 442	26 689
Issued Bonds	8.5	17 211	0	0
Other long term liabilities	8.5	4 675	4 251	188
Deferred tax liabilities	8.6	389	918	1 185
Total non-current liabilities		**37 451**	**30 611**	**28 062**
Current liabilities				
Short term Bank and Other loans	8.5	4 671	2 430	637
Issued Bonds	8.5	2 572	0	0
Trade and other payables	8.7	13 711	13 390	7 203
Current tax payables		564	58	48
Provisions and other short-term liabilities	8.8	92	897	44
Total current liabilities		**21 611**	**16 775**	**7 932**
Liabilities classified as Held for sale		18	0	157
Total equity & liabilities		**75 910**	**58 598**	**37 131**

Consolidated Statement of changes in equity for the year ended 31 December 2018

In thousand of Euros

	Share capital (excl. treasury shares)	Other capital reserves	Equity attri-butable to the major shareholers	Non-contro-lling interest	Total Equity
Balance at 1 January 2017	31	2 190	2 221	597	2 818
Changes in accounting policy, correction of errors (note 4)	-	(1 240)	(1 240)	(597)	(1 837)
RESTATED Balance at 1 January 2017	**31**	**950**	**981**	**-**	**981**
Changes in equity for 2017		-	-		
Profit or (loss) for the year	-	2 594	2 594	795	3 389
Total comprehensive income for the year	**-**	**2 594**	**2 594**	**795**	**3 389**
Equity related to new acquisitions				6 843	6 843
Balance at 31 December 2017	**31**	**3 544**	**3 575**	**7 638**	**11 213**
Balance at 1 January 2018	**31**	**3 544**	**3 575**	**7 638**	**11 213**
Changes in equity for 2018		-	-		
Profit or (loss) for the year	-	3 980	3 980	2 141	6 120
Other comprehensive income for the year	-	(75)	(75)		(75)
Total comprehensive income for the year	**-**	**3 904**	**3 904**	**2 141**	**6 045**
Dividends for the shareholders	-	**-**	**-**	**(774)**	**(774)**
Exchange differences	**-**	289	289	60	349
Balance at 31 December 2018	**31**	**7 736**	**7 767**	**9 064**	**16 831**

Consolidated cash flow statement as at 31 December 2018

In thousand of Euros

Cashflow	2018	2017
Cash flows from operating activities		
Profit before taxation	7 184	3 928
Adjustments for non-cash items:		
Share of profit of associates	1	24
Finance income	(27)	(27)
Finance cost	2 432	2 130
Depreciation of intangible asset, property, plant and equipment	3 043	1 992
Impairment losses, net of reversals, on financial assets	56	
Gain on disposal of property, plant and equipment	1 809	(60)
Increase/(decrease) in provisions	(805)	853
Changes in working capital (excluding the effects of acquisition and exchange differences on consolidation)		
Decrease/(increase) in trade and other receivables	(6 848)	(8 357)
Increase/(decrease) in trade and other payables	1 136	9 983
Other adjustments	-	6 843
Cash generated from operations	**7 981**	**17 308**
Interest paid	(2 172)	(2 145)
Income taxes paid	(1 342)	(468)
Net cash from operating activities	**4 467**	**14 696**
Cash flows from investing activities		
Dividends received from associates	40	41
Purchase of property, plant and equipment	(1 037)	(19 124)
Purchases of debt instruments designated at amortised cost	(8 265)	2 068
Loan granted to external party	267	715
Net cash (used in)/from investing activities	**(9 262)**	**(17 015)**
Cash flows from investing activities		
Dividends received from associates	40	41
Purchase of property, plant and equipment	(1 037)	(19 124)
Purchases of debt instruments designated at amortised cost	(8 265)	2 068
Loan granted to external party	267	715
Net cash (used in)/from investing activities	**(9 262)**	**(17 015)**
Cash flows from financing activities		
Dividends paid (NCI)	(774)	
Repayments of borrowings	(7 882)	546
Proceeds from loans and borrowings	18 722	
Net cash (used in)/from financing activities	**10 066**	**546**
Net increase/(decrease) in cash and cash equivalents	**5 271**	**(1 773)**
Cash and cash equivalents at beginning of the year	**8 054**	**9 148**
Foreign exchange gains and (losses) on cash and cash equivalents	-	(35)
Cash and cash equivalents at end of the year	13 326	8 054

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

1 General information

APS Holding S.A. (the Company) is a Company limited by shares incorporated and registered in Luxembourg. Its ultimate controlling party is Mr. Martin Machoň. The address of the Company's registered office is at 14, rue Edward Steichen, L- 2540 Luxembourg, Grand Duchy of Luxembourg.
The Company is administered by members of the Board of Directors and is not further divided into any specific organizational parts or units.

Additional information:
As of 21st December 2018, the Company transferred its registered office from 1, rue Jean Piret, L-2350 Luxembourg to 14, rue Edward Steichen, L-2450 Luxembourg and appointed new Board of Directors (details below)

Board of Directors as of 21st December 2018:

Martin Machoň,
Slezská 2141/116, 130 00 Prague 3,
Czech Republic
Nicoletta Leone,
14 rue Edward Steichen,
L-2540 Luxembourg,
Grand Duchy of Luxembourg
Reeba Nachtegaele,
14 rue Edward Steichen,
L-2540 Luxembourg,
Grand Duchy of Luxembourg

Previous Board of Directors:

Chairman:
Phillipe Ponsard,
1, rue Jean Piret, L-2350 Luxembourg,
Grand Duchy of Luxembourg
Pierre Lentz, 1, rue Jean Piret,
L-2350 Luxembourg,
Grand Duchy of Luxembourg
Marc Albertus,
1, rue Jean Piret, L-2350 Luxembourg,
Grand Duchy of Luxembourg

The principal activities of the Company and its subsidiaries (the Group) are non-performing loans (NPL) recovery services, NPL portfolio underwriting services, asset management services and fund management services across Central and South Eastern Europe. The Group's main business activities entail advising and servicing NPL portfolios, debt recovery services as well as distressed asset recovery investment services and increasing Real Estate activities in Cyprus.

These financial statements are presented in Euros (EUR) and are rounded to the nearest thousand. Foreign operations are included in accordance with the policies set out in note 3.10.

Financial Statements have been prepared on a going concern basis.

2 Adoption of new and revised Standards

New and amended International Financial Reporting Standards (IFRS) that are effective for the current year

2.1 Impact of initial application of IFRS 9 Financial Instruments

In the current year, the Group has applied IFRS 9 Financial Instruments (as revised in July 2014) and the related consequential amendments to other IFRS Standards that are effective for an annual period that begins on or after 1 January 2018. The transition provisions of IFRS 9 allow an entity to restate comparatives; and the Group has therefore elected to restate comparatives in respect of the classification and measurement of financial instruments.

IFRS 9 introduced new requirements for:

1) The classification and measurement of financial assets and financial liabilities,
2) Impairment of financial assets, and
3) General hedge accounting.

Details of these new requirements as well as their impact on the Group's consolidated financial statements are described below.
The Group has applied IFRS 9 in accordance with the transition provisions set out in IFRS 9.
(a) Classification and measurement of financial assets
The date of initial application (i.e. the date on which the Group has assessed its existing financial assets and financial liabilities in terms of the requirements of IFRS 9) is 1 January 2018. Accordingly, the Group has

applied the requirements of IFRS 9 to instruments that continue to be recognized as at 1 January 2018 and has not applied the requirements to instruments that have already been derecognized as at 1 January 2018. Comparative amounts in relation to instruments that continue to be recognized as at 1 January 2018 have been restated where appropriate.

All recognized financial assets that are within the scope of IFRS 9 are required to be measured subsequently at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Specifically:

- debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at amortised cost; for the group this is represented by Unsecured NPL portfolios;
- debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at fair value through other comprehensive income (FVTOCI); for the group this is represented by Secured NPL portfolios;
- all other debt investments and equity investments are measured subsequently at fair value through profit or loss (FVTPL).

Despite the afore going, the Group may make the following irrevocable election / designation at initial recognition of a financial asset:

- the Group may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognized by an acquirer in a business combination in other comprehensive income; and
- the Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

In the current year, the Group has not designated any debt investments that meet the amortised cost or FVTOCI criteria as measured at FVTPL.

When a debt investment measured at FVTOCI is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. When an equity investment designated as measured at FVTOCI is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is subsequently transferred to retained earnings.

Debt instruments that are measured subsequently at amortised cost or at FVTOCI are subject to impairment. See (b) below.

The directors of the Company reviewed and assessed the Group's existing financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of IFRS 9 has had the following impact on the Group's financial assets as regards their classification and measurement:

- financial assets classified as held-to-maturity and loans and receivables under IAS 39 that were measured at amortised cost continue to be measured at amortised cost under IFRS 9 as they are held within a business model to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding.

None of other reclassifications of financial assets have

Financial instruments according to International Accounting Standards (IAS) 39	Financial instruments according to IFRS 9
Cash and outstanding balances on bank accounts	Cash and outstanding balances on bank accounts / Financial assets valuated at amortised costs
Financial assets in fair value valuated trough profit and loss	Financial assets in fair value valuated trough profit and loss
Loan and receivables	Debt financial assets valuated at amortised costs
Financial assets available for sale	Financial assets in fair value valuated trough profit and loss
Purchased debt portfolios – unsecured	Debt financial assets valuated at amortised costs
Purchased debt portfolios – secured	Financial assets in fair value valuated trough profit and loss
Issued bonds	Issued bonds - Debt financial liabilities valuated at amortised costs
Borrowings	Borrowings -Debt financial liabilities valuated at amortised costs

More detail about IFRS 9 measurement at the beginning of this section and in section 3.17 Financial Instruments.

Financial instruments according to IAS 39	Measurement till 1. 1. 2017
Cash and outstanding balances on bank accounts	Amortised costs
Financial assets in fair value valuated trough profit and loss	Fair value according the discounted cash flow and using the effective interest rate
Loan and receivables	When accounted for the first time, trade receivables are measured at fair value and then at accrued value, using the effective interest rate method, less adjusting entries. The corresponding adjusting entries to irrecoverable amounts are recognised through profit or loss, provided there is no objective evidence that the value of the asset was decreased. The recognised adjusting items are measured as the difference between the book value of the asset and the current value of the estimated future cash flows discounted by the effective interest rate calculated upon first-time recognition. Loans established in the Company by the direct lending of money to the debtor are considered as granted loans and are reported at net book value. The net book value is the amount at which the loan was granted, after deduction of instalments, increased or decreased by amounts of accrued amortisation using the effective interest rate method, i.e. the difference between the initial value and the value upon maturity, decreased, where appropriate, by a deduction due to reduced value or non-recoverability.
Financial assets available for sale	Fair value according the discounted cash flow and using the effective interest rate
Purchased debt portfolios	Purchased debts represent a portfolio of overdue debts purchased at prices considerably lower than the nominal value of the receivable. They are measured at the fair value of the acquisition price, which also includes fees paid to lawyers, notaries, experts and advisors that directly relate to the purchase of the portfolio, and then at the accrued value in accordance with the effective interest rate method. The revenues resulting from the purchased debts are reported in the Profit and Loss Account as the collected amounts less amortisation. The purchased debt portfolios are of two types: portfolio of consumer loans and portfolio of corporate loans. The said portfolios have different methods of calculation of future cash flows and different methods of recovery. The accounting value of each portfolio corresponds to the current value of all the expected future cash flows discounted by the original effective interest rate set out as of the date of the portfolio acquisition based on the proportion between the expenses and the expected future cash flows as of the acquisition date. The changes in the accounting value of the portfolio are reported through amortisation during the accounting period and are recorded in the Profit and Loss Account as revenues. However the portfolio's accounting value during its maturity period is never reported at a value higher than the acquisition price.

Financial instruments according to IAS 39	Measurement till 1. 1. 2017
Purchased debt portfolios	Upon purchasing any portfolio, a prognosis of the expected portfolio's cash flows is made. The cash flows include the loan value less the expected recovery costs. Based on the prognosis, each portfolio is assigned with an effective interest rate, which is then used to discount the cash flows during the portfolio's maturity period. The current prognoses of cash flows are monitored during the year and are updated, among others, based on the actually recovered amounts, agreements with the debtors on payment schedules and macroeconomic information. Based on the updated prognoses of cash flows and the original effective interest rate, the new book value of the portfolio is calculated. Prognoses of cash flow in the case of consumer loans are made at the portfolio level, because each portfolio of receivables consists of a small number of homogenous amounts. When making prognoses of the future cash flows of corporate portfolios, the value of collaterals and guarantees in the form of movable and immovable assets including cash relating to the individual receivables within the respective portfolio having an effect on the amount of the future cash flows, is taken into account, as well as the current status of the process relating to recovery of the said receivables, i.e. for example the status of bankruptcy, execution and other possible methods of capitalisation of collaterals, influenced by the moment of establishment of the future cash flow resulting from the respective portfolio. The Company's management made important estimates (note 5.2.2) with regard to recoverability of the future cash flows resulting from the portfolio. The cash flow estimates are regularly reviewed at least once a year. If the cash flow estimates are reviewed, the accounting value is converted based on calculation of the current value of the estimated future cash flows using the original effective interest rate, and the resulting profit/loss is reported in amortisation. The costs of sale represent the commissions payable to the agents recovering the debts. The aforementioned process of the accounting value calculation is, according to the Company's opinion, also the best estimate of the fair value of the portfolio. The difference from the estimated cash flows as of the Statement of financial position date has been added to the expected future cash flows; therefore the future cash flows are higher. Re-planning the expected cash flows was made without any other changes in measurement (total cash and discount rate remain the same). Where the Company purchased a participation in a portfolio, it will be accounted for in the same manner as the complete portfolio based on the respective proportional cash flows, to which the Company is entitled.
Issued bonds	Nominal value was increased by the interest calculated by effective interest rate
Borrowings (bank loans, other borrowings)	Loans received by the Company are reported at amortised costs. The Amortised cost value is the amount at which the loan was granted after deduction of instalments, increased or decreased by amounts of accrued amortisation using the effective interest rate method, i.e. the difference between the initial value and the value upon maturity.

had any impact on the Group's financial position, profit or loss, other comprehensive income or total comprehensive income in either year.

(b) Impairment of financial assets
In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires the Group to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.

Specifically, IFRS 9 requires the Group to recognize a loss allowance for expected credit losses on:
(1) Debt investments measured subsequently at amortised cost or at FVTOCI,
(2) Lease receivables,
(3) Trade receivables and contract assets, and
(4) Financial guarantee contracts to which the impairment requirements of IFRS 9 apply.
In particular, IFRS 9 requires the Group to measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses (ECL) if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit-impaired financial asset. However, if the credit risk on a financial instrument has not increased significantly since initial recognition (except for a purchased or originated credit-impaired financial asset), the Group is required to measure the loss allowance for that financial instrument at an amount equal to 12-months expected credit loss (ECL). IFRS 9 also requires a simplified approach for measuring the loss allowance at an amount equal to lifetime ECL for trade receivables, contract assets and lease receivables in certain circumstances.

Because the Group has elected to restate comparatives, for the purpose of assessing whether there has been a significant increase in credit risk since initial recognition of financial instruments that remain recognized on the date of initial application of IFRS 9 (i.e. 1 January 2018), the directors have compared the credit risk of the respective financial instruments on the date of their initial recognition to their credit risk as at 1 January 2017.

The result of the assessment is as follows:
In thousand of Euros

Items existing as at 01/01/18 that are subject to the impairment provisions of IFRS 9	Credit risk attributes at	Cumulative additional loss allowance recognized on: 01. 01. 2017	01. 01. 2018
Purchased NPL unsecured portfolios	These loans are originated credit impaired. Accordingly, the Group recognizes lifetime ECL for these loans until they are derecognized.	1 646	575
Loan receivables	These items are assessed to have low credit risk at each reporting date based on their respective external credit ratings. As such, the Group assumes that the credit risk on these financial instruments has not increased significantly since initial recognition as permitted by IFRS 9 and recognizes 12-months ECL for these assets.	0	0
Trade and other receivables	The Group applies the simplified approach and recognizes lifetime ECL for these assets.	0	0
Cash and bank balances	All bank balances are assessed to have low credit risk at each reporting date as they are held with reputable international banking institutions.	-50	-28

Positive impact of impairment of unsecured portfolios is driven by changes in expected recoveries as part of the debtors started to repay their debts as new payers.

The reconciliation between the ending provision for impairment in accordance with IAS 39 to the opening loss allowance determined in accordance with IFRS 9 for the above financial instruments on 1 January 2017 and 1 January 2018 is the table above. For Loan and receivables and Trade and other receivables no additional loss allowance was reflected in the Group's books, as it was immaterial based on our assessment.

(c) Classification and measurement of financial liabilities

The application of IFRS 9 has had no impact on the classification and measurement of the Group's financial liabilities.

(d) Disclosures in relation to the initial application of IFRS 9

There were no financial assets or financial liabilities which the Group had previously designated as at FVTPL under IAS 39 that were subject to reclassification or which the Group has elected to reclassify upon the application of IFRS 9. There were no financial assets or financial liabilities which the Group has elected to designate as at FVTPL at the date of initial application of IFRS 9.

2.2 Impact of application of IFRS 15 Revenue from Contracts with Customers

In the current year, the Group has applied IFRS 15 Revenue from Contracts with Customers (as amended in April 2016) which is effective for an annual period that begins on or after 1 January 2018. IFRS 15 introduced a 5-step approach to revenue recognition. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Details of the new requirements as well as their impact on the Group's consolidated financial statements are described below.

The Group has applied IFRS 15 in accordance with the fully retrospective transitional approach with using the practical expedients in IFRS 15:C5.

The Group's accounting policies for its revenue streams are disclosed in detail note 3.8 below. Apart from providing more extensive disclosures for the Group's revenue transactions, the application of IFRS 15 has not had an impact on the financial position and financial performance of the Group. More detail related to IFRS 15 a and revenue recognition in note 3.8.

2.3 Amendments to IFRS Standards and Interpretations

In the current year, the Group has applied a number of amendments to IFRS Standards and Interpretations issued by the International Accounting Standards Board (IASB) that are effective for an annual period that begins on or after 1 January 2018. Their adoption has not had any material impact on the disclosures or on the amounts reported in the consolidated financial statements.

— Amendments to IFRS 2 "Share-based Payment" — Classification and Measurement of Share-based Payment Transactions – adopted by the European Union (EU) on 26 February 2018 (effective for annual periods beginning on or after 1 January 2018),

— Amendments to IFRS 4 "Insurance Contracts" - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts – adopted by the EU on 3 November 2017 (effective for annual periods beginning on or after 1 January 2018 or when IFRS 9 "Financial Instruments" is applied first time),

— Amendments to IAS 40 "Investment Property" - Transfers of Investment Property – adopted by the EU on 14 March 2018 (effective for annual periods beginning on or after 1 January 2018),

— Amendments to IFRS 1 and IAS 28 due to "Improvements to IFRSs (cycle 2014 -2016)" resulting from the annual improvement project of IFRS (IFRS 1, IFRS 12 and IAS 28) primarily with a view to removing inconsistencies and clarifying wording – adopted by the EU on 7 February 2018 (amendments to IFRS 1 and IAS 28 are to be applied for annual periods beginning on or after 1 January 2018),

— IFRS 1 - Deletes the short-term exemptions in paragraphs E3–E7 of IFRS 1, because they have now served their intended purpose,

— IAS 28 - Clarifies that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition,

— International Financial Reporting Interpretations Committee (IFRIC) 22 "Foreign Currency Transactions and Advance Consideration" – adopted by the EU on 28 March 2018 (effective for annual periods beginning on or after 1 January 2018).

2.4 New and revised IFRS Standards in issue but not yet effective

At closing date of Consolidated Financial statements, The Group has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

IFRS 16	Leases
IFRS 17	Insurance Contracts
Amendments to IFRS 9	Prepayment Features with Negative Compensation
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures
Annual Improvements to IFRS Standards 2015–2017 Cycle	Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs
Amendments to IAS 19 Employee Benefits	Plan Amendment, Curtailment or Settlement
IFRS 10 Consolidated Financial Statements and IAS 28 (amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
IFRIC 23	Uncertainty over Income Tax Treatments

The directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group in future periods, except as noted below:

2.5 IFRS 16 Leases

General impact of application of IFRS 16 Leases

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related Interpretations when it becomes effective for accounting periods beginning on or after 1 January 2019. The date of initial application of IFRS 16 for the Group will be 1 January 2019.
The Group has chosen the modified retrospective application of IFRS 16 in accordance with IFRS 16:C5(b). Consequently, the Group will not restate the comparative information.
In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17.

Impact of the new definition of a lease

The Group will make use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to apply to those leases entered or modified before 1 January 2019.
The change in definition of a lease mainly relates to the concept of control. IFRS 16 distinguishes between leases and service contracts on the basis of whether the use of an identified asset is controlled by the customer. Control is considered to exist if the customer has:
• The right to obtain substantially all of the economic benefits from the use of an identified asset; and
• The right to direct the use of that asset.
The Group will apply the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or modified on or after 1 January 2019 (whether it is a lessor or a lessee in the lease contract). In preparation for the first-time application of IFRS 16, the Group has carried out an implementation project. The project has shown that the new definition in IFRS 16 will not change significantly the scope of contracts that meet the definition of a lease for the Group.

Impact on Lessee Accounting

Operating leases

IFRS 16 will change how the Group accounts for leases previously classified as operating leases under IAS 17, which were off-statement of financial position.

On initial application of IFRS 16, for all leases (except as noted below), the Group will:

a) Recognize right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments;

b) Recognize depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss;

c) Separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated cash flow statement.

Lease incentives (e.g. rent-free period) will be recognized as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease liability incentive, amortised as a reduction of rental expenses on a straight-line basis.

Under IFRS 16, right-of-use assets will be tested for impairment in accordance with IAS 36 Impairment of Assets. This will replace the previous requirement to recognize a provision for onerous lease contracts.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), the Group will opt to recognize a lease expense on a straight-line basis as permitted by IFRS 16.

The Group has several contracts for operating leases as a lessee in relation with Cars, Building and IT Equipment. For the purposes of IFRS 16 application from 1.1.2019 the Group made an analysis showing probable impact to the Group Short-term and Long-term liabilities which will occur when the Group will apply the new standard. The model is showing short-term payable including Low-value assets defined by IFRS 16 in non-discounted value.

In thousand of Euros

Statement of Financial Position as at 31. 12. 2018

Item in financial statements	Currently reported under IAS 17	Balances if IFRS 16 would have been implemented in 2018	Variance
Assets			
Right of Use (ROU) net book value under IFRS 16		1 921	1 921
Liabilities			
Leasing liabilities under IFRS 16		1 921	1 921
of which: current		976	976
non-current		945	945

In thousand of Euros

Statement of Profit and Loss as at 31. 12. 2019

Item in financial statements	2018 (if under IAS 17)	Expected impact on Profit and Loss under IFRS 16	Variance
Distribution and administrative expenses	1 289	225	-1 064
- out of which low value assets	225	225	0
Depreciation of tangible fixed assets		983	983
Interest expense		165	165
EBITDA	**-1 289**	**-225**	**1 064**
Operating profit	**-1 289**	**-1 208**	**81**
Profit before tax	**-1 289**	**-1 373**	**-84**

Leases according to IAS17

The following tables show the detailed leasing disclosures as defined by IAS17

In thousand of Euros

	Car	Building	IT Equipment	Total
Short term payables related to operating leases - not indentified on Statement of financial position	104	858	252	**1 214**

Ageing of lease payments:

In thousand of Euros

	Car	Building	IT Equipment	Total
Within one year	104	858	252	**1 214**
In the second to fifth years inclusive	112	785	286	**1 183**
After five years	0	0	0	**0**

In current year the Group lease payments represent mainly rental payables. Average duration of lease contracts is 3 years for car leases, 4 years for office rentals and 3 years for IT equipment.

The difference between Right-of use Assets and relevant lease liability shown according to IFRS 9 and the leasing disclosures according the IA 17 showing minimum lease payments is 477 thousands of Euro and it is caused by low value assets [IFRS 16 5(b)] which are included in calculation of minimum lease payments according to IAS 17 but excluded for IFRS 16 purposes.

Finance leases

The main differences between IFRS 16 and IAS 17 with respect to assets formerly held under a finance lease is the measurement of the residual value guarantees provided by the lessee to the lessor. IFRS 16 requires that the Group recognizes as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by IAS 17.

The group does not present any finance lease contract as of 31/12/2018. Therefore, there will be no impact on the financial statements related to finance lease contracts.

Impact on Lessor Accounting

Under IFRS 16, a lessor continues to classify leases as either finance leases or operating leases and account for those two types of leases differently. However, IFRS 16 has changed and expanded the disclosures required, in particular regarding how a lessor manages the risks arising from its residual interest in leased assets.

Under IFRS 16, an intermediate lessor accounts for the head lease and the sublease as two separate contracts. The intermediate lessor is required to classify the sublease as a finance or operating lease by reference to the right-of-use asset arising from the head lease (and not by reference to the underlying asset as was the case under IAS 17).

As of 31/12/2018, the group does not present any material lease contract where it would act in the position of lessor. Therefore, no impact is expected.

2.6 New standards and amendments to the existing standards issued by IASB but not yet adopted by the EU:

- Amendments to IAS 1 “Presentation of Financial Statements” and IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors” - Definition of Material (effective for annual periods beginning on or after 1 January 2020),
- Amendments to IFRS 3 “Business Combinations” - Definition of a Business (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period).

3 Significant accounting policies

3.1 Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

The financial statements have been prepared on the historical cost basis, except for certain financial assets that are valued at fair value as explained in the ac-

counting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability market participants would take into account when pricing the asset or liability at the measurement date.

3.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved when the Company:

- has the power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affects its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it considers that it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, the results of subsidiaries acquired or disposed of during the year are included in profit or loss from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of the subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with the Group's accounting policies. All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between the members of the Group are eliminated on consolidation.

Non-controlling interests in subsidiaries are identified separately from the Group's equity therein. Those interests of non-controlling shareholders that are present ownership interests entitling their holders to a proportionate share of net assets upon liquidation are initially measured at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amount of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owners of the Company.

When the Group loses control of a subsidiary, the gain or loss on disposal recognized in profit or loss is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), less liabilities of the subsidiary and any non-controlling interests. All

amounts previously recognized in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as required/permitted by applicable IFRS Standards). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9 Financial Instruments when applicable, or the cost on initial recognition of an investment in an associate or a joint venture.

The table below illustrates Group entities as of 31 December 2018; for the chart of the Group structure please refer to pages 22-23.

List of entities in the Group and approach to their consolidation in 2017 and 2018

Entity	% of shares 2018	% of shares 2017	Country	Measurement method	Measurement method 2017
APS Holding S.A.	100	100	Luxembourg	full consolidation	full consolidation
APS Recovery a.s.	100	100	Czechia	full consolidation	full consolidation
APS Poland S.A.	100	100	Poland	full consolidation	full consolidation
APS Recovery Greece EPE	100	100	Greece	full consolidation	full consolidation
APS Recovery Greece Credit and Loan Servicing S.A.	60	60	Greece	full consolidation	full consolidation
APS Bulgaria E.O.O.D.	100	100	Bulgaria	full consolidation	full consolidation
APS d.o.o. Beograd	100	100	Serbia	full consolidation	full consolidation
APS CZ&SK Services s.r.o.	100	100	Czechia	full consolidation	full consolidation
Asset Portfolio Servicing Romania S.R.L.	100	100	Romania	full consolidation	full consolidation
Syndre Valuations S.R.L.	46	46	Romania	equity	equity
Homeland Properties S.R.L.	97	97	Romania	full consolidation	full consolidation
APS Croatia d.o.o.	100	100	Croatia	full consolidation	full consolidation
APS Holding Cyprus LTD	100	100	Cyprus	full consolidation	full consolidation
APS Debt Servicing Cyprus LTD	51	51	Cyprus	full consolidation	full consolidation
APS Homeland Properties Cyprus LTD	100	100	Cyprus	full consolidation	full consolidation
APS Hungary Kft.	100	100	Hungary	full consolidation	full consolidation
APS Recovery Hungary Kft.	80	80	Hungary	full consolidation	full consolidation
APS SK Servicing s.r.o.	100	100	Slovakia	full consolidation	full consolidation
APS Recovery Management s.r.o.	100	100	Czechia	full consolidation	full consolidation
APS BH d.o.o.	100	0	Bosnia and Herzegovina	full consolidation	founded 2018
APS Montenegro D.O.O. Podgorica	100	0	Montenegro	full consolidation	founded 2018
APS Management Services s.r.o.	100	100	Czechia	full consolidation	full consolidation
APS Real Estate s.r.o.	100	100	Czechia	full consolidation	full consolidation
Casazela Holding Company s.r.o.	100	0	Czechia	full consolidation	founded 2018
Casazela d.o.o Beograd-Stari Grad	100	0	Serbia	full consolidation	founded 2018
Casazela Kft.	100	0	Hungary	full consolidation	founded 2018

List of entities in the Group and approach to their consolidation in 2017 and 2018

Entity	% of shares 2018	% of shares 2017	Country	Measurement method	Measurement method 2017
Syndre Holding Company s.r.o.	100	0	Czechia	full consolidation	founded 2018
Syndre d.o.o Beograd-Stari Grad	100	0	Serbia	full consolidation	founded 2018
Syndre Kft.	100	0	Hungary	full consolidation	founded 2018
APS Investments S.a r.l.	100	100	Luxembourg	full consolidation	full consolidation
APS Finance a.s.	100	100	Czechia	full consolidation	full consolidation
Serraghis Asset Management S.A.	0.033	0.033	Romania	out of scope	out of scope
APS Investment Funds S. a r.l.	100	100	Luxembourg	full consolidation	full consolidation
APS Gamma s.r.o.	100	100	Czechia	full consolidation with assets derecognition	full consolidation with assets derecognition
APS Beta Bulgaria E.O.O.D.	50	50	Bulgaria	out of scope	out of scope
APS Fund Beta d.o.o. Beograd	50	50	Serbia	out of scope	out of scope
APS Delta S.A.	100	100	Luxembourg	full consolidation with assets derecognition	full consolidation with assets derecognition
APS Beta, a.s.	100	100	Czechia	full consolidation	full consolidation
APS Investment s.r.o.	100	100	Slovakia	full consolidation	full consolidation
MARK Zrt.	100	100	Hungary	presented at fair value (held for sale)	full consolidation
Mark Ingatlan Zrt.	100	100	Hungary	presented at fair value (held for sale)	full consolidation
APS MIP s.r.o.	100	100	Czechia	full consolidation	full consolidation
APS Finance E.O.O.D.	3	3	Bulgaria	out of scope	out of scope

The companies out of scope of the consolidation are companies without significant influence (minority interest less than 20 %) and holding those investments does not meet any further definition of control according to IFRS 10.

3.3. Derecognition of assets and liabilities

Based on the detailed analysis of all portfolio assets and related liabilities the Group came to the conclusion that the following assets and related liabilities have to be derecognized as the Group has transferred substantially all related risks and rewards to investors.

- Investments in APS Beta Bulgaria E.O.O.D and APS Fund Beta d.o.o. Beograd subsidiaries
- Non-performing loan portfolios in APS Delta S.A.

As the servicing fee for non-performing loans recovery related to the above-mentioned portfolios is set at market level, the Group does not account for servicing assets nor servicing liabilities.

The consolidated financial statements for 2017 were restated to reflect for the derecognition of assets and liabilities, for detailed restatements please refer to note 4.2.

3.4 Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interest issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognized in profit or loss as incurred. At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with IAS 12 Income

Taxes and IAS 19 Employee Benefits respectively;
• liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 Share-Based Payments at the acquisition date (see below); and
• assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.
Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

When the consideration transferred by the Group in a business combination includes contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.
The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Other contingent consideration is remeasured to fair value at subsequent reporting dates with changes in fair value recognized in profit or loss.
When a business combination is achieved in stages, the Group's previously held interests in the acquired entity are remeasured to its acquisition-date fair value and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.
If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognized as of that date.

3.5 Goodwill
Goodwill is initially recognized and measured as set out above.
Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period.
On disposal of a cash generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.
The Group's policy for goodwill arising on the acquisition of a subsidiary is described below in note 8.1.

3.6 Investments in associates
An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.
The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5.
Under the equity method, an investment in an associate is recognized initially in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds

the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.
An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognized immediately in profit or loss in the period in which the investment is acquired.
The requirements of IAS 36 are applied to determine whether it is necessary to recognize any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 as a single asset by comparing its recoverable amount (value in use) with its carrying amount. Any impairment loss recognized is not allocated to any asset, including goodwill that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate. When the Group retains an interest in the former associate and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IFRS 9.

The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the associate or joint venture is disposed of.
When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognized in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognized in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

3.7 Non-current assets held for sale

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

When the Group is committed to a sale plan involving disposal of an investment in an associate or, a portion of an investment in an associate, the investment, or the portion of the investment in the associate that will be disposed of is classified as held for sale when the criteria described above are met, and the Group ceases to apply the equity method in relation to the portion that is classified a held for sale. Any retained portion of an investment in an associate that has not been classified as held for sale continues to be accounted for using the equity method.

3.8 Revenue recognition

APS group provides mainly following services to our customers, which are typically negotiated as one package with the same economic objectives and are entered into near the same time and therefore the services are treated as a single contract, each service has

capability of being distinct as they meet criteria of IFRS 15.22

3.8.1 Identification of revenue streams

• Services related to Receivables collection (Asset management fees) – this service is provided by separate collection entities (Recovery business line) and the price is set on market level.

The service includes recovery of multiple underlying assets (collaterals, debts, etc.), while activities related to recoveries of each single asset element are highly interrelated. Therefore, the asset management (recovery) activities related to one fund (Investor's asset)* constitute one performance that is performed over whole lifecycle of the fund. This service is distinct from other performance obligations meeting the conditions in IFRS 15.27. The transaction price for this separate performance obligation is challenged and agreed with the investor and is being compared to alternative collectors' prices by the Investor. The price is separately observable in the contract and corresponds with the stand-alone selling price of this performance obligation. Therefore, allocation of the total contract transaction price based on relative stand-alone selling price principle (see IFRS 15.74) will not imply any revenue adjustment for the respective service provided.

• Services related to Investment management (Underwriting fees) – this service is provided by Investment division in APS Investments S.à r.l. entity to the Investors involved in specific deal. It includes mainly negotiations with the seller, assessing the assets, preparation of valuation model and dealing with relevant authorities, the outcome being signed deal with the seller approved by relevant authorities so that the ownership is transferred to specific customer/fund. These services are provided by Investment division and are distinct as per IFRS 15.27 because:

- legal title over the asset is handed over to the customer who controls and is able to direct its further use and
- customer may benefit from the asset without rendering of ongoing Asset and Facility management services from APS (e.g. in case of hypothetical withdrawal from APS services, customer may manage the asset either using other asset manager or using its own resources).

The price for it covers for the costs of Investment division and is challenged and agreed with the Investor as market price. As such is equal to stand-alone selling price and application of relative stand-alone selling price principle (see IFRS 15.74) for the respective services provided will not imply any revenue adjustment.

• Services related to Fund management (Fund Management fees) – this service is provided by Fund Management division in APS Investments S.à r.l. entity the Investors involved.

It includes regular reporting on fund performance, ensuring statutory obligations, communication with relevant authorities, cash management. These services are provided by Fund Management division and are distinct as per IFRS 15.27. The price for it covers for the costs of Fund Management division and is challenged and agreed with the Investor as market price. As such is it corresponds to the stand-alone selling price and allocation of total contract transaction price based on relative stand-alone selling price principle (refer to IFRS 15.74) for the respective services provided will not imply any adjustment.

3.8.2 Assessment of revenue streams

Asset management fees (AMFs) – fees are always directly linked (calculated from) cash collections during the lifecycle period of the fund. There is typically high number of collections over the lifecycle of the fund.

• Recognition method: The respective revenue shall be recognized over time as customers simultaneously receives and consumes benefits (when each separate collection from debtors is credited to customer's account) from asset management activities over the fund lifecycle and criteria of IFRS 15.35a are met. The most suitable method of measurement progress towards complete satisfaction is an output method based on measurement of successful collections from debtor, i.e. as the cash is collected on collection accounts. Even in case of collateralized receivables when the collections are based on selling large assets which takes long list of time and cost consuming actions (removing legal obstacles, bankruptcy procedure, liquidation, selling the asset etc.) that may spread across several months or years, the control of assets (cash collections) transfers only when the collections are received (and therefore cost-based input method of measuring progress towards complete satisfaction does not seem to be suitable).

• Presentation implication: As the above selected revenue recognition method corresponds with payment from customer (APS remuneration is typically calculated as percentage of recovered asset, the percentage ratio is fixed), the invoiced AMF corresponds to recognized revenue (i.e. APS performance). Nor contract asset, neither contract liability shall be therefore recognized because of IFRS 15.105 requirement Variable Considerations:

The total asset management fee is estimated during the underwriting period, when asset valuation model based on thorough due diligence screening process is executed. The total AMFs represent an amount to which APS estimates to be entitled in exchange for providing asset management services. The asset management fees are budgeted to recover related costs including margin. For selected contracts, APS is eligible for extra bonuses when meeting certain trigger points (see Commission fees based on Service-level agreement /SLA/ bellow) and/or improvement of AMFs percentage (if fund performance is higher that pre-agreed threshold). However, such triggers and above-expectation fund performance may not be reliably

*An Investor is a customer who receives services from APS. This term is used for the purpose of revenue recognition in this chapter and does not refer neither to parent entity nor to any other shareholders of APS

estimated at the contract inception so that it would be highly probable that significant reversal in the amount of cumulative revenue would not occur. These revenue items shall be therefore recognized when respective triggers or improvement of fund performance occurs.

• Underwriting fees (UFs) – fees are calculated as a percentage of transaction purchase price and are usually capped. The transactions go through several stages before the deal is finalized (Screening, Indicative bid, Binding bid, Signing, Closing). Before reaching closing stage the transactions can be easily scratched and no Underwriting fees are paid in such case. The control over underlying portfolio for the transaction is transferred at Closing date – i.e. after the deal is signed and all transaction preceding conditions are met. Chief Investment Officer can assess that the point of time for recognizing the revenue is earlier in time depending on the risk profile of the transaction and historical data of relevant deals (e.g. after antimonopoly approval) refer to note 7.1. To sum up UFs are recognized at a point in time as the criteria set in IFRS 15.35 are not met:

• Customers (investors) do not (simultaneously) consume any benefit from ongoing phases of the deal (i.e. criteria in IFRS15.35 are not met)

• Customers (investors) do not control any assets (fund shares, IPRs, etc.) related to transaction preparation and are not able to prevent APS from controlling any asset related to transaction preparation (i.e. criteria in IFRS 15.35b are not met)

• The assets created within the transaction preparation has alternative use for APS (i.e. may be easily redirected to other possible investor) and APS has no right to any payment for performance completed to date until the Closing phase (i.e. criteria in IFRS 15.35c are not met)

Fund Management fees (FMFs) – fees are usually set as a monthly lump sum for Fund Management services provided continuously during the portfolio lifetime. The services are invoiced as provided and the FMFs are recognized over time as the criteria of IFRS 15.35a are met (customer receives the benefits simultaneously over the lifecycle of the fund), while progress towards complete satisfaction of this performance obligation is based on elapsed time as the elapsed time best depicts the entity's obligation to stand ready to perform any administrative task when needed.

Commission fees based on SLA - fees calculated based on % set in contract depending on meeting specific trigger points (cash collected, specific contract signed etc.). This performance is not capable of being distinct as it is highly integrated with AMFs. Further, revenues from Commissions fees based on SLA may not be reliably estimated at the contract inception. In this case the performance shall be accounted as part of AMF (not distinct performance obligation) and revenue is recognized when such specific trigger point occurs (not eligible to be included in transaction price consideration at the contract inception).

IFRS 15 application did not have any impact to revenue recognition amounts as compared to treatment before IFRS 15 adoption. IFRS 15 was applied retrospectively from 2017.

Operating revenue is mostly driven by Asset management fees, which represents core business of Servicing subsidiaries. Year-over-year increase is represented mostly by the results of servicing entity in Romania, Cyprus, Croatia and Serbia. Other operating revenue consist of Underwriting fees which is core business of APS Investments S.à r.l. and Real Estate Advisory fees representing new business line in Cyprus.

Real Estate services

In 2018 the revenue comes from two type of services related to Real Estate. Financial Advisory consists the lease payment management, NAV monthly reporting and another standardized monthly reporting based on the agreement with a client. This revenue is meeting criteria of IFRS 15.35a and is recognized over the time. Second part of services are Advisory services relating to the sales of property where the revenue comes from commissions. The revenue is not meeting criteria of IFRS 15.35 and is recognized at the point in time.

3.9 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. The group does not present any finance lease contract.

The Group as lessee

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

3.10 Foreign currencies

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing on the dates of the transactions. At each reporting date, moneta-

ry 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.
For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the reporting date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in a separate component of equity (attributed to non-controlling interests as appropriate).
On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in a separate component of equity in respect of that operation attributable to the owners of the company are reclassified to profit or loss.
In addition, in relation to a partial disposal of a subsidiary that includes a foreign operation that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences is re-attributed to non-controlling interests and are not recognized in profit or loss. For all other partial disposals (i.e. partial disposals of associates or joint arrangements that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.
Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognized in other comprehensive income.

3.11 Short-term employee benefits

A liability is recognized for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.
Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

3.12 Taxation

The income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in profit or loss 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. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

A provision is recognized for those matters for which the tax determination is uncertain but it is considered probable that there will be a future outflow of funds to a tax authority. The provisions are measured at the best estimate of the amount expected to become payable. The assessment is based on the judgement of tax professionals within the Company supported by previous experience in respect of such activities and in certain cases based on specialist independent tax advice.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, a deferred tax liability is not recognized if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits

will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized based on tax laws and rates that have been enacted or substantively enacted at the reporting date.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current tax and deferred tax for the year

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

3.13 Property, plant and equipment

Land and buildings held for administrative purposes are stated in the statement of financial position at their historical cost less any accumulated depreciation and accumulated impairment losses. Depreciation is recognized in profit or loss.

Freehold land is not depreciated.
Fixtures and equipment are stated at cost less accumulated depreciation and accumulated impairment loss.

Depreciation is recognized so as to write off the cost or valuation of assets (other than freehold land and properties under construction) less their residual values over their useful lives, using the straight-line method, on the following bases:

Depreciation - tangible assets	Number of years
Buildings and structures	50
Office equipment	3
Transport facilities	5
Furniture	5

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

3.14 Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses. Software is amortised over 10 years with a limited useful life using a straight-line method.

3.15 Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognized separately from goodwill are recognized initially at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Exclusive right for servicing acquired in a business combination are amortised with a limited useful life using a straight-line method over 7 years.

3.16 Impairment of tangible and intangible assets excluding goodwill

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating

units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with an indefinite useful life are tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. The recoverable amount is set as value in use because there are no readily available market data to set the fair value. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

3.17 Financial instruments

Financial assets and financial liabilities are recognized in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

3.17.1 Financial Assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases for the group are purchases of NPL portfolios with the risks transferred to the Investor. These purchases or sales require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognized financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Classification of financial assets

Debt instruments that meet the following conditions are measured subsequently at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

No debt instruments meet the conditions to be subsequently measured at fair value through other comprehensive income (FVTOCI).

All other financial assets are measured subsequently at fair value through profit or loss (FVTPL). The Group does not elect any of its assets to be subsequently measured at fair value through other comprehensive income (FVTOCI).

Despite the foregoing, the Group may make the following irrevocable election / designation at initial recognition of a financial asset:

- the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met (see (iii) below); and
- the Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (see (iv) below).

(i) Amortised cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

For financial assets other than purchased or originated credit-impaired financial assets (i.e. assets that are credit-impaired on initial recognition), the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit losses, through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt

instrument on initial recognition. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including expected credit losses, to the amortised cost of the debt instrument on initial recognition.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

Interest income is recognized using the effective interest method for debt instruments measured subsequently at amortised cost. For financial assets other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognized by applying the effective interest rate to the amortised cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognized by applying the effective interest rate to the gross carrying amount of the financial asset.

For purchased or originated credit-impaired financial assets, the Group recognizes interest income by applying the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition.

Interest income is recognized in profit or loss and is included in the „finance income - interest income“ line item (note 7.3).

(ii) Financial assets at FVTPL
Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI (see (i) to (iii) above) are measured at FVTPL. Specifically:

• Debt instruments that do not meet the amortised cost criteria or the FVTOCI criteria are classified as at FVTPL. In addition, debt instruments that meet either the amortised cost criteria or the FVTOCI criteria may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency (so called ‘accounting mismatch’) that would arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases. The Group has not designated any debt instruments as at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognized in profit or loss. The net gain or loss recognized in profit or loss includes any dividend or interest earned on the financial asset and is included in the ‘other gains and losses’ line item (note 7.4). Fair value is determined in the manner described in the table below.

The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used).

<table>
<tr><th>Financial assets/ financial liabilities</th><th>Valuation technique(s) and key input(s)</th><th>Significant unobservable input(s)</th><th>Relationship and sensitivity of unobservable inputs to fair value</th></tr>
<tr><td>Purchased secured debt portfolios</td><td>Income approach – in this approach, the discounted cash flow method was used to capture the present value of the expected future economic benefits to be derived from the ownership of these purchased debt portfolios</td><td>Expected cash flow calculated based on
1. Expected collections derived from collaterals
2. Timing of expected recovery
3. Probability of realization of unique recovery strategy for each case.
These inputs are provided by recovery managers responsible for each case and some valuation of real estate are done by real estate valuator.
Market discount rate calculation was based on data from Reuters.
Discount rate for 2017 was 17.10% for 2018 19.49 %, see below for the components of the discount rate:
<table>
<tr><th></th><th>2018</th><th>2017</th></tr>
<tr><td>risk free rate - 10Y government bond yield</td><td>4.73%</td><td>4.22%</td></tr>
<tr><td>equity risk premium/market risk premium</td><td>9.02%</td><td>7.62%</td></tr>
<tr><td>country risk premium</td><td>3.06%</td><td>2.54%</td></tr>
<tr><td>default spread/premium</td><td>2.48%</td><td>2.26%</td></tr>
<tr><td>GDP growth (forecast)</td><td>3.60%</td><td>7.26%</td></tr>
<tr><td>NPL ratio</td><td>5.56%</td><td>6.41%</td></tr>
<tr><td>NPL premium</td><td>0.20%</td><td>0.47%</td></tr>
</table></td><td>1. The higher the value of collateral the higher the value of portfolio.
2. The earlier the recovery the higher value of portfolio
Sensitivity analysis shows the following impact:
<table>
<tr><th>Collateral value change</th><th>Porfolio value change (kEUR)</th></tr>
<tr><td>-10%</td><td>-730</td></tr>
<tr><td>-5%</td><td>-365</td></tr>
<tr><td>-1%</td><td>-72</td></tr>
<tr><td>1%</td><td>73</td></tr>
<tr><td>5%</td><td>365</td></tr>
<tr><td>10%</td><td>731</td></tr>
</table>
The higher the discount rate the lower the value of purchased secured debt portfolio. If the discount rate increases by 1% the value decreases by 135k EUR, if the discount rate decreases by 1% the value increases by 138k EUR.</td></tr>
</table>

There were no transfers between fair value (FV) Level 1, 2 and 3 during the current or prior year.

Foreign exchange gains and losses

The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. Specifically;

• for financial assets measured at amortised cost, exchange differences are recognized in profit or loss in the 'other gains and losses' line item (note 7.4);

• for financial assets measured at FVTPL that are not part of a designated hedging relationship, exchange differences are recognized in profit or loss in the 'other gains and losses' line item (note 7.4); and

Impairment of financial assets

In connection with decreasing financial assets value valuated at amortised cost, IFRS 9 requires a model of the expected credit loss as opposed to a model of the incurred credit loss required by IAS 39. The expected credit loss model requires that the accounting unit accounts for the expected credit losses and the changes in the expected credit losses as of the date of every financial statement, thus taking into account the changes in the credit risk from first-time reporting. To put it in other words, it is no longer necessary that a credit event occurs before reporting credit losses.

For certain Impairment Approaches the segments should be further split to IFRS 9 Stages.

The Staging approach is the following:

	Impairment Approach		
IFRS 9 Classification	Stage 1	Stage 2	Stage 3
Unsecured purchased portfolios (Debt financial assets valuated at amortised costs)	no Staging as these assets are treated as Purchased or Originated Credit-Impaired (POCI) with lifetime impairment calculation		
Outstanding balance on bank accounts	Expert assessment of the Significant Increase in Credit Risk at each reporting date taking into consideration Date Past Due (DPD), drop in rating and publicly available negative information		
Trade receivables and loans	no Staging as these assets are treated by IFRS 9 Simplified Approach with lifetime impairment calculation		

Bank accounts were classified according to Moody s rating, according which was for each bank set up the probability of default. Loss given default was 45% according to EU Capital Requirements Regulation, Article 161, point (a). Loss given default is the amount of money a bank or other financial institution loses when a borrower defaults on a loan and we use this ratio to calculate a base for impairment The Group recognizes a loss allowance for expected credit losses on investments in debt instruments that are measured at amortised cost and trade and other receivables. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.
For Trade receivables and loans the Group applies simplified approach classifying all receivables in stage 2 and always recognizing lifetime ECL for trade receivables. The expected credit losses on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience.
For all other financial instruments, the Group recognizes lifetime ECL when there has been a significant increase in credit risk since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL. The financial instrument are divided to the group according to following criteria:
•Type of the customer
•Geographical region

(i) Significant increase in credit risk
The Group so far does not evidence significant increases in credit risk. The group categorize the financial assets at initial recognition into the following three categories and does not evidence any movement between the categories:
Low risk financial assets – balances on bank accounts (stage 1)
Trade receivables – simplified approach to impairment calculation, all receivables categorized to stage 2
Unsecured portfolios - Purchased or Originated Credit-Impaired (POCI) Financial Assets categorized in stage 3

(ii) Credit-impaired financial assets
A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:
(a) significant financial difficulty of the issuer or the borrower;
(b) a breach of contract, such as a default or past due event (see (ii) above);
(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
(e) the disappearance of an active market for that financial asset because of financial difficulties.

Purchased or Originated Credit-Impaired Financial Assets (POCI)
Purchased or Originated Credit-Impaired Financial Assets ("POCI") are those that meet both following criteria:
1. Categorized at initial recognition as Amortised costs (neither FVPL nor FVOCI)
2. Impaired (i.e. in default) at initial recognition.
Once the instrument is classified as POCI it always stays classified as POCI. The Group classifies unsecured portfolios in this category.

Initial Recognition POCI
To recognize POCI at initial recognition the following variables on the level of the financial instrument are determined:

1. Contractual Cash Flows (C_CF)
The contractual CF at initial recognition is represented by the whole outstanding balance of the instrument at initial recognition and it should be due immediately. We manage this information is in the CAPONE recovery system.

2. Expected Cash Flows (CA_CF)
Expected CF consists of real expected CF in the future periods including the effect of expected credit losses. Further details related to the expected cash flows are addressed in the Impairment methodology.

3. Fair Value at initial recognition (FV)
The sum of the FV allocated to the financial instruments within the same portfolio is the acquisition price paid by us. It is assumed that the acquisition price reflects the actual price of the instruments considering the risk-free rate, their market risk, credit risk, liquidity and other risks of the purchased portfolio/instruments.

4. Transaction costs (TC)
The transaction costs are allocated to individual instruments on a pro-rata basis to their respective individual fair values.

Other Aspects of the initial recognition
For the recognition of POCI instrument, following is valid:

1. All the financial instruments identified as POCI have an allocated fair value above zero.
2. All the outstanding payments of the financial instruments are due immediately at the acquisition date
3. The sum of the FV allocated to the financial instru-

ments within the same portfolio is the acquisition price paid by us for the given portfolio.
As part of the disclosure requirements for fair value measurements, an entity shall classify fair value measurements using a „fair value hierarchy“ that categorizes the inputs to valuation techniques used to measure fair value. The fair value hierarchy has three different levels and gives the highest priority to quoted (unadjusted) prices in active markets and the lowest priority to unobservable inputs [IFRS 13 paragraph 72]. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets and liabilities the entity can access at the measurement date (refer to IFRS 13 paragraphs 76 to 80 for further details). Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset and liability, either directly or indirectly (refer to IFRS 13 paragraphs 81 to 85 for further details). Level 3 inputs are unobservable inputs for the asset or liability (refer to IFRS 13 paragraphs 86 to 90).
The categorization of the fair value measurement into one of the three different levels shall be determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, taking into account factors specific to the asset or liability [IFRS 13 paragraph 73].

(iv) Write-off policy

Non-performing loans (NPL) portfolios, which have monthly gross-collections under 2 thousand EUR on average for past 12months are written off unless overruled by the decision of group CFO (due to expected significant future gross-collections).
The reason for write-off is that the internal costs for revaluation are disproportionately higher than the information the Group gets for these costs.
Any post-write-off revenue from afore-mentioned portfolios are recognized as Revenue in line with IFRS 15.35a in Profit and Loss statement (P&L) against cash/bank account on Statement of financial position.

(v) Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default.
The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets’ gross carrying amount at the reporting date.
For financial assets, the expected credit loss is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the original effective interest rate.
If the Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date, except for assets for which simplified approach was used.
The Group recognizes an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset’s carrying amount and the sum of the consideration received and receivable is recognized in profit or loss. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss. In contrast, on derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the investment revaluation reserve is not reclassified to profit or loss, but is transferred to retained earnings.

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

3.17.2 Financial liabilities

All financial liabilities are measured subsequently at amortised cost using the effective interest method.
The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

Foreign exchange gains and losses

For financial liabilities that are denominated in a foreign currency and are measured at amortised cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortised cost of the instruments. These foreign exchange gains and losses are recognized in Finance costs or Finance Income line item in profit or loss (note 7.3 & 7.5).

Derecognition of financial liabilities

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

3.18 Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.
The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).
When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

4 Accounting policies, Changes in accounting estimates and Errors (IAS8)

The Group did the following restatements to year 2017 as a result of changes in accounting policies and correction of Errors.

4.1 Revaluation of portfolios held by APS Recovery a.s. according to IFRS9 methodology – correction of errors

APS Recovery a.s. holds several portfolios which were presented on the statement of financial position in 2017 at cost less recovered amounts. These portfolios are unsecured and should have been measured at amortised costs according to IAS 39 instead. Currently the same portfolios have to be measured at amortised costs according to IFRS 9. For Consolidation purposes, an adjustment to show these portfolios on statement of financial position at amortised costs was made and the same adjustment was made to the year 2017, as we applied IFRS 9 retrospectively. Quantification of the adjustment is presented below. Revaluation was posted against Equity, Other Capital Reserves.

The below amounts of APS Recovery a.s. form part of the total consolidated balance of 4 187 thousand Euro.

In thousand of Euros

	2017	2017 Restated	Difference
Purchased loan portfolios	256	729	473

4.2 Derecognition of assets and liabilities – correction of errors

Based on the detailed analysis of all portfolio assets and related liabilities the Group came to the conclusion that the following assets and related liabilities have to be derecognized as the Group has transferred substantially all related risks and rewards to investors.

- Investments in APS Beta Bulgaria E.O.O.D and APS Fund Beta d.o.o. Beograd subsidiaries
- Non-performing loan portfolios in APS Delta S.A.

As the servicing fee for non-performing loans recovery related to the above-mentioned portfolios is set at market level, the Group does not account for servicing assets nor servicing liabilities.
Fully restated Consolidated Financial Statements for the Group are presented below and are consistently used as comparable numbers throughout this document. The restatement below includes also the correction described in note 4.1.

Consolidated Statements of financial position as at 31 December 2017 - restated

In thousand of Euros

	31. 12. 2017	31. 12. 2017 Restated	Difference	1. 1. 2017 Restated
Non-current assets				
Property, Plant and equipment	652	652	0	542
Intangible assets	17 320	19 056	1 736	5 172
Goodwill	9 951	9 951	0	6 814
Shares in associates based on equity method	37	52	15	160
Purchased loan portfolios	83 447	4 187	-79 260	6 255
Loan receivables	1 434	1 424	-10	1 932
Deferred tax asset	0	35	35	0
Total non-current assets	**112 842**	**35 358**	**-77 484**	**20 875**
Current assets				
Loan receivables	3 474	34	-3 440	241
Trade and other receivables	16 298	14 719	-1 579	6 397
Cash and short term deposits	26 470	8 054	-18 416	9 148
Other short term assets	431	431	0	379
Total current assets	**46 674**	**23 239**	**-23 435**	**16 165**
Assets classified as held for sale		0	0	90
Total assets	**159 516**	**58 598**	**-100 918**	**37 130**
Equity				
Share capital	31	31	0	31
Other capital reserves	5 888	3 544	-2 344	950
Total equity attributable to parent company shareholders	5 919	3 575	-2 344	981
Equity attributable to non-controlling interests	4 687	7 638	2 951	0
Total equity	**10 606**	**11 213**	**607**	**981**
Non-current liabilities				
Bank and Other Loans	26 189	25 442	-747	26 689
Issued Bonds	43 516	0	-43 516	0
Other long term liabilities	5 281	4 251	-1 030	188
Deferred tax liabilities	1 079	918	-161	1 185
Total non-current liabilities	**76 066**	**30 611**	**-45 455**	**28 062**
Current liabilities				
Short term Bank and Other loans	1 364	2 430	1 067	637
Issued Bonds	52 872	0	-52 872	0
Trade and other payables	17 654	13 389	-4 265	7 203
Current tax payables	58	58	0	48
Provisions and other short-term liabilities	897	897	0	44
Total current liabilities	**72 845**	**16 775**	**-56 070**	**7 932**
Liabilities classified as held for sale		0		157
Total equity & liabilities	**159 516**	**58 598**	**-100 918**	**37 131**

Statement of financial position restatement impacts cash as we derecognize all cash balances related to collections recorded on the bank accounts but belongs to the investors. Derecognized Issued bond are related to financing of derecognized NPL portfolios which belong to investors. Derecognized other long-term liabilities are related to financing of derecognized NPL portfolios which belong to Investors (there are different ways of financing – bonds, loans).

Consolidated Statement of comprehensive income for the year ended 31 December 2017 - restated

In thousand of Euros

	31. 12. 2017	31. 12. 2017 Restated	Difference
Revenue from NPL portfolio servicing	27 996	30 661	2 665
Other operating revenues	5 577	2 827	-2 750
Operating revenue	**33 573**	**33 488**	**-85**
Distribution and administrative expenses	-22 769	-26 854	-4 085
Other operating expenses	-271	-271	0
Total operating expenses	**-23 040**	**-27 125**	**-4 085**
EBITDA	**10 533**	**6 363**	**-4 170**
Depreciation of tangible fixed assets	-186	-185	1
Amortisation of intangible assets and impairment of goodwill	-6 868	-1 807	5 061
Operating profit	**3 479**	**4 371**	**892**
Profit from shares and participation in associated companies and joint ventures	37	-24	-61
Net realised and unrealised exchange gains/(losses)	1 015	1 180	165
Other Interest income	26 899	27	-26 873
Other interest expenses	-28 141	-2 171	25 970
Other Finance Income/Costs net	1 786	546	-1 240
Net financial result	**1 596**	**-442**	**-2 038**
Profit for the year before tax	**5 075**	**3 928**	**-1 146**
Income tax expense	-900	-838	62
Deferred tax	107	302	
Profit for the year after tax	**4 282**	**3 392**	**-889**
Profit or loss for the year from discontinued operati-ons	0	0	0
Total profit/Loss for the year	**4 282**	**3 392**	**-889**
Other comprehensive income, net of tax	-3	-3	0
Total comprehensive income for the year, net of tax	4 279	3 389	-889
Profit for the year after tax attributable to:			
Parent company shareholders	3 203	2 597	-605
Non-controlling interests	1 079	795	-284
Total comprehensive income for the year, net of tax attributable to:			
Parent company shareholders	3 200	2 594	-605
Non-controlling interests	1 079	795	-284

5 Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 2.5, the directors are required to make judgements (other than those involving estimations) that have a significant impact on the amounts recognized and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated 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 recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

5.1 Critical judgements in applying the Group's accounting policies

The following are the critical judgements, apart from those involving estimations (which are presented separately below), that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognized in financial statements.

5.1.1 Business model assessment

Classification and measurement of financial assets depends on the results of the Solely Payments of Principal and Interest (SPPI) and the business model test (please see financial assets sections of note 2.5). The Group determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Group monitors financial assets measured at amortised cost or fair value through other comprehensive income that are derecognized prior to their maturity to understand the reason for their disposal and whether
the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Group's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets. No such changes were required during the periods presented.

5.1.2 Derecognition of assets and liabilities related to portfolios

The Group analysed contractual conditions with investors to assess if risks and rewards related to the portfolio assets and liabilities are substantially transferred to investors. The assessment had material impact to numbers as presented in Consolidated statement of financial position and Consolidated statement of profit of loss.

5.2 Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

5.2.1 Impairment testing of goodwill

Following the assessment of the recoverable amount of acquisition goodwill the directors consider the recoverable amounts of goodwill allocated to relevant cash generating unit (CGU) very sensitive to market conditions and are based on revenue forecasts, staff costs and overheads based on current and anticipated market conditions. Whilst the Group is able to manage most of the costs however the revenue projections are inherently uncertain due to uncertainty in new market opportunities and unstable market conditions.

5.2.2 Estimated cash flows related to valuation of purchased NPL portfolios

The Group presents the value of purchased NPL portfolios based on amortised costs taking into account expected future cash flows from unsecured portfolios. The cash flow estimates are made based on payment patterns from past and assume unchanged economic environment. Changes in debtors behaviour, in economic environment of legal environment can have significant impact on future cash flows and thus can impact the valuation.

5.2.3 Provisions for litigation and tax risks

Management's assessment of the amount of provisions for litigation and tax risks is based on management assumptions and on currently known facts and relate principally to the interpretation of tax legislation and arrangements entered into by the Group. Due to
the uncertainty associated with such items, there is a possibility that the final outcome may differ significantly.

5.2.4 Calculation of loss allowance

When measuring ECL the Group uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement based on past experience.

Loss given default is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.
Probability of default constitutes a key input in measuring ECL. Probability of default is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

5.2.5 Fair value measurements and valuation processes

Secured NPL portfolios are measured at fair value for financial reporting purposes. The board of directors of the Company has set up a valuation department to determine appropriate valuation techniques and inputs for fair value measurements.
This includes a valuation team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values. Valuation team reports directly to the chief financial officer. The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that these valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which the valuations should be classified.
When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible.
Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.
1. Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
2. Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
3. Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs). If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.
In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. The valuation team works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model.

5.3 Other areas of accounting judgement and sources of estimation

• impairment of property plant and equipment and intangible assets;
• underwriting fee revenues in case the investment deal is not closed yet;
• the amount of deferred tax assets resulting from tax losses available for carry-forward and deductible temporary differences;
• recognition and measurement of provisions and contingencies: key assumptions about the likelihood and magnitude of an outflow of resources.

6 Risk Management

The Group is exposed to a variety of financial risk factors such as market risks, currency fluctuation risks, credit risks, interest fluctuations risks, liquidity risk and operating risks arising from the organization's financial instruments. The information below specifies the guidelines for risk management which the Group follows.

6.1 Risk management framework

The Company's board of directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

The Company is in process of setting up risk management committee, which will be responsible for developing and monitoring the Group's risk management policies. The committee will report regularly to the board of directors on its activities. The Group's risk management policies will be established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems will be reviewed regularly to reflect changes in market conditions and the Group's activities. In 2018 risk management function was covered by Board of Directors activities on regular basis based on reports delivered by financial controlling department. Risk management was focused on management of liquidity risk, currency risk and decreasing of influence of credit risk. The Group, through its training and management standards and procedures, aims to maintain a disciplined and constructive control environment in which all employees understand their roles and obligations.

6.2 Market risks

Market risk is the risk that the fair value or cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk reflects interest rate risk, currency risk and other price risks. [IFRS 7. Appendix A]
As a result of its business activities the Group is exposed to market risks, which are the result of its vulnerable position when operating with interest, securities, currency instruments and revenues dependent on gross collections which are sensitive to changes in financial markets.

6.3 Credit risks

As a result of its business and investment activities the Group is exposed to credit risks. Receivables are not classified in individual groups because various debtors are evaluated on an individual basis. The group endeavours to minimize its credit risk before it enters into any business relationships, as well as when such relationships already exist.

When evaluating the client's creditworthiness, the Group prepares financial and non-financial analysis. The non-financial analysis takes into consideration qualitative indicators and publicly accessible information about the client as well as information obtained directly from the client.

Debtors are evaluated individually, while taking into consideration in particular the following factors:

- Past experience with the debtor,
- Size of the loan, and Maturity of the loan.

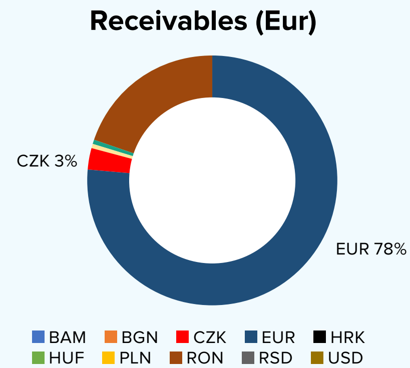
The Group internally monitors and analyses the borrower whose securities it holds.

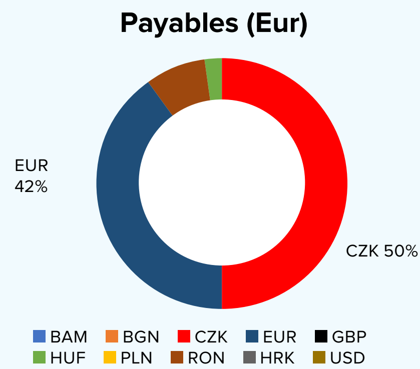
All applications for loans are discussed and approved by the Company's Board of Directors. All investments into the borrower's securities are also submitted for approval to the Board of Directors.

6.4 Currency fluctuation risks

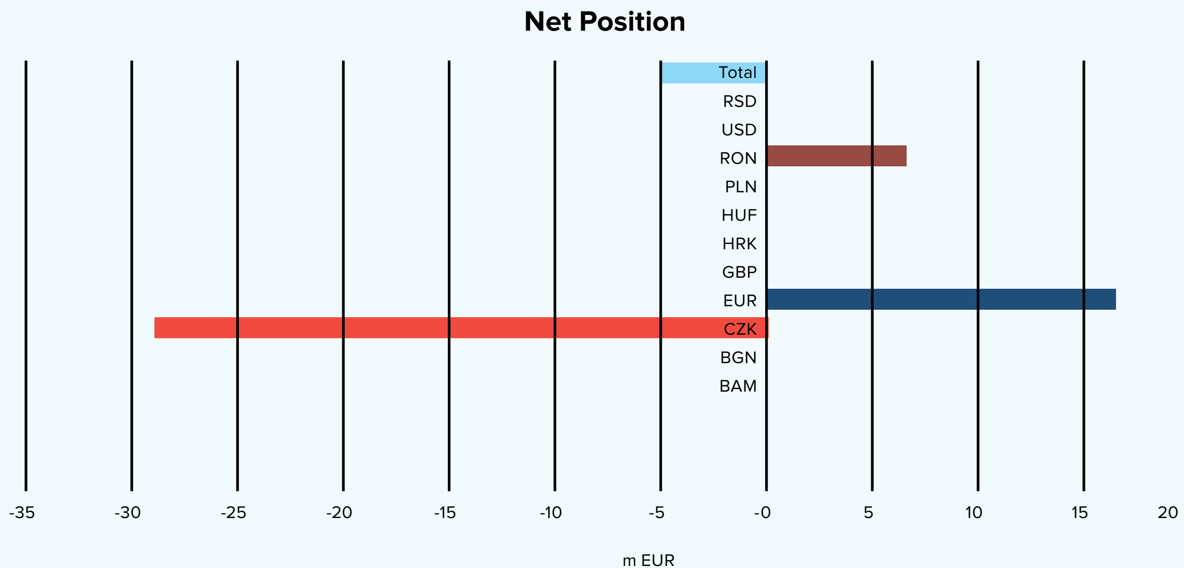
Assets and liabilities in foreign currencies including off--statement of financial position items represent a currency risk to which the Group is exposed. The Group conducts its business transactions in the following currencies: Euro, USD, CZK, PLN, RSD, BGN, HUF, HRK, BAM, GBP, and RON.

The currencies as of 31. 12. 2018 are represented in the Group payables and receivables as follows:





The most significant currencies in the Group are Euro, CZK and RON.
The net exposure per currency as of 31. 12. 2018 is shown in the graph below:



The net position as of 31. 12. 2018 is impacted by the appreciation/depreciation of the main currencies as presented below:

Impact to net position
In thousand of Euros

Currency	1% appreciation vs EUR	1% depreciation vs EUR
CZK	-279	279
RON	60	-60

6.5 Interest fluctuation risks
Interest rate risk is the risk resulting from changes in financial instruments value due to changes in the market interest rates. As the Group is currently financed by Bonds with fixed interest rate of 5 % p.a., the Group is not directly exposed to the interest risk.

6.6 Liquidity risks
Liquidity risk exists when the due dates of assets and liabilities are different. The non-cleared positions potentially increase profitability, but they may also increase the risk of loss. The Group has procedures in place to minimize such losses, such as maintaining a sufficient amount of cash and other highly liquid current assets and having sufficient amount of credit products available.

The current liabilities of the company as of 31. 12. 2018 amount to 21 611 thousand of Euros with the following detail:

In thousand of Euros

Current liabilities	31. 12. 2018	Restated 31. 12. 2017
Short term Bank and Other loans	4 671	2 430
Issued Bonds	2 572	0
Trade and other payables	13 711	13 390
Current tax payables	564	58
Provisions and other short-term liabilities	92	897
Total current liabilities	**21 611**	**16 775**

As for the liabilities' maturity:

Trade and other payables are represented by third party trade payables amounting to 8.2 million with estimated maturity mostly of 30 days, 2.8 million Euro of Investor's payables resulting from cash collections performed on their account (we have investor's bank accounts in the same amount matching it), 1.7 million Euro of VAT payable within one month, 1 million Euro of salaries payable within one month.
Current tax payable is due in first half of 2019 and Issued Bonds and Borrowings for Beta financing are due in the second half of 2019.
To quantify the liquidity risk, Group uses Current Ratio, the results are presented in table below. Group considers the results satisfying and is not considering any further steps to eliminate the liquidity risk.

In thousand of Euros

Current Ratio of the Group	31. 12. 2018	Restated 31. 12. 2017
Current Assets	35 264	23 239
Current Liabilities	21 611	16 775
Ratio	**1.6**	**1.4**

The table below provides detail of current assets and current liabilities matched according to their maturity. It shows that the receivables maturing within next 30 days cover for cash needs resulting from current liabilities. 3.8 million Euro is financing of Beta and 2.6 million Euro is short term part of Issued bond, both due in the second half of 2019.

As of 31. 12. 2018
In thousand of Euros

Due in (days)	0-30	30-90	90-180	180-360	Over 360
Trade accounts receivable	13 137	0	0	0	0
Other receivables	3 697	212	0	0	0
Total Trade and other receivables	**16 834**	**212**	**0**	**0**	**0**

Due in (days)	0-30	30-90	90-180	180-360	Over 360
Trade and other payables	11 906	1 805	0	0	0
Short term Bank and Other loans	658	175	0	3 838	0
Issued bonds	0	0	0	2 572	0
Total Trade and other payables	**12 564**	**1 980**	**0**	**6 410**	**0**

6.7 Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximizing the return to shareholders through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged from 2017.
The capital structure of the Group consists of net debt (borrowings disclosed in note 8.5 after deducting cash and bank balances) and equity of the Group (comprising issued capital, reserves, retained earnings and non-controlling interests as disclosed in notes 8.9 and 8.10).
The Group is not subject to any externally imposed capital requirements.

Gearing ratio

The gearing ratio at the year-end is as follows:

In thousand of Euros

	31. 12. 2018	Restated 31. 12. 2017
Net Debt	45 736	39 331
Equity	16 830	11 213
Net Debt to Equity ratio	**2.7**	**3.5**

6.8 Operating risks

The Group defines operating risks as the possibility of losses on its revenues and its own resources resulting from shortcomings in the internal control system and the organization of the risk management system. This risk is a function of internal control mechanisms, information systems, lack of employee perfection and operational processes. This risk exists in all products, services and processes. It occurs daily in all companies which process transactions. The Group has internal system of risk controls being revised on regular basis by the department of Internal Audit. The Internal Audit Departments visits local subsidiaries within the group on regular basis, performing the standard internal audit procedures.

7 Notes to Consolidated Statement of Profit or Loss and Other Comprehensive Income

7.1 Operating Revenue

In thousand of Euros

	31. 12. 2018	Restated 31. 12. 2017
Revenue from NPL portfolio servicing	36 982	30 661
Other operating revenues	8 664	2 827
Operating revenue	**45 645**	**33 488**

Operating revenue is mostly driven by Asset management fees, which represents core business of Servicing subsidiaries. Year-over-year increase is represented mostly by very strong results of servicing entity in Romania, Cyprus, Croatia and Serbia. Other operating revenues consist of Underwriting fees which is core business of APS Investments S.à r.l. and Real Estate Advisory fees representing new business line in Romania and Cyprus. APS is not owner of the NPL portfolio, but customers are owners of the NPL portfolio. APS is only servicing the customer's portfolio based on written service contracts between APS and customers that meet criteria of IFRS 15:9 – written and approved contracts with commercial substance that are priced and scoped. As for the Fund Special Purpose Vehicle (SPV)'s assets and related cash flows these were derecognized, we do not identify the Revenue from collections which belongs directly to the investors.

7.2 Operating Expenses

In thousand of Euros

	31. 12. 2018	Restated 31. 12. 2017
Distribution and administrative expenses	28 030	26 854
Other operating expenses	4 443	271
Total operating expenses	**32 473**	**27 125**

Operating expenses are represented by administrative expenses related to the running of the company itself. Most significant item is Wages and salaries. Year-over-year increase of 3 % represents the growth of salaries and headcount increase.

Average headcount in 2018 divided into major segments in table below:

Segment	Number of Employees
Head-office	66
Investment	35
Servicing	715
Real Estate	3
Total employees	**819**

Detail of Distribution and administrative expenses

In thousand of Euros

	31. 12. 2018	Restated 31. 12. 2017
Salaries and related expenses	18 264	17 809
Costs of external services	8 436	8 609
Leasing	617	201
Local taxes and fees	713	236
Total Distribution and administrative expenses	**28 030**	**26 854**

Year-over-year increase in salaries is caused by increasing headcount due to entering new markets (Greece, Bosnia and Herzegovina, Montenegro) and increase of base salaries driven by highly competitive labour market conditions in the countries of group activities. In Costs of external services are included Audit fees paid to Deloitte company of 236 thousands of Euros and 24 thousands of Euros for non-audit services paid to Deloitte company.

7.3 Finance income

In thousand of Euros

	31. 12. 2018	Restated 31. 12. 2017
Profit from shares and participation in associated companies and joint ventures	-1	37
Foreign Exchange gains - realised	1 578	2 052
Foreign Exchange gains - not realised	35	17
Others Interest Income on Financial Assets measured at Amortised costs	381	170
Other Finance income	213	401
Total Finance Income	**2 206**	**2 678**

Group's Finance income consists mostly of realized Foreign Exchange gains, which are related to the operations with RON, EUR and CZK as the most frequent currencies for the Group. Other Interest Income on Financial Assets measured at Amortised costs is related to the portfolios owned by APS Recovery a.s. revaluated according to IFRS 9.

7.4 Other gains and losses

In thousand of Euros

	31. 12. 2018	Restated 31. 12. 2017
Net gain/(loss) arising on financial assets mandatorily measured at FVTPL	-943	19
Net gain/(loss) arising on financial liabilities designated as at FVTPL	0	0
Total Other gains and losses	**-943**	**19**

Losses arising on financial assets measured at fair-value through P&L statement are the result of IFRS 9 revaluation of corporate secured portfolios.

7.5 Finance costs

In thousand of Euros

	31. 12. 2018	Restated 31. 12. 2017
Foreign Exchange Losses - realised	-1 790	-884
Foreign Exchange Losses - not realised	-95	-6
Interest Expenses on Financial Liabilities measured at Amortised costs	-2 200	-2 171
Other Finance Expenses	-66	-82
Total Finance Expenses	**-4 151**	**-3 142**

Finance costs consist of two major groups. First represents realized Foreign exchange losses, which are partially offset with Realized exchange gains. The second are expenses on Financial Liabilities measured at amortised costs, representing the Interest Expense of Issued bonds.

For translations from local functional currency to group reporting currency European Central Bank rates were used as follows:

Reporting currency	Transaction currency	2018 Average ECB Rate	31. 12. 2018 ECB Rate
EUR	BGN	1.96	1.96
EUR	HUF	318.89	320.98
EUR	HRK	7.42	7.41
EUR	CZK	25.65	25.72
EUR	RON	4.65	4.66
EUR	PLN	4.26	4.30
EUR	BAM	1.96	1.96

7.6 Income Tax

Current tax

The amount of tax payable is based on the results of the current accounting period adjusted by those items which are not taxable or eligible and has been calculated in accordance with the tax rates valid as at the date the Financial Statements were compiled. Thus, current tax is based on taxable profit for the accounting period. The amount of taxable profit may differ from the profit before tax, which is presented in the Consolidated Income Statement as it sometimes does not include items of income or expense that are taxable or tax deductible in other years or items that are never taxable or tax deductible.

In thousand of Euros

Current income tax	2018	2017
Profit for the year	6 120	3 392
Deferred Tax	729	302
Income tax expense (including income tax on Associate, joint venture and discontinued operation)	**-1 793**	**-838**
Profit before Income taxes	7 184	3 928
Average Tax using the Company's domestic tax rate	**-1 768**	**n/a***
difference	-25	n/a
% of Income tax expense	25.0%	n/a
"% Tax using the average Company´s domestic tax rates	24.6%	n/a

* the Group did not have enough information to provide this information for 2017

Deferred tax

Deferred tax created in relation with temporary differences resulting from the differences between the accounting value of assets and liabilities in the Financial Statements and applicable tax base which was used to calculate taxable income has been posted by the liability method.

All deferred tax liabilities have been posted with all temporary differences, while the deferred tax receivables have been posted in such an extent, which allows for the possibility that the taxable profit from which the temporary differences could be deducted will be available. These receivables and liabilities are not posted as long as the temporary difference is a result of the original posting of other receivables and liabilities from the transactions which do not affect taxable or accounting profit.

Deferred tax has been calculated with the use of tax rates which are expected to be valid at the time when the assets have been implemented or when the liabilities have been settled. Deferred tax has been posted in the Statement of Comprehensive Income with the exception of situations when it is related to the items which were accounted directly in the equity and the deferred tax is included in the equity.

Deferred tax of 729 thousand Euro charged to P&L in 2018 is related to the decrease in deferred tax liability and increase of deferred tax asset which was booked due to the variance in Tax and Accounting amortization.

Effective tax rate and tax changes

Effective tax rate paid by the Group does not significantly differ from the calculated Average tax rate using subsidiaries Profit before tax applying local Corporate Income Tax rates. The total variance is caused by nature of local tax expenses and its Tax deductibility and by consolidation adjustments which have impact to the Group Profit Before tax. Due to insignificant difference of 0.4% (25 thousand Euro) the group does not perform further reconciliation.

As of 31. 12. 2018 the Group has no unused tax losses for deferred tax purposes. Tax losses occur only in newly established subsidiaries where it is not sufficiently certain that these losses will be used as tax deductible in the future.

The Unused Tax losses not used for deferred tax calculation are as follows:

- APS BH d.o.o. 140 thousand Euro
- APS Montenegro D.O.O. Podgorica 4 thousand Euro

Between year 2017 and 2018 the following changes in Corporate Tax rates became effective in the countries where the Group is active:

Croatia – change in Corporate Income Tax rate from single rate of 20% to two levels of rate. Rate of 18% for tax-payers with annual Income over 3 million HRK and 12 % rate for tax payers with annual Income of 3 million HRK and below.

Luxembourg – change in Corporate Income Tax rate from 27.08 % to 26.01 %.

No further changes in Taxation legislation affecting our subsidiaries became effective as of 31. 12. 2018.

7.7 Profit or loss for the year from discontinued operations

We do not have any material P&L items to be classified as a result from discontinued operations.

7.8 Dividends

No dividend payment to shareholder was approved for 2017 and 2018 years.

8 Notes to Consolidated Statement of Financial Position

8.1 Goodwill and Intangible assets

In thousand of Euros

	Goodwill	Software	Rights of Servicing	Total
At 1st January 2018				
At costs	9 951	4 317	17 811	32 079
Accumulated amortisation	0	-1 340	-1 732	-3 072
Net book value at 1st January 2018	**9 951**	**2 977**	**16 079**	**29 007**
Year ended 31 December 2018				
Additions	0	701	164	865
Disposals	-18	0	-10	-28
Amortisation	0	-451	-2 458	-2 910
Net book value at 31st December 2018	**9 933**	**3 227**	**13 776**	**26 935**
At 31 December 2018				
Gross book value	9 933	4 893	17 966	32 791
Accumulated amortisation	0	-1 666	-4 190	-5 856
Net book value at 31st December 2018	**9 933**	**3 227**	**13 776**	**26 936**

1) In 2018 Group presents two parts of Goodwill:

In thousand of Euros

	31. 12. 2018	Restated 31. 12. 2017
Upstream Merger Goodwill	6 824	6 824
APS Debt Servicing Cyprus Acquisition Goodwill	3 109	3 109
Mark Zrt. Acquisition Goodwill	0	18
Total Group Goodwill	**9 933**	**9 951**

Software and other Intangible Assets (represented by Exclusive rights of Servicing have both finite useful live period and are amortised as described below

Upstream Merger Goodwill

Impairment assessment

The Group tests whether goodwill has incurred any impairment on an annual basis irrespective of impairment indicators. The recoverable amount of the asset is determined based on value in use calculations which requires the use of assumptions. The calculations use cash flow projections based on business model approved by management of the Group covering a 5-year period. According to Management's forecasts, the predictability of the model significantly decreases with the time, therefore no projections beyond 5 years are considered and no terminal values were included in the calculations. For the purpose of impairment testing, goodwill acquired in upstream merger in 2015, is allocated to the Group as a single cash generating unit that is expected to benefit from the synergies of the merger.

As of 31 December 2018, the impairment assessment for goodwill was performed based on the same methodology as the initial estimation of the intangible asset and goodwill used for the business combination in 2015.

Revenues from servicing are based on:

Recovery curves according to the data relating to the non-performing loans and real estate assets that are currently managed. The collateral market values were updated for single markets.

The recovery strategies were applied to each debtor depending on whether the strategy would be that of Restructuring, Settlement, Consensual Sale, Debt to Asset or Foreclosure. For secured debtors, recoveries were estimated starting from the market value of the underlying collaterals capped by the value of receivable.

Estimated level of new deals per annum, which is reflecting current level of new deals in 2018, expected growth in coming year, current level of net multiple for investment deals, current recovery curves and estimated level of asset management fees for servicing the portfolios.

The main costs were calculated as follows:

- Direct and indirect costs at market level were calculated by taking into consideration the total direct cost in particular market in 2018 and the estimation for the rest of the life of the project.
- Recovery management entity costs were calculated based on 2018 level of costs and were indexed for expected growth in future
- For new deals weighted average level of contribution margin was applied, as the specific markets where the deals will be located cannot be predicted by management

For calculating the recoverable amount at 31 December 2018, a discount rate of 6.5% was used.

An effective tax rate of 14.3% was used to calculate the expected income tax expense.

The calculations use cash flow projections based on the 5-year strategic plan approved by the Board of Directors.

Based on the results of the above described impairment tests, no impairment of goodwill and intangible was identified.

APS Debt Servicing Cyprus (DSC) Acquisition Goodwill

Impairment assessment

The DSC tests whether goodwill has incurred any impairment on an annual basis irrespective of impairment indicators. The recoverable amount of the asset is determined based on value in use calculations which require the use of assumptions. The calculations use cash flow projections based on business model approved by management of the DSC covering a 7-year period. According to Management's forecasts, the perimeter of Assets

under Management ("AuM") reduces to nil by the end of year 7, therefore no projections beyond this period and no terminal value were included in the calculations. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to the DSC's single cash generating unit that is expected to benefit from the synergies of the combination. The DSC's goodwill is allocated to the exclusive right of servicing intangible asset.

As of 31 December 2018, the impairment assessment for goodwill was performed based on the same methodology as the initial estimation of the intangible asset and goodwill used for the business combination in 2017 and the 31 December 2017 year-end impairment assessment with all the relevant assumptions revised to reflect the DSC's performance for the year ended 31 December 2018.

Revenues from servicing and success fees are based on:

Recovery curves according to the data relating to the non-performing loans and real estate assets that will be managed. The collateral market values were updated as of completion date by using the relative market value indexation rates. The indexation was applied based on year of the latest valuation, collateral type and city.

The recovery strategies were applied to each debtor depending on whether the strategy would be that of Restructuring, Settlement, Consensual Sale, Debt to Asset or Foreclosure. For secured debtors, recoveries were estimated starting from the market value of the underlying collaterals.

- A haircut of 10% was applied to all future success fees arising from the main servicing contract with joint venture (JV) partner (Hellenic Bank).
- The main costs were calculated as follows:
- Personnel costs were calculated by taking into consideration the total employees' payroll cost as per the actual number of employees in the first half of 2018 and the estimation for the rest of the life of the project.
- Real estate related advisory costs were estimated by considering the empirical evidence

of the first year of operations and considering the projected needs for advisory services from real estate external professional experts in combination with the internal expertise to be developed during the life of the project.

- Receivership costs were estimated as 5% of all onboarding fees generated from Debt to Asset and Foreclosure strategies and 3% of all success fees generated from Debt to Asset, Foreclosure and Consensual Sale strategies.

For calculating the net present value at 31 December 2018, a discount rate of 10.53% (2017: 8.94%) p.a. was used.

Local Cypriot tax rate of 12.5% was used to calculate the expected income tax expense.

The calculations use cash flow projections based on the business plan approved by the Board of Directors of the DSC in 2017 covering a seven-year period, with all assumption updates approved by the management in 2018. A seven-year period is used based on the timing of the projected cash flows of the contracts over their estimated useful economic lives.

Total revenue and costs included in the cash flow projections prepared at 31 December 2018 are generally lower than those included in the cash flow projections prepared at acquisition date to reflect the change in assumption curves as well as reflecting amendments and clarifications to the original agreement between the DSC and Hellenic Bank. Also, during the initial period of the contract, the costs were redefined to reflect a more calculated expectation about the level of business.

Based on the results of the above described impairment tests, no impairment of goodwill was identified and there were no triggering events for impairment of intangibles.

2) Software

Software represents mainly Capone, which is core tool for managing and executing recovery strategy in single countries. Software is amortised over 10 years with a limited useful life using a straight-line method.

3) Rights of servicing

Rights of servicing represent exclusive right of servicing that was acquired as part of the business combination. Rights of servicing acquired in a business combination are recognized at fair value at the acquisition date. They have a finite useful life and are subsequently carried at cost less accumulated amortization and impairment losses. The rights of servicing are amortised with a limited useful life using a straight-line method over 7 years.

8.2 Property, plant and equipment

In thousand of Euros

	Buildings	Machinery and motor vehicles	Furniture, fixtures, office equipment	Total
At 1st January 2018				
At Cost	40	993	339	1 372
Accumulated depreciation, Impairment	-5	-586	-129	-720
Net book amount	**35**	**407**	**210**	**652**
Year ended 31 December 2018				
Additions	27	58	87	172
Disposals	-2	-214	-23	-239
Depreciation, Impairment	-4	-122	-62	-189
Closing net book amount	**56**	**128**	**211**	**395**
At 31 December 2018				
At costs	65	696	393	1 154
Accumulated depreciation, Impairment	-9	-568	-182	-758
Net book amount	**56**	**128**	**211**	**395**

Long-term tangible assets have been presented at acquisition prices, which include the cost of acquisition, expenses for transportation, customs duties and other expenses related to acquisition. Expenses for the technical evaluation of long-term assets increase their acquisition cost. Regular repairs and maintenance are included in such expenses.

8.3 Associates

Details of material associates as of 31. 12. 2018

Company Syndre Valuation s.r.l. is not controlled by the Group. APS Holding S.A. owns 46% shares and holds significant influence over the investee, thus this company is included in the consolidated financial statements using equity method.

In thousand of Euros

SYNDRE VALUATION SRL	
Total operating revenue	200
Total operating expenses	-139
EBITDA	61
Operating profit	59
NET financial result	-11
Total profit/Loss for the year	**46**
Total non-current assets	30
Total current assets	16
Total assets	**46**
Total equity	46
Total non-current liabilities	0
Total equity & liabilities	**46**

8.4 Financial Assets

All financial Assets except Secured loan portfolios are presented at amortised costs. Secured Loan portfolios are presented at Fair value. Summary of financial assets and Group's approach shown in table below:

In thousand of Euros

		Impairment approach			Fair-Value level
At 31. 12. 2018		**Stage 1**	**Stage 2**	**Stage 3**	
Financial assets valuated at amortised costs	Cash and Short-term deposits	13 326			n/a
	Loan recievables and other short-term assets		5 029		n/a
	Trade and other recievables		17 046		n/a
	Purchased unsecured loan portfolios			611	n/a
Financial assets valuated at Fair-value	Purchased secured loan portfolios			11 840	3

In thousand of Euros

		Impairment approach			Fair-Value level
At 31. 12. 2017		**Stage 1**	**Stage 2**	**Stage 3**	
Financial asets valuated at amortised costs	Cash and Short-term deposits	8 054			n/a
	Loan recievables and other short-term assets		1890		n/a
	Trade and other recievables		14 719		n/a
	Purchased unsecured loan portfolios			729	n/a
Financial assets valuated at Fair-value	Purchased secured loan portfolios			3 458	3

Loans receivables and other short-term assets

Short-term assets consist mostly of prepaid expenses, which represents advance payments provided by APS MIP s.r.o. related to various projects where APS MIP participates as co-investor.

Trade and other receivables

Trade receivables represent mainly receivables from Investors resulting from Asset Management Fees and receivables related to the Investors fees. Average credit period is 30 days and no interest is charged on outstanding trade receivables.

In thousand of Euros

	Not yet due	0-180 days overdue	180-360 days overdue	Over 360 days overdue	Total 31. 12. 2018
Trade accounts receivable	12 384	989	89	124	13 586
Other receivables	2 001	574	451	434	3 461
Total Trade and other receivables	**14 385**	**1 563**	**540**	**558**	**17 046**

We have no movement in lifetime ECL that has been recognized in the reporting period. Our approach is described in note 3.17.

Cash and Short-term deposits

Bank deposits were impaired according to Group's methodology described in note 3.17.

In thousand of Euros

	31. 12. 2018	Restated 31. 12. 2017
Bank deposits and Cash balances	13 402	8 082
Impairment calculated	-76	-28
Impaired Cash Balance	**13 326**	**8 054**

8.5 Financial Liabilities

All financial liabilities are reported at amortised costs.

In thousand of Euros

	31. 12. 2018	Restated 31. 12. 2017
Unsecured borrowing at amortised cost		
Bank loans	206	1 057
Loans from related parties	7 241	7 010
Other borrowings	12 399	19 805
Issued Bonds	19 783	0
Total borrowings	**39 630**	**27 872**
Amount due for settlement within 12 months	7 244	3 344
Amount due for settlement after 12 months	32 386	24 528

Financial liabilities split by currency of denomination:

In thousand of Euros

	Currency EUR	Currency CZK	Total in EUR
Analysis of borrowings by currency:			
31 December 2018			
Loans from related parties	7 241	0	7 241
Bank loans	31	175	206
Other borrowings	12 399	0	12 399
Issued Bonds	0	19 783	19 783
Total	**19 671**	**19 958**	**39 630**
31 December 2017			
Loans from related parties	7 010	0	7 010
Bank loans	781	276	1 057
Other borrowings	19 805	0	19 805
Total	**27 596**	**276**	**27 872**

Issued Bonds

Issued bonds are represented by bonds issued by the entity APS Finance a.s. in the total anticipated nominal value of the issue of 19 437 thousand of Euro. The issue date was on 22nd February 2018. The bonds are trading publicly on the Regulated Market of the Prague Stock Exchange (PSE) from the 1st of October 2018. The bonds will be fully repaid by 2023. Short term part of bond liability representing 2 572 thousand Euro is due in August 2019. Bond interest is 5 % p.a. The bonds are not rated and are subject to Financial covenants focused on Net Debt to EBITDA ratio. The price at PSE is quoted at 100% of nominal price and there are no volumes traded recently. So far the volumes indicate that the bonds are held until maturity by the bondholders. The table below shows the maturity of the Issued bonds:

	Due in < 1 year	Due in 1-5 years	Due in < 5 years
Issued bonds	2 572	17 211	0

Loans from related parties

Long term Loans from related parties is the loan from the sole shareholder Martin Machoň related to upstream merger. The loan is presented at amortised costs in amount of 7 241 thousand Euro. Repayment of this Loan is possible only after full repayment of the issued bonds; therefore it is fully classified as Long term.

Other borrowings

Other borrowings represent mainly financing of APS FUND BETA d.o.o. Beograd in the amount of 11 383 thousand Euro. Long term part of this Loan is in amount of 3 838 thousand Euro and short-term part of 7 545 thousand Euro. The remaining part represents borrowings of individual entities.

8.6 Deferred tax

The following are the major deferred tax liabilities and assets recognized by the Group and movements thereon during the current and prior reporting period.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

In thousand of Euros

	31. 12. 2018	31. 12. 2017
Deferred tax liabilities	-389	-918
Deferred tax assets	223	35

In thousand of Euros

	Accelerated tax depreciation	Other	Total
At 1 January 2017 - As restated	**-1 195**	**10**	**-1 185**
Charge to profit or loss	277	25	302
Charge to other comprehensive income			0
Charge direct to equity			0
Exchange differences			0
At 1 January 2018 – As restated	**-918**	**35**	**-883**
Charge/(credit) to profit or loss	529	188	729
Charge to other comprehensive income			0
Charge direct to equity			0
Exchange differences			0
At 31 December 2018	**-389**	**223**	**-166**

Deferred tax of 729 thousand Euro charged to P&L as a revenue in 2018 is related to the decrease in deferred tax liability and increase of deferred tax asset which was booked due to the variance in Tax and Accounting amortization.

8.7 Trade and other payables

In thousand of Euros

	31. 12. 2018	Restated 31. 12. 2017
Trade payables	13 711	13 390
Other taxation and social security	564	58
Total trade and other payables	**14 276**	**13 448**

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 30 days. The Group has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

The directors consider that the carrying amount of trade payables approximates to their fair value.

8.8 Provisions

In thousand of Euros

Description	Expected timing	01. 01. 2018	Additions	Amount used	Unused reversed	31. 12. 2018
GDPR provision	First half 2019	818	0	764	0	54
Provision for unused holidays	January 2019	79	25	66	0	38
	TOTAL	**897**	**25**	**830**	**0**	**92**

In 2018 the Group accounted for a provision of 818 thousand of Euro related to implementation of GDPR requirements. The major part of the provision was used during 2018. Second part of the provision is represented by the provision for unused holidays.

8.9 Share capital

The Company's registered capital is composed of 62,000 ordinary shares entered in the books with the face value of 0.50 Euro (fifty cents) per one share. The registered capital has been paid in full. The Group does not have any type of ordinary shares which are connected to a regular payment of dividends. The Company has one class of ordinary shares which carry no right to fixed income.

There were no changes in share capital during the year 2018.

8.10 Non-controlling interests

Summarized financial information in respect of each of the Group's subsidiaries that has material non-controlling interests is set out below. The summarized financial information below represents amounts before intercompany eliminations.

1) APS Debt Servicing Cyprus LTD. (non-controlling interest 49%)

In thousand of Euros	31. 12. 2018
Current assets	9 807
Non-current assets	15 457
Total assets	**25 264**
Current liabilities	3 279
Non-current liabilities	3 622
Equity attributable to owners of the Company	9 365
Equity attributable to non-controlling interests	8 998
Total equity & liabilities	**25 264**
Operating revenue	18 754
Operating expenses	-10 978
Total comprehensive income attributable to owners of the Company	2 275
Total comprehensive income attributable to the non-controlling interests	2 186
Total comprehensive income for the year	**4 461**
Dividends paid to non-controlling interests	774

Interim dividend amounting to 774 thousand Euro was paid to the owners of non-controlling interest in Debt Servicing Cyprus LTD.

2) APS Recovery Greece Credit and Loan Servicing S.A. (non-controlling interest 40%)

In thousand of Euros	31. 12. 2018
Current assets	108
Non-current assets	7
Total assets	**115**
Current liabilities	104
Non-current liabilities	0
Equity attributable to owners of the Company	7
Equity attributable to non-controlling interests	4
Total equity & liabilities	**115**
Operating revenue	31
Operating expenses	-267
Total comprehensive income attributable to owners of the Company	-142
Total comprehensive income attributable to the non-controlling interests	-95
Total comprehensive income for the year	**-237**

3) APS Recovery Hungary Kft. (non-controlling interest 20%)

In thousand of Euros	31. 12. 2018
Current assets	603
Non-current assets	7
Total assets	**610**
Current liabilities	298
Non-current liabilities	0
Equity attributable to owners of the Company	250
Equity attributable to non-controlling interests	62
Total equity & liabilities	**610**
Operating revenue	2 044
Operating expenses	-1 713
Total comprehensive income attributable to owners of the Company	201
Total comprehensive income attributable to the non-controlling interests	51
Total comprehensive income for the year	**252**

4) Homeland Properties S.R.L. (non-controlling interest 3%)

In thousand of Euros	31. 12. 2018
Current assets	265
Non-current assets	9
Total assets	**275**
Current liabilities	86
Non-current liabilities	0
Equity attributable to owners of the Company	182
Equity attributable to non-controlling interests	6
Total equity & liabilities	**275**
Operating revenue	436
Operating expenses	-237
Total comprehensive income attributable to owners of the Company	183
Total comprehensive income attributable to the non-controlling interests	6
Total comprehensive income for the year	**188**

8.11 Assets and liabilities classified as held for sale

As of 31. 12. 2018 the Group reports assets of 497 thousand of Euros of Assets classified as held for sale and 18 thousand of Euros of Liabilities classified as Held for sale. These balances represent the Fair-Value of entities Mark Zrt. and Mark Ingatlan Zrt. The Fair-value is determined by the agreed selling price, based on the signed agreement with the buyer.

These entities held a license for non-performing loans portfolio purchase and were purchased in relation to specific deal which finally was not realized. Therefore The Group made a decision to sell these entities as there was no longer reason to own it

9 Notes to Consolidated Statement of Cash Flows

In thousand of Euros	31. 12. 2018	Restated 31. 12. 2017
Bank balances	13 091	7 958
Petty Cash	235	96
Total	**13 326**	**8 054**

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less, net of outstanding bank overdrafts. The carrying amount of these assets is approximately equal to their fair value. Cash and cash equivalents at the end of the reporting period as shown in the consolidated statement of cash flows can be reconciled to the related items in the consolidated reporting position as shown above.

10 Contingent liabilities

As of the Financial Statements closing date, the Company was not involved in any significant legal disputes that could have material impact on the business of the Company.

The Group does not identify any contingent liability.

11 Events after the reporting period

In February 2019 APS Finance a.s., a subsidiary of the Group, increased the volume of bonds by CZK 120 million. The newly issued bonds have also been accepted for trading on the Prague Stock Exchange. The total value of issued bonds amounts to CZK 620 million. The funds will be used for co-financing new investment opportunities, further development of APS Group as well as for entrance to new markets of south and east Europe.

The sale of entities Mark Zrt. and Mark Ingatlan Zrt, which are presented as held for sale in these financial statements, was finalized in June 2019.

12 Related party transactions

Balances and transactions between the company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its associates are disclosed below.

List of related entities for the accounting the year ending 31 December 2018:

The below listed entities are related parties as they have the same ultimate business owner as the Group

APS Capital s.r.o.
APS Italy s.r.l.
APS Holding s.r.o.
APS Holding Asia limited
APS Group International s.r.o.
APS VN limited liability company
APS Corporation s.r.o.
Aragonite Investment a.s.
Corporate Recovery Management s.a.
Casazela s.r.o.
APS Capital Cyprus ltd.
Hotel Albert s.r.o.
Casazela Rapid ltd
APS Savoy s.r.o.
APS Capital Group s.r.o.
Momentum Credit Penzugyi zrt
APS Consumer finance IFN S.A.
APS Onyx d.o.o.
HoldCo Two d.o.o.
Emerald Management s.r.l.
APS REO Sunrise d.d.
APS REO Rosemary S.A.
APS RE service d.d.
APS Quatro Holding S.á. r l.
VB-Leasing International Holding gmbh
VB Leasing Beograd d.o.o.
VBL Services d.o.o. Beograd
VBS Leasing d.o.o.
VB Leasing d.o.o.
VB Leasing d.o.o. Sarajevo
VBL POSREDNIK d.o.o.
Bora HOLDCO d.o.o.
Project One d.o.o.
Terra LAND d.o.o. Beograd
LANDTRUST d.o.o. Beograd
HYPO PARK DOBANOVA d.o.o. Beograd
HGS BKP d.o.o. Beograd
LUX 011 D.o.o. Beograd - Novi Beograd
APS Epsilon ltd
APS DELTA s.r.o.
APS SF ltd
APS Arctos Capital s.r.o.

Summary of Group´s transactions with related parties in the table below:

In thousand of Euros	
Transactions	
Trade and other receivables	1 882
Loan receivables	702
Revenues	1 815

Trade receivable balances between companies APS Investments S.à r.l. and Bora HOLDCO d.o.o. in the amount of 332 thousand of Euros are concerning brokerage fees and the amount of 1 550 thousand of Euros between companies APS MIP s.r.o. and APS SF ltd related to advance payments for co-investments.

Loan Receivable balances between APS MIP s.r.o. and Bora HOLDCO d.o.o of 481 thousand of Euros and 222 thousand of Euros between APS MIP s.r.o. and HoldCo Two d.o.o. are representing loans provided to finance co-investments.

Revenues from related parties consist of:

a) transactions between APS d.o.o. Beograd and Project One d.o.o. that are related to financial advisory services in the total amount of 734 thousand of Euro. The company Project One d.o.o. was originally established in 2012 and is from December 2017 100% owned by APS Capital Group s.r.o.. Main activity of the company is to manage Onyx investment portfolio and to provide periodical reporting towards investors.

b) transactions between APS d.o.o. Beograd and HoldCo Two d.o.o. that are related to financial advisory services in the total amount of 84 thousand of Euro. Company HoldCo Two d.o.o. was established in November 2017 and is 100% owned by APS Capital Group s.r.o. It´s main activity is related to managing Savka portfolios and to provide periodical reporting towards investors.

c) transactions between APS Recovery a.s. and Project One d.o.o. that are concerning legal and consultancy services related to brokerage fees and reinvoicing in the amount of 998 thousand of Euro.

List of related persons for the accounting the year ending 31 December 2018:

Martin Machoň

Antonín Pfleger

Victor Dan Angelescu

Viktor Levkanič

Jiří Randus

Zuzana Burmakinová

Pavel Rozsypal

Related persons provided non-interest loan to APS Group in the total amount of 7 241 thousand Euro with due date 31. 12. 2020.

Remuneration of key management personnel

Key management compensation, considering people above as being the key management was 875 thousand of Euro in the fiscal year 2018. 685 thousand Euro was related to Salaries and Bonuses, 189 thousand Euro was related to Social Security and Health Insurance (SSHI).

13 Approval of the financial statements

The financial statements were approved by the board of directors and authorized for issue on 9.8.2019.

13

AUDITOR'S REPORT

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To the Shareholder of
APS Holding S.A.
14, rue Edward Steichen
L-2450 Luxembourg

REPORT OF THE REVISEUR D'ENTREPRISES AGREE

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of APS Holding S.A. and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2018, and 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.

Emphasis of Matter

We draw attention to Note 4 of the financial statements, which describes the effects of restatement of the corresponding figures as at and for the year ended December 31, 2017 as a result of changes in accounting policies and correction of errors. Our opinion is not modified in respect of this matter.

Société à responsabilité limitée au capital de 35.000 €
RCS Luxembourg B 67.895
Autorisation d'établissement 10022179

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Basis for Opinion

We conducted our audit in accordance with the Law of July 23, 2016 on the audit profession (Law of July 23, 2016) and with International Standards on Auditing (ISAs) as adopted for Luxembourg by the "*Commission de Surveillance du Secteur Financier*" (CSSF). Our responsibilities under those Law and standards are further described in the "Responsibilities of the "*Réviseur d'Entreprises Agréé*" for the Audit of the Consolidated Financial Statements" section of our report. We are also independent of the Group 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, and have fulfilled our other ethical responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

The Board of Directors is responsible for the other information. The other information is included in the annual report under pages 4-73 and comprises the information stated in the Directors report but does not include the consolidated financial statements and our report of the "*Réviseur d'Entreprises Agréé*" 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 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 this 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 these consolidated financial statements in accordance with IFRSs as adopted in 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 Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern

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basis of accounting unless the Board of Directors either intends to liquidate the Group 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

Our objectives 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 a report of the "*Réviseur d'Entreprises Agréé*" 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 July 23, 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 July 23, 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional skepticism 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 Group'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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report of the "*Réviseur d'Entreprises Agréé*" 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 report of the "*Réviseur d'Entreprises Agréé*". However, future events or conditions may cause the Group 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.

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- Obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors 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.

Report on Other Legal and Regulatory Requirements

The Directors report on pages 66-69 of the annual accounts is consistent with the consolidated financial statements and has been prepared in accordance with applicable legal requirements.

Other Matter

The consolidated financial statements of the Company for the year ended December 31, 2017 were audited by another auditor who expressed an unmodified opinion on the annual accounts on June 29, 2018.

For Deloitte Audit, *Cabinet de Révision Agréé*

Eddy Termaten, *Réviseur d'Entreprises Agréé*
Partner

August 9, 2019