Lowell

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Risk Factors 2020

RISK FACTORS

In addition to the risk factors presented herein we would further refer to the chapter "Risk Factors" in the Offering Memorandum as of November 4, 2020.

Risks Related to Our Business and Industry

Changes in the economic environment, in particular in the countries in which we operate, may have a material adverse effect on our financial condition, financial returns and results of operations.

We currently operate mainly in the UK, Germany, Denmark, Norway, Sweden, Finland, Austria and Switzerland (together "**our core markets**"). Consequently we are exposed to changes in economic or fiscal conditions in each of our core markets and we are also exposed to any changes in the global macroeconomic environment affecting economic conditions in our core markets. If the global economy suffers a prolonged, material downturn that affects the markets we operate in through, among other things, an increase in the unemployment rate, increased inflation, the implementation of enhanced austerity measures (such as reduction in the relevant government's provisions of public benefits and/or public sector employment), reduced disposable income, impacting interest rates, and the availability of credit, consumers may be unable or unwilling to continue repaying debt, and we may not be able to perform debt collection in a manner consistent with our past practice. If our consumers experience a reduced ability or willingness to pay their debt, we could face increased servicing costs and lower average payments, thereby reducing our cash generation and returns on capital, and, in turn, our ERC. Even if we are able to develop tailored payment plans for certain of the affected consumers in order to try to reduce the number of defaults, such measures may prove unsuccessful, or if the measures are successful in avoiding some defaults, total collections may be reduced or the timing of receipt of payments may be extended as a result of these measures.

Additionally, adverse economic conditions could lead to a reduction in the propensity of financial institutions or other credit institutions to lend to corporations and individuals, as was the case during the global financial crisis of 2008 - 2009. This, in turn, could lead to a reduced supply of debt available for collection or fewer opportunities for us in our debt purchase business. Reduced lending by financial or other credit institutions may also negatively affect consumers by reducing disposable income levels or otherwise impairing their ability to fulfill their payment obligations. Furthermore, such a reduction in the propensity of financial institutions or other credit institutions to lend to corporations could adversely affect our own ability to obtain credit, and this may adversely impact our business, results of operations or financial condition by, *inter alia*, limiting our ability to finance portfolio purchases on financially favorable terms, or at all.

An improvement in the economic conditions in our markets could have both positive and negative impacts on our business. Although improved economic conditions may lead to higher debt repayment due to the improved financial position of our consumers, this may also lead to more competitive pricing expectations for the debt portfolios that we purchase or for the debt collection services that we offer because of improved payment prospects. In addition, rising interest rates due to a change in the economic environment or other factors beyond our control may increase our financing costs, which may result in our inability to make required capital investments or finance debt portfolio purchases on financially favorable terms or at all.

Any of these developments could have a material adverse effect on our business, results of operations or financial condition.

We are subject to EU, UK, German and Norwegian regulations, among others, and changes to the regulatory environment or a failure to comply with applicable laws, regulations, authorizations, licenses and codes of practice may negatively affect our business.

As a business operating in the EU, UK, Germany and Norway, we are subject to a variety of national and EU regulations, including laws and regulations regarding data privacy, anti-money laundering and counter terrorist financing, unfair competition, customer treatment, and price fixing. In case of non-compliance, the relevant authorities may, *inter alia*, impose a fine (on the business or senior management), public censure and remove or restrict an entity's license. Furthermore, adverse regulatory developments under any of the laws and regulations applicable to our operations could expose us to a number of risks. Individual employees may act against our instructions and either inadvertently or deliberately violate applicable laws, including competition laws and regulations by engaging in prohibited activities such as price fixing or colluding with competitors regarding markets or clients. Such actions may harm our reputation and, if we are held responsible, the resulting fines and other sanctions could be substantial. Any of these developments could have a material adverse effect on our business, results of operations or financial condition.

Our UK Division, our DACH Division and our Northern European Division are also subject to various complex laws and regulations that are more specifically related to the CMS industry. See "*Regulation*" for additional information.

Regulations affecting our UK Division

Our UK debt collection business is conducted through a number of subsidiaries. On April 1, 2014, the Financial Conduct Authority (the "**FCA**") took over the regulation of consumer credit activities (as defined in the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001), including related debt purchase and debt collection activity, from the Office of Fair Trading (the "**OFT**"). All relevant UK Division companies now have such full FCA authorization.

Our entities in the UK that collect debt due to third parties or collect debt that we have purchased under regulated consumer credit agreements are required to demonstrate that they continue to meet the FCA's threshold conditions to maintain their authorization. In addition, certain individuals within the firm who exercise a "senior management function" in the business of the firm must be approved by the FCA as "Senior Managers." These individuals must demonstrate on an ongoing basis that they are fit, proper and competent to hold the position of a "Senior Manager" and they must also comply with the FCA's Senior Manager and Individual Conduct Rules as set out in the COCON Chapter of the FCA Handbook. The Senior Managers and Certification Regime ("**SM&CR**") came into force in December 2019, replacing the former Approved Persons Regime, with an increased focus on individual accountability.

The three main elements of the SM&CR apply to every firm: (i) the Senior Managers Regime (which focuses on the most senior people in the firm who must have a statement of responsibilities and be pre-approved by the FCA to hold their function), (ii) the Certification Regime (which covers roles that have a big impact on customers, markets or the firm for whom the firm must certify that they are suitable to do their job at least annually) and (iii) Conduct Rules which apply to almost every person who works in financial services, and include things like "acting with integrity" and "treating customers fairly."

In addition to its broad fitness and proprietary requirements and the overarching requirements of the FCA's Principles for Business, the FCA has created a sector specific Consumer Credit sourcebook ("**CONC**") within the FCA Handbook which applies specifically to firms undertaking credit related activities and activities connected to those activities such as ours. CONC sets out detailed standards, in the form of specific rules and guidance.

A properly authorized debt collection (or other consumer credit) business is also affected by, or subject to, numerous detailed legislative requirements, principally contained in the Consumer Credit Act 1974 (the "**CCA**") and secondary legislation made under the CCA, the Unfair Terms in Consumer Contracts Regulations 1999 (the "**UTCCRs**") and the Consumer Rights Act 2015 (the "**CRA**"). These legal requirements oblige creditors to, among other things:

- provide consumers with prescribed forms of pre-contractual documentation;
- provide consumers with prescribed credit agreement documentation at the outset;
- enable consumers to obtain copies of credit agreement documentation;
- provide consumers with prescribed forms of post-contractual statements and notices;
- provide a "fair relationship" between themselves and the consumer; and
- ensure that their agreements do not contain unfair terms (and stipulate that any unfair terms are void).

A failure to comply with these requirements have differing consequences, but include causing agreements or certain terms to be deemed unenforceable either without a court order or until issues of non-compliance have been remedied (meaning that in some cases the outstanding debt and interest cannot be recovered). This could affect our ability to recover on the accounts underlying our owned debt portfolios in the UK or restrict important rights that we rely on. An agreement could be deemed unenforceable when we, as the debt collector or purchaser of the debt, or the originator, fail to comply with the applicable requirements.

Failure to comply with any of these rules or guidance issued by the FCA may have serious consequences, for example:

- The FCA may take enforcement action against a firm which could result in fines, public censure, the withdrawal of regulatory authorization and/or remediation action for consumers. Any such enforcement action would be publicly known and would involve severe reputational damage. Vendors of debt portfolios and creditors outsourcing collection activity may consider or be required to remove their business from a debt purchaser or collector that is the subject of such enforcement action;
- Firms can be subject to a section 166 notice from the FCA, which may ensue where the FCA has identified issues within the firm regarding non-compliance with the FCA rules and guidance. Pursuant to a section 166 notice, the FCA either commissions, or requires the firm to commission, a "skilled persons" report. A "skilled persons" report is performed by an independent firm, usually an audit or law firm that is deemed by the FCA to have the necessary skills and expertise to review the areas of concern. The report is shared with the firm being reviewed and the FCA, which may decide to take enforcement action in relation to any weaknesses identified. Remedial action highlighted is tracked by the FCA through close liaison with the firm. Failure to remedy points raised and/or do so in sufficient time can lead to further enforcement action including fines. The cost of such a review is borne by

the firm. A section 166 notice may become publicly available and we may be contractually obliged to notify clients should we become subject to such a notice. Clients may then consider, or be required, to remove their business from us, and consequently, our ability to win future business may be adversely affected. We might also be required, or otherwise decide, to introduce changes to our business practices in the UK in response to enforcement action taken against some of our competitors which highlights certain practices which are of concern to the regulator.

The FCA regards debt collection (and debt purchasing) as a "high risk" sector based on the financial position of the consumers involved and issues of customer detriment, vulnerability and hardship are key areas of focus for the regulator.

While we are not currently a subscriber to the Standards of Lending Practice (previously the Lending Code), a number of our clients in the UK are banks, and as such they must ensure that the third parties they use offer standards that meet the requirements of the Standards of Lending Practice. Furthermore, we may be subject to contractual obligations to observe certain requirements to ensure that our UK operations are conducted in a way that is consistent with certain FCA rules or requirements and certain provisions of the Standards of Lending Practice, including, for example, being subject to audits by debt originators.

In addition, our UK debt collection (and broader consumer credit) business is subject to an obligation to act fairly, as set out in the Consumer Protection from Unfair Trading Regulations 2008. Breach of certain of these regulations is a criminal offence. From October 1, 2014 consumers have also had a right of redress for misleading or aggressive commercial practices.

Consumers who believe they have suffered as a result of our breaching these rules, or any of the applicable FCA rules, may complain to us first, and if we do not uphold their complaint, or we do not respond with the timescales stipulated under FCA rules, they may refer the matter to the UK Financial Ombudsman Service (the "**FOS**"), which acts as an independent adjudicator of the consumer complaints in respect of FCA & CCA regulated accounts. The FOS makes a decision based on what is fair and reasonable and good practice rather than strictly on the basis of compliance with the law. FOS cases attract a fee, which is paid by the business against whom the complaint is made, whether or not the complaint is upheld against the business (FOS do not charge a business for the first 25 cases that they deal with during the year).

In certain situations we outsource some of our accounts to third party DCAs. This is usually as a result of our own internal collection activity coming to an end. Generally, the use of DCAs may represent one of the more significant conduct risks faced by us because, regardless of this outsourcing, we retain responsibility for the treatment of the customer and compliance with the applicable rules and therefore we deploy additional controls to monitor these DCAs. To the extent these third parties violate laws or other regulatory requirements in their collection efforts in the UK, it could also negatively impact our business by harming our reputation or, in some cases, resulting in penalties being directly imposed on us, as the FCA expects businesses to carefully select third parties with which they work and take responsibility for ensuring their compliance over the outsourced activity.

We currently outsource in the UK to DCAs on a contingent basis. Although they are subject to quality checks to monitor that fair outcomes are being achieved, the DCAs are paid a commission based on collections achieved. Any change in laws or regulations restricting or prohibiting this practice of contingent collections could result in a change in our arrangements with DCAs in the UK to less variable cost structures, such as fixed fee arrangements. This would increase our fixed cost base, thereby causing our collection costs to rise without necessarily increasing collections. If such change of law or regulations were implemented in relation to the debt purchase and collection industries, this could negatively affect our ability to operate any DCA outsourcing successfully using our current outsourcing model in the UK, which could have an adverse effect on our financial returns and results of operations. We are not currently aware of any such proposal in relation to DCAs or other participants in the debt purchase and collection industries.

Changes to the UK laws and regulations that affect us, or changes in the manner in which these laws and regulations are interpreted, could also negatively affect our operations or increase our cost of regulatory compliance.

In October 2015, Lowell Solicitors Limited, a subsidiary, was granted a legal services license by the Solicitor's Regulation Authority (the "**SRA**") to undertake debt recovery litigation. Whilst this improves the operational efficiency of our debt recovery litigation, it also brings additional oversight and regulatory compliance requirements by the SRA.

With the FCA as the regulator of consumer credit businesses, the regulatory focus is on requiring lenders (and debt collectors) to exercise "forbearance" in relation to consumer debt, to accept only affordable repayment offers and to have regard at all times to the "treating the customer fairly" principle underpinning the regulatory approach, in order to achieve fair consumer outcomes. This regulatory focus, which has gained increased importance in the context of the COVID-19 outbreak, may have a detrimental impact on the profitability of issuing credit and the supply of debt portfolios for sale as well as increasing the oversight expectation of lenders who sell or outsource. A reduction in debt portfolios offered for sale in the UK market may lead to increased prices and lower returns on our investments, which could have a material adverse effect on our business, results of operations or financial condition.

In April, July and November 2020, the FCA provided guidance that regulated firms should provide tailored forbearance to customers, including two 90 day payment deferrals that could be granted until the January 31, 2021 with a final period of forbearance lasting until July 31,2021. The most recent guidance reaffirmed that customers who have received payment deferrals under the above guidance or who are experiencing payment difficulties as a result of circumstances relating to COVID-19 should continue to be treated fairly and the organizations should work with the affected customers to resolve any difficulties in advance of payments being missed or who continue to experience financial difficulties either currently or following a period of forbearance.

At the same time, the FCA has continued to focus on strengthening firm's responsibilities regarding the treatment of vulnerable customers to ensure they obtain fair outcomes and appropriate forbearance. This includes approaches to litigation when selecting customers to pursue for judgement through court action.

Regulations affecting our DACH Division

The CMS industry could be subject to increased scrutiny due to political factors, which could lead to changes in laws and regulations in Germany or the European Union. Changes in these laws and regulations, or changes to their interpretation by the relevant supervisory authorities and courts, may reduce our DACH Division's operational flexibility and limit its ability to use its consumer data to price portfolios and create efficient debt collection strategies and regulate the fees, or potential setoffs of fees, charged to the consumer as part of a creditor's default damage (*Verzugsschaden*), for example, under German law. In Germany, the regulatory framework for debt collection has been tightened by the Act Against Dubious Business Practices *(Gesetz gegen unseriöse Geschäftspraktiken*) which came into force in October 2013. Under this regulation, *inter alia*, the reimbursement of costs for debt collection is limited, and the costs may not exceed the amount a lawyer would be entitled to claim as compensation for a corresponding activity.

In December 2020 the German government adopted an act to improve consumer protection under debt collection law (*Gesetz zur Verbesserung des Verbraucherschutzes im Inkassorecht und zur Änderung weiterer Vorschriften*) which will enter into force on October 1, 2021. This act will further tighten the regulatory framework for debt collection and foresees, *inter alia*, a reduction of the debt collection costs that are reimbursable by the creditor in certain cases. The act provides for an average reduction of approximately 30% but this would vary with the actual activities performed and the size of the claim. For very small claims (up to EUR 50.00), based on our current activities, the reduction could be approximately 55%. The act could have a material adverse effect on our DACH Division's business, results of operations or financial condition.

With the Act Amending the Law on Judicial Costs and the Law on Attorney Remuneration (Gesetz zur Änderung des Justizkosten- und des Rechtsanwaltsvergütungsrechts), judicial costs and attorney remuneration have been increased by an average of 10% with effect from January 1, 2021. Although these increases can be passed on to the debtors as default damages, the Lowell companies have to pay these fees in advance and generally bear the risk that this default damage will be recovered from the debtors. These increases may therefore have an impact on the companies' profitability.

The Federal Association of German Debt Collectors (BDIU) has adopted a Code of Conduct that will enter into force on October 31, 2021. The Code of Conduct will be binding on its member companies, including for the subsidiaries of SIR, GPP, PCS, IBW, ZYK, GCG, Tesch Inkasso Forderungsmanagement GmbH, Tesch Inkasso Finance GmbH,and Apontas GmbH & Co. KG.

Furthermore, a recent decision of the German Federal Court of Justice (*Bundesgerichtshof*) of March 14, 2019 (case no. 4 StR 426/18) implies that in certain standardized debt collection processes, only a certain reduced amount of costs are reimbursable (however, the scope of this decision remains to be clarified).

The German parliament (*Bundestag*) adpoted a law on further shortening the residual debt discharge procedure (*Gesetzes zur weiteren Verkürzung des Restschuldbefreiungsverfahrens*). The law entered into force retroactively from October 1, 2020 and enables natural persons being insolvency debtors, under certain circumstances, to be discharged from residual debt within 3 years (previously 5 years). The law applies to own applications by consumers, self-employed persons or former self-employed persons.

In our current business model, our DACH Division generally attempts, in line with best practices in our industry, to achieve recovery of the full amount under the German statutory regime and applicable civil law. Depending on a variety of factors, including legal developments or reputational risks, we may alter our fee policies, which may impact the amount of fees that we can charge to our and our clients' customers in Germany. Such alterations may limit our Gross Debt Purchase Collections and available cash and may have an adverse effect on our business. Changes in laws and regulations in particular in Germany or the European Union, or further developments in or changes to their interpretation by supervisory authorities and courts, including limits on the types and amounts of fees (including statutory fees) we and/or external lawyers can pass on to consumers (or a prohibition of such fees) and restrictions on our DACH Division's ability to perform services for external lawyers could also affect the permissibility of our DACH Division's business model. In particular, several of the regulations to which our DACH Division is subject and our interpretations thereof are based on a limited number of court decisions that are not all reconcilable. If court decisions in the future hold more consistently against our positions, our DACH Division's business model could be adversely affected. Any change in these regulations, court decisions, or our interpretations thereof, and any other factors mentioned above may have a material adverse effect on our operations, business or financial position.

By regulation under the German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht*), companies operating in certain industries are not allowed to sell their overdue and defaulted receivables to third parties (*e.g.*, in the insurance industry for premiums). While it is prohibited to purchase their debt, we may provide these companies with up-front payments accounted for as purchased debt, which are made after the receivables have been transferred for service to our DACH Division. In exchange for providing up-front payment, we receive all further collections as a success fee. Such up-front payments only reflect a portion of what a similar debt portfolio may cost in an open market purchase, as our DACH Division purchases only the economic right to collect on a portfolio of debt, not full title to the underlying debt. However, it cannot be excluded that a debt servicing transaction including a third-party collection provider fee may be interpreted by the German regulator to be an unlawful sale or purchase of defaulted consumer debt, which may therefore have a material adverse effect on our business, results of operations, financial condition or reputation.

Our DACH Division's debt collection business may also be adversely affected by future supervisory and regulatory restrictions or qualifications. In particular, if the German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht*) were to revise its interpretation of the relevant provision of the German Banking Act (*Kreditwesengesetz—KWG*) such that the ongoing purchase of receivables that are already due and payable qualifies as factoring, *i.e.*, the ongoing purchase of receivables in a commercial manner, and consequently also qualifies as the provision of financial services, our DACH Division's debt collection business could become subject to potentially costly or burdensome licensing requirements under the German Banking Act.

Furthermore, our Group's companies that operate in Germany are allowed to conduct our debt collection business only if they are registered under the German Legal Services Act (*Rechtsdienstleistungsgesetz*) which requires proof of aptitude and reliability, theoretical and practical expertise in the area of the legal services to be provided and professional liability insurance coverage. As of the date hereof, our subsidiaries SIR, GPP, PCS, IBW, ZYK, GCG, Tesch Inkasso Forderungsmanagement GmbH, Tesch Inkasso Finance GmbH, Tesch mediafinanz GmbH and Apontas GmbH & Co. KG are registered under the German Legal Services Act. If we fail to maintain these licenses, the relevant supervising authority may temporarily prohibit the companies implicated from conducting further debt collections. The supervising authority may also entirely revoke the registration for certain reasons, e.g., if our related insurance coverage is terminated or insufficient.

Inability to obtain the registration would have a material adverse effect on our business. See "*Regulation—Key Regulations Affecting Our DACH Division—Regulation under the German Legal Services Regime*."

Regulations affecting the Northern European Division

The Northern European Division is subject to regulations in the jurisdictions in which it operates, including laws and regulations regarding data protection, debt collection, debt purchasing, consumer credits, payment services, enhanced consumer protection and anti-money laundering and terrorist financing at the national and supranational level. See "*Regulation—Key Regulations Affecting the Northern European Division*." As the Northern European Division increases its focus on certain business areas, such as offering credit rescheduling agreements (instalment plans), it may become subject to additional regulatory requirements, including with respect to anti-money laundering and verifying ownership of underlying assets. There can be no assurances that its policies and procedures will prevent breaches of applicable laws and regulations or that its investigations will identify such breaches in a timely manner or at all. Any such delay or failure could have a material adverse effect on its business, results of operations or financial condition. Adverse regulatory developments under the laws and regulations to which it is subject could expose it to a number of risks. In addition, from time to time the Northern European Division identifies weaknesses in its internal policies, procedures and controls. The Northern European Division cannot assure you that in the future it will identify such weaknesses or, where it does, remedy any such weaknesses in a timely manner or at all. Any such delay or failure could have a material adverse effect on its business, results of operations or financial condition.

In a number of the markets in which the Northern European Division operates, including, in particular Norway, the regulation of other financial undertakings is in all material respects similar to the rules applicable for banks (including in respect of capital adequacy requirements). As a consequence, these financial undertakings may be subject to amended interpretations or decisions by supervisory authorities or new or amended legislation from the EU applicable to banks, including new or amended capital requirements and liquidity requirements. Such new or amended legislation and/or amended interpretation could, under certain circumstances, have a material adverse effect on the Northern European Division's business, results of operations or financial conditions.

Supervisory authorities in each country in which the Northern European Division operates may determine that it does not fully comply with, is in violation of, or in the past has violated applicable rules, regulations or administrative guidelines. If its policies and procedures are deemed not to be in compliance, or are deemed not to have previously been in compliance, with relevant legal requirements or applicable laws, regulations or administrative guidelines, this could have a material adverse effect on the Northern European Division's business, results of operations or financial condition.

Licensing requirements for debt collection services differ from market to market. Many markets have a licensing requirement and supervision of compliance. In December 2016, the European Court of Justice (Third Chamber) ruled that a debt collection agency which concludes, on behalf of a lender, a rescheduling agreement for an unpaid credit, but which acts as a credit intermediary only in an ancillary capacity, must be regarded as being a credit intermediary and is not subject to the obligation to provide the consumer with pre-contractual information. Following the ruling, some countries in the EU have required debt collection companies that offer instalment plans to hold a consumer credit license so as to be bound by the relevant EU directive. Such license requirements have already been imposed in a few countries. Although large incumbent credit management providers, such as us, tend to be better placed to comply with a high regulatory burden, stricter regulations in general may increase our compliance burden and operating costs. Any temporary or permanent revocation of our debt collection licenses by the licensing authorities in the jurisdictions in which we operate may have a material adverse effect on our business, results of operations or financial condition. Some of the countries in which we operate have also implemented regulations providing limitations on costs for debt collection and duties of disclosure to consumer customers and such limitations on costs may come under increased regulatory focus by national governments.

The credit management industry could be subject to increased scrutiny due to local political factors and developments, which could lead to changes in laws and regulations. The area of consumer credit has recently come under increased regulatory focus by national governments.

For example, in October 2018 the Norwegian Ministry of Justice appointed a committee to review the DCA (the "**DCA Committee**"), including fee structures set forth therein. The DCA Committee is composed of representatives from the Norwegian Ministry of Justice, financial supervisory authorities, the consumer protection council, the banking and finance industry and from the debt collection industry. The DCA Committee presented their report on January 27, 2020 for consideration by the Norwegian Ministry of Justice. The DCA Committee's proposal would reduce the amount of collection fees that may be charged on a sliding scale depending on the size of the overall claim, with the most significant reduction for smaller claims. The proposal has not yet been enacted. If enacted as proposed, we believe this will have a significant negative impact on the collections, results of operations and profitability of our Norwegian operations.

Although the review of the 1988 debt collection legislation remains ongoing, the COVID-19 pandemic has accelerated changes to fee regulations. In response to the pandemic, the Norwegian Ministry of Justice issued an extraordinary public consultation and on June 19, 2020 approved a measure to reduce collection fees by up to 50% on claims falling due after October 1, 2020. The June 2020 fee reductions are expected to remain in effect until the ongoing review of the 1988 debt collection legislation is complete. Other elements of the review will continue to be considered as part of the legislative process. The June 2020 fee reductions will negatively impact collections, results of operations and profitability of our Norwegian operations.

Finnish Parliament accepted temporary amendments to the Act on Collection of Receivables, which is valid from January 1, 2021 until June 30, 2021. The new legislation reduces Business to Business fees and introduces a cap on maximum fees. The Ministry of Justice has established a working group for the amendment of the said legislation permanently. The purpose is to regulate Business to Business fees directly after the termination of the temporary legislation. If the temporary legislation is extended or permanent legislation is enacted in line with our current assumptions, then this could reduce Lowell Finland revenue by up to €3 million annually.

Laws and Regulations affecting our Processing of Personal Data

We handle and process large amounts of consumer personal data, such as names, account numbers, contact information and other account specific data. Our ability to obtain, retain, share and otherwise process this data is governed by data protection laws, privacy requirements and other regulatory restrictions, including the General Data Protection Regulation (Regulation (EU) 2016/679 ("**GDPR**")), the German Federal Data Protection Act (*Bundesdatenschutzgesetz 2018*), the UK GDPR and the UK Data Protection Act 2018, as amended (collectively, the "**Data Protection Laws**").

Under GDPR, personal data must be processed fairly, lawfully and transparently. Personal data may only be collected for specified, explicit and legitimate purposes, and may only be processed in a manner consistent with these purposes. Personal data must be adequate, relevant and limited to what is necessary in relation to the purposes for which it is collected and/or processed, and it must not be kept in a form that permits identification of consumers for longer than is necessary for those purposes. Personal data must be accurate and, where necessary, kept up-to-date. Personal data must be processed in a manner that ensures the appropriate security of that personal data. Our businesses are required to take responsibility for how they process personal data and must be able to demonstrate compliance with the relevant data protection principles.

The Data Protection Laws require compliance with a series of stringent requirements regarding the processing of personal data. These include obligations to put in place detailed disclosures to inform customers about how we may use their personal data, implement robust controls regarding security and access to data and ensure our customers have rights to access, control and delete their personal data. In addition, there are mandatory data breach notification requirements to the supervisory authority and in some instances, to the customers themselves.

Furthermore, there are currently a number of additional proposals related to data privacy or security pending before legislative and regulatory bodies, any of which may require us to further modify our practices and policies. For example, the European ePrivacy Directive (Directive 2002/58/EC, as amended by Directive 2009/136/EC), which obliges EU member states to introduce certain national laws regulating privacy in the electronic communications sector, will soon be replaced by the EU "ePrivacy Regulation." While the text of the ePrivacy Regulation is still under development, recent European supervisory authorities (Germany, UK and France) have published guidance in the area of advertising, real-time bidding and cookies. In addition, European court decisions and court decisions in EU member states (for example, the recent CJEU decision on cookies in the Planet49 case (Germany)) as well as regulatory guidance are driving increased attention to cookies and tracking technologies.

As various supervisory authorities start to enforce the strict approach taken in their recent guidance, this could require us to incur substantial costs to bring our current operations and policies into compliance with the varying strategies in different markets, require significant systems changes, limit the effectiveness of marketing activities, adversely affect margins and subject companies to additional liabilities. Regulation of cookies and similar technologies may lead to broader restrictions on marketing activities and could increase regulatory scrutiny and potential civil liability under data protection or consumer protection laws. Despite Brexit, the UK ICO has published its own guidance in the area of cookies, analytics, advertising and real time bidding which is largely consistent with the guidance issued by supervisory authorities in EU member states such as France, Spain and Germany. However, there are also jurisdictional differences that will make it more difficult to employ a common set of policies and marketing strategies for companies that market products throughout Europe.

On July 16, 2020, the European Court of Justice announced its judgment in case C-311/18 (the "**Schrems II case**") concerning the permissibility of transferring personal data from parties established within the EU to "third countries" (countries outside the EEA). The decision means that the transfer mechanism that companies have previously been able to rely on when transferring personal data to the United States, known as the "EU-US Privacy Shield" was declared void with immediate effect. Furthermore, the ruling also sets out further requirements on the use of EU standard contractual clauses for transfers of data to countries outside the EEA, including the United States. The data exporter and the data importer must assess in detail and on a case-by-case basis whether, in the context of the local laws of the relevant third country, these standard contractual clauses are sufficient safeguards alone and if not the case to implement additional safeguards.

The European Data Protection Board (EDPB) has issued recommendations for supplementary measures which could be implemented to support the standard contractual clauses for public consultation. The consultation closed on December 21, 2020 and the EDPB has yet to respond to the feedback received. The UK Information Commissioners Office has advised that UK organizations need to take stock of their international data transfers and update practices as more guidance is given.

It is therefore still uncertain as to what extent additional security measures and procedures will be required to ensure international data transfers are compliant. The court decision and further guidance from local data protection authorities in this respect could make it more difficult and/or expensive for us to transfer data to the United States or other third countries in which we process data.

Following the end of the Brexit Transition Period, the UK business must comply with the UK GDPR (which is GDPR enacted into UK law with some minor changes) and the UK Data Protection Act 2018. References to GDPR include the UK GDPR.

The UK and EU Trade Cooperation Agreement provides that the UK will not be considered a third country allowing the continued flow of data from the EEA to the UK. This will last until the earlier of an EU grants an adequacy decision or by May 1, 2021 with a further automatic extension to 1 July 2021 unless either the UK or the EU objects.

This arrangement is conditional on the UK not amending its data protection laws or exercising certain "designated" powers, broadly in relation to data transfer, unless aligning to EU rules during this period.

As before the trade deal, personal data can continue to flow from the UK to the EEA as the UK still deems the EEA as providing adequate protection. Future changes in regard to the UK's data protection relationship with the EU or changes to the UK data protection laws may lead to additional costs and increase our overall risk profile.

In addition to the risk of regulatory fines imposed under Data Protection Laws, infringement of these laws can lead to reputational risk and significantly undermine customers' trust in the organization. We further note that the UK FCA is particularly focused on operational resilience and has taken action, including the imposition of significant financial penalties, against regulated firms which have suffered incidents leading to the loss, disclosure or mishandling of customer data.

We rely on our decision science systems to record and process significant amounts of data quickly and accurately for our debt collection activities and for our analysis of potential debt purchases. Our ability to conduct our business, including our ability to price the purchase of portfolios, trace consumers and develop tailored repayment plans, depends on our ability to use the consumer data we collect for these purposes.

We could lose a significant competitive advantage and our business could be negatively affected, if:

- any of the information or consumer data that we use were to become public;
- a change in legislation, client requirements or a change in a regulator’s interpretation of the current data protection legislation were to prohibit us from using consumer data in the manner or to the extent which it is currently used;
- a government or regulator introduced measures that had the effect of facilitating the tracing of consumers; or
- the current data processing restrictions changes so that credit market participants could access credit information before the purchase of portfolios.

The “Data Protection by Design and by Default” concept has required a reappraisal of our IT and Business Change and Procurement approaches to integrate data protection into our processes, practices and systems from the design stage through the lifecycle. This includes carrying out data protection impact assessments, ensuring that data minimization is embedded across the business so that only the appropriate amount of data required for any particular purpose is processed, deleting unnecessary data and anonymizing data wherever possible.

Our GDPR program identified risks and associated mitigation plans and we adopted a risk based approach to their prioritization. A privacy operating model has been defined with clear roles and responsibilities and is in the process of being embedded in all regions. Further automation and system change is planned via other strategic programs, which will continue to mature our capability and privacy management framework to strengthen compliance with Data Protection Laws.

GDPR requires us to maintain technical and organizational security measures in respect of all personal data we process. Under the GDPR, we are required to notify the applicable supervisory authorities (and where the breach is likely to result in a high risk to the rights and freedoms of individuals, the applicable data subjects) should we commit a personal data breach. Certain of our contracts with clients also impose additional obligations in the event of a personal data breach. Clients may have the contractual right to seek indemnity from us in respect of such breaches in certain instances. They may also consider removing their business from us. Our revenue related to such business, along with our reputation, and consequently, our ability to win future business may be adversely affected in those circumstances.

GDPR imposes certain direct obligations on data processors (which are entities processing personal data on behalf of the controller) and requires contractual obligations to be implemented between all data controllers (which are entities determining the purposes and means of the processing of personal data) and processors. Thus, as a controller, we must have specific instructions and agreements with our services providers (processors) about how they handle personal data and, as a processor, we must follow the instructions of any controllers which share data with us. As a controller we are fully liable for data processing performed by our processors.

Unfavourable decisions or judgments based on an infringement of the GDPR may result in sanctions and the payment of regulatory up to the greater of €20 million or 4% of global annual group turnover. After Brexit, we will face the potential for double regulatory fines in both the UK and the EU. In addition to data protection sanctions from a supervisory authority, other regulators may impose sanctions or fines as a result of such actions;

GDPR provides a private right of action for material or non-material damage caused by processing that infringes the GDPR, thus there is a possibility of civil actions brought by data subjects. Any claims or challenges regarding our data handling practices would also likely attract

- increased costs for insurance and indemnity cover due to cyber threats and significant expenses of data breach investigation, remediation and notification;
- increased requirements in type and level of personnel including IT, marketing and regulatory compliance professional as well as training; and
- negative media publicity and reputational damage.

In Germany, on May 25, 2018, the new Federal Data Protection Act (*Bundesdatenschutzgesetz 2018*) entered into force together with the GDPR. Although a national data protection law still exists in Germany, the GDPR standardizes the data protection principles in Germany, such regime having, *inter alia*, the ability to fine up to the greater of €20 million and 4% of global turnover. In addition, depending on the nature of the infringed provision, non-compliance with Data Protection Laws may also lead to civil liabilities and criminal sanctions or fines under the Federal Data Protection Act (*Bundesdatenschutzgesetz 2018*). Specific provisions in the Federal Data Protection Act (*Bundesdatenschutzgesetz 2018*) regulate the legitimacy of credit reporting and scoring as well as transparency requirements for such types of data processing. It may only be used if data protection rules are met, if relevant data are used and if the score is based on acknowledged, reliable mathematical-statistical methods. If address data are used the law requires a prior notice to the data subject. The use of a probability value calculated by credit reporting agencies to determine a natural person’s ability and willingness to pay is subject to further requirements stipulated in the Federal Data Protection Act (*Bundesdatenschutzgesetz 2018*).

Compliance with this extensive and evolving regulatory framework is expensive and labor intensive. Failure to comply with applicable laws, regulations and rules could result in investigations and enforcement actions, criminal charges, compensation claims, permissions that we need to do business not being authorized or being revoked, fines or the suspension or termination of our ability to conduct collections.

In addition, such failure to comply or revocation of a permission, or other actions by us that may damage the reputation of the originator would entitle our clients to terminate their forward flow agreements or repurchase portfolios we have previously purchased from them. It would also entitle a creditor that had placed accounts with us for collection to terminate the servicing contract and remove the accounts from us. Any of these developments could have a material and adverse effect on our ability to conduct business or on our financial condition, our financial returns or our results of operations.

Our business and results of operations may be adversely affected by the COVID-19 outbreak or other similar outbreaks.

As a result of COVID-19 or other similar outbreaks or adverse public health developments, particularly in Europe and the United Kingdom, our operations may experience delays or disruptions, such as the temporary suspension of operations at one or more of our operating facilities. In addition, our financial condition and results of operations could be adversely affected to the extent that COVID-19 or any other epidemic or outbreak harms the international economy in general. Furthermore, a significant outbreak of contagious diseases in the population could result in a widespread health crisis that could adversely affect the economies and financial markets of many countries, resulting in an economic downturn that could affect our operating results.

The extent to which COVID-19 will impact us remains uncertain due to numerous evolving factors that we are unable to predict. Although COVID-19 has not had a negative material impact on our operational capabilities to date and although we believe that in the near- to medium-term it will create opportunities for debt portfolio purchases, the COVID-19 pandemic has had an impact on our Group collections and could have further material adverse effects on our business, results of operations and financial condition if:

- the duration and scope of the pandemic result in sustained deterioration in the economic or inflationary environment in our regions;
- political, legal and regulatory actions and policies in response to the pandemic, such as governmental actions or proposed actions limiting debt collections efforts and encouraging or requiring extensions, modifications or forbearance with respect to certain loans and fees, prevent us from performing our collection activities, result in material increases in our costs to comply with such laws and regulations or result in fewer NPL debt portfolios coming to market;
- disruptions to the court system and legal process that hinder our ability to collect through the litigation process are prolonged;
- consumers respond to COVID-19 by failing to pay amounts owed on receivables owned or managed by us as a result of their unemployment or other factors that impact their ability to make payments;
- we are unable to maintain staffing at the levels necessary to operate our business due to extended lockdowns, governmental actions that result in our business operations being deemed non-essential or continued spread or increased virulence of COVID-19 causing employees to be unable or unwilling to work;
- we are unable to collect on existing owned debt portfolios or experience material decreases in our collections;
- we are unable to purchase debt portfolios needed to operate our business because debt owners become unable or unwilling to sell their NPL debt portfolios consistent with recent levels;
- reductions in consumer spending could cause a decline in aggregate debt levels and limit our ability to purchase debt portfolios;
- adverse capital and credit market conditions increase our cost of capital or affect our ability to meet liquidity needs;
- we are required to increase spending on business continuity efforts and readiness efforts for returning to our offices, which may in turn require that we cut costs and investments in other areas; and/or
- we suffer a cyber-incident or data or other regulatory breach as a result of increased vulnerability or weakened controls while a larger number of our employees work remotely.

Any of the foregoing could materially and adversely affect our business, financial condition and results of operations. See "—*We are subject to EU, UK, German and Norwegian regulations, among others, and changes to the regulatory environment or a failure to comply with applicable laws, regulations, authorizations, licenses and codes of practice may negatively affect our business*," "—*Changes in the economic environment, in particular in the countries in which we operate, may have a material adverse effect on our financial condition, financial returns and results of operations,*" "—*We may not be able to successfully maintain and develop our IT infrastructure platform or decision science systems, anticipate, manage or adopt technological advances within our industry or* *prevent a breach or disruption of the security of our IT infrastructure platform and decision science systems*" and "*—Improper disclosure of our clients' sensitive data, consumer data or a breach of Data Protection Laws could negatively affect our business or reputation*."

To the extent COVID-19 continues to adversely affect general economic conditions or our business, operations, financial condition or operating results, it may also have the effect of heightening other risks described in this "*Risk Factors*" section, such as those relating to our high level of indebtedness, our need to generate sufficient cash flows to service our indebtedness and potential decreases in our ability to purchase debt portfolios that are appropriately priced and of a sufficient quality.

In addition, changes to the insolvency laws and regulations in the countries in which we operate in response to the pandemic may make it more difficult for holders of the Notes to pursue legal actions against us; for example:

- On March 27, 2020, Germany adopted the Act to Temporarily Suspend the Obligation to File for Insolvency and to Limit Directors' Liability in the Case of Insolvency Caused by the COVID-19 Pandemic (as amended), which, *inter alia*, provides for a suspension of the obligation to file for insolvency due to over-indebtedness until December 31, 2020 unless the insolvency is not caused by the consequences of the COVID-19 pandemic. This and other limitations set forth therein could make it more difficult for holders of the Notes to pursue legal actions against our German subsidiaries;
- Norway recently adopted the Norwegian Temporary Act on Reorganization to Mitigate Economic Hardship Resulting from COVID-19, which provides certain limitations for creditors to file for insolvency and to enforce their security;
- The Corporate Insolvency and Governance Act 2020 came into force in England on June 26, 2020. The legislation introduces both permanent and temporary reforms to the English insolvency regime, including temporary restrictions on certain types of enforcement action in respect of unpaid debts; and
- The Grand Duchy of Luxembourg has taken a number of exceptional measures in response to the COVID-19 pandemic, including a suspension of certain procedural deadlines applicable in civil and commercial matters. This suspension of deadlines applies to the one month procedural time-limit for the insolvency filing obligation provided by article 440 of the Luxembourg commercial code. In principle, such a suspension of *delays* should (i) not prevent directors / managers of a Luxembourg company from filing for bankruptcy upon their own motion (if the conditions thereof are met) and (ii) not restrict the rights of creditors to petition for bankruptcy of a Luxembourg company. Based on the current legislation, suspension of delays to file for bankruptcy within one month should remain in place until the end of 2020.

A decrease in our ability to purchase debt portfolios or an insufficient supply of debt, appropriately priced debt or debt of a sufficient quality could materially and adversely affect our business.

We derived 70% and 68% of our total income from our debt purchase business for each of the year ended December 31, 2019 and the twelve months ended December 31, 2020. Our debt purchase business represented 82% of our Group cash income for the year ended December 31, 2019 and 83% for the twelve months ended December 31, 2020. The availability of debt portfolios for sale at profit-generating prices depends on a number of factors, some of which are outside of our control, including:

- regulation of the consumer credit lending industry;
- lenders changing credit origination strategies;

- lenders tightening lending criteria;
- the level of non-performance on consumer debt portfolios and the proportion of such portfolios that are written off by debt originators, which also in turn may affect the availability of credit to consumers identified above;
- sales of debt portfolios by debt originators, which could be impacted by a change in accounting policies or practices, the consolidation of creditors or increased sophistication in internal collection efforts;
- concerns that potential reputational risks or required management attention outweigh the return associated with selling defaulted debt portfolios;
- negative publicity or a loss of trust in the CMS industry, whether due to our failure or that of one or more of our competitors to meet applicable legal or regulatory obligations or otherwise;
- increased government regulation of the circumstances in which debt originators have a right to collect on debt; and the macroeconomic environment in the countries in which we operate, or to the extent that they may impact consumers or the domestic economy in such countries, macroeconomic conditions and other relevant global or European developments;
- an increase in demand for debt portfolios among competitors could result in our not being chosen to purchase a debt portfolio due to more attractive offers from competitors.

Furthermore originators may make a strategic choice to perform more of their own collections in-house or to rely more heavily on DCAs for initial collection efforts, there could be a reduction in the availability of debt that is sold early in the cycle and which has had little or no collection activity. For further discussion, see "—*We depend on the continued willingness and ability of our clients to outsource their debt collection and offer their portfolios for sale*."

There can be no assurances that we will continue to be able to identify a sufficient volume of portfolios at appropriate prices. If the volume of debt sales or the quality of debt sold decreases, or the competition for purchasing such debt portfolios increases, we may not be able to buy the type and quantity of receivables at prices consistent with our historic return targets. Generally, prices vary significantly among industries. If we are unable to identify portfolios at appropriate prices or that are of sufficient quality, we may need to purchase portfolios at higher prices, reducing our level of profit, or identify portfolios of asset types or in industries in which we have little or no experience, or where it is more difficult to collect on overdue receivables. Purchases in these asset types or industries may impair our ability to collect on these claims and may cause us to overpay for these claims. Consequently, we may not be able to meet our historical profit targets in respect of, or make any profit at all, from these debt purchases.

The supply of debt portfolios available for purchase varies over time. This inconsistency in the availability of portfolios for purchase may mean that during certain financial reporting periods we may make few or no debt purchases. This could adversely affect our reported results. In addition, if any originators with which we have committed to purchase debt portfolios should fail to complete such sales, we may be unable to make such committed portfolio purchases. If we do not continually replace the debt portfolios we service with additional portfolios, our business could be materially and adversely affected. For further discussion of these risks, see "—*We depend on the continued willingness and ability of our clients to outsource their debt collection and offer their portfolios for sale*."

If we are unable to identify sufficient levels of attractive portfolios and generate an appropriate return on purchased debt, we may experience difficulties covering the related expenses and may, as a consequence, need to reduce the number of our collection personnel or take other measures to reduce costs. These developments could lead to disruptions in our operations, loss of efficiency, decreased employee morale, fewer experienced employees and excess costs associated with unused space in our facilities and, as a result, a further loss of clients. Any of these developments could have a material adverse effect on our business, results of operations or financial condition.

Failure to renew existing debt collection contracts on similar terms or at all, win new debt collection contracts, replace terminated forward flow agreements or successfully manage our commitments under forward flow agreements may adversely affect our revenue.

We obtain most of our debt collection contracts through a competitive bidding process, and, apart from forward flow agreements that we renew on a bilateral basis, substantially all of the debt collection contracts that we expect to seek in the foreseeable future likely will be subject to a competitive bidding process. We may be required to compete to renew existing debt collection contracts that have in the past been awarded to us without competition from competitors or for which we have been the incumbent provider of debt collection services for a long time. We may also enter into debt collection contracts at price levels or with margins that are lower than we find acceptable, if we want to develop a new relationship with an originator or get a foothold in new industries or if the overall competition for debt portfolios increases. We may not be afforded the opportunity in the future to bid on debt collection contracts that are held by other companies and are scheduled to expire if the existing contract is extended. In addition, we cannot be certain that all our existing clients will choose to continue to use our debt collection services for the same volumes of debt or at all in the future. Our inability to renew contracts with existing clients on similar terms or at all or to find suitable replacements could have a material adverse effect on our business, financial condition and results of operations.

From our UK Division's Start Date (June 1, 2004) to December 31, 2020, 44% of our UK Division's portfolio purchases were made pursuant to forward flow agreements or agreements that were a mixture of a forward flow agreement with a spot purchase, representing £904.6 million in portfolio purchases. From our DACH Division's Start Date (September 30, 2003) to December 31, 2020, 48% of its portfolio purchases were made pursuant to forward flow agreements, representing €332.3 million in portfolio purchases. From our Northern European Division's Start Date (January 1, 2003) to December 31, 2020, 30% of portfolio purchases were made pursuant to forward flow agreements or agreements that were a mixture of a forward flow agreement with a spot purchase, representing €372.6 million in portfolio purchases. A forward flow agreement is an arrangement in which we agree to purchase claims based on specific parameters from a third-party supplier on a periodic basis at a set price over a specified time period. Although our fixed term forward flow agreements mainly include provisions for automatic renewal if none of the parties expressly terminates the agreement, a number of our forward flow agreements may expire in 2021, 2022 and 2023. We could lose a potential source of income if we are unable to renew or replace any volume represented by our forward flow agreements upon termination or expiration. Although we expect that many of these will be renewed, our current forward flow agreements provide no medium to long-term assurance on purchasing levels.

We are dependent on clients in a variety of industries and failure to maintain relationships with these clients could have a material adverse effect on our business, prospects, financial condition and results of operations.

A significant portion of the Group's income is generated from a limited number of industries. For the twelve months ended December 31, 2020, the Group's 3PC income was £152.5 million, split between financial services (47.4%), retail (9.4%), utilities (11.3%) and other (31.9%).

A significant decrease in the amount of debt collection outsourced or the volume of debt available for purchase on acceptable terms from any of our principal clients in these sectors would force us to seek alternative sources of revenue. Clients may elect to change CMS providers if the providers' reputation is harmed by external factors. In addition, our clients may change CMS providers based on a change of control. See "—*Limitations imposed on us by debt originators of debt portfolios may adversely impact our operational flexibility*." We may be unable to find alternative sources of revenue and, even if replacement clients could be found, the search could take time or the debt could be of lower quality and/or higher cost. See "—*A decrease in our ability to purchase debt portfolios or an insufficient supply of debt, appropriately priced debt or debt of a sufficient quality could materially and adversely affect our business*." Any material failure in the insurance, telecommunications, retail or financial services sectors or any significant change in the willingness or ability of debt originators in these sectors to outsource or sell their debt to debt collection agencies, such as changes in applicable law or regulations relating to these industries that restrict or prohibit such actions, could materially and adversely affect our business, financial condition and results of operations.

We depend on the continued willingness and ability of our clients to outsource their debt collection and offer their portfolios for sale.

We depend on the willingness and ability of our clients to continually engage us to provide CMS. Some factors that may influence our clients' willingness and ability to engage us to provide CMS include, but are not limited to, the strength of our reputation, regulatory pressures our clients face and the value proposition that we offer. Debt originators may develop technological tools similar to ours, such as sophisticated decision science and consumer profile development that could increase their competitive advantages. If debt originators choose to perform more of their debt collections internally as a result of these data quality improvements, the volume of debt portfolios available for purchase could decrease and the quality of debt portfolios that are sold could suffer. This could materially and adversely affect our business, financial condition and results of operations. See "—*A decrease in our ability to purchase debt portfolios or an insufficient supply of debt, appropriately priced debt or debt of a sufficient quality could materially and adversely affect our business*."

Our business would be adversely affected if our clients decide to reduce or discontinue the outsourcing of their debt collection or portfolio sales or if the actual growth of levels of outsourcing and sales is lower than expected. In addition, our future revenue growth may be limited if companies that do not currently outsource their debt collection or sell portfolios continue to manage their portfolios in-house. There can be no assurances that the demand for our services will increase or remain the same, and a decrease or stagnation in demand for our services, or if one or more material debt originators stop or decrease their portfolio sales due to one of the factors listed above or any other factors, could have a material adverse effect on our business, results of operations or financial condition.

We generate a significant amount of our revenue from a small number of large clients and we are dependent on a small number of key suppliers.

Although the relative significance of individual clients changes from year to year, a significant percentage of our revenue is generated by contracts with a small number of clients in any given year. For example, in our DACH Division, in the year ended December 31, 2020, 82% of our portfolio purchases came from 10 vendors. In our UK Division, in the year ended December 31, 2020, 56% of our portfolio purchases came from five vendors. In our Northern European Division, in the year ended December 31, 2020, 87% of our portfolio purchases came from 10 vendors. For the year ended December 31, 2020, our DACH Division's top five third-party collections clients generated 20% of our DACH Division's total income (excluding lawyer service revenue and other service revenue), and 39% of our DACH Division's third-party collection income (excluding lawyer service revenue and other service revenue). Our DACH Division's top five debt purchase vendors by income represented 15%, 12%, 7%, 6% and 5% of our DACH Division's debt purchase income, respectively for the same period. Our top five DACH Division third-party collections clients represented 9%, 4%, 3%, 3% and 2% of our DACH Division's total income (excluding lawyer service revenue and other service revenue), respectively. Our UK Division's top five debt purchase vendors by income represented 16%, 13%, 8%, 7% and 7% of our UK Division's debt purchase income, respectively, for the same period. For the year ended December 31, 2020, our Northern European Division's top five third-party collections clients generated 6.7% of our Northern European Division's total income and 17% of our Northern European Division's third-party collection income. Our Northern European Division's top five debt purchase vendors by income represented 11%, 8%, 7%, 6% and 6% of our Northern European Division's total debt purchase income, respectively, for the year ended December 31, 2020.

A creditor's decision to sell debt to us or contract with us for third-party collection services is based on price, reputation, compliance history and other factors. We cannot be certain that we will maintain our relationships with our current and/or future debt originator clients including large clients that make material contributions to our revenue. These clients may cease to offer us desirable terms or debt in acceptable quantities, or they may become insolvent or cease to exist. For example, our DACH Division lost one of the top 10 originators in its third-party collection services business in 2019 in a formal and competitive tender, mainly due to higher recovery rates offered by competitors that we believe are unrealistic. Furthermore, many of our contracts with our clients do not have a fixed term or renew automatically and, therefore, may be terminated on relatively short notice in certain circumstances. Any changes to the key relationships that we rely on could have a material adverse effect on our business, results of operations or financial condition.

A significant decrease in the volume of debt portfolio purchases available from any of the debt originators with which we are currently working, on terms acceptable to us, would make it necessary to further enlarge our network of sellers or the sources of debt to purchase. Furthermore, because reputation is paramount in our industry, the loss of a key vendor relationship could jeopardize our existing relationship with other vendors or our ability to establish new relationships with other vendors. We may be unable to find alternative sources from which to purchase debt, and even if we could successfully replace such purchases, the search could take time, and the receivables could be of lower quality or higher cost, any of which could materially adversely affect our business. See "*—A* *decrease in our ability to purchase debt portfolios or an insufficient supply of debt, appropriately priced debt or debt of a sufficient quality could materially and adversely affect our business."*

In addition, we face supply risks, including certain single-source supply risks. In particular, our UK Division relies on a single supplier for a substantial amount of its consumer credit data (for further discussion of this risk, see "—*We are highly dependent on our intelligence systems and proprietary consumer profiles*"), and our DACH Division relies heavily upon one supplier for certain software solutions. If any of these suppliers were to significantly limit access to their services, significantly raise their prices, experience labor disputes and work stoppages, become insolvent or cease to exist, this could impede our ability to collect on claims or increase our collections costs and therefore have a material adverse effect on our business, results of operations or financial condition.

We are active in competitive markets and may be unable to continue to successfully compete with businesses that may offer more attractive prices or have greater financial resources, less expensive funding or lower return requirements than we have.

We face competition from new and existing purchasers of debt portfolios and debt collection providers in the markets in which we operate.

Competition in the UK market

We face competition in the UK from new and existing purchasers of debt portfolios, and large and established foreign debt purchasers are active in the UK debt purchase market. In addition, the UK debt purchase market has recently experienced significant capital inflows. Furthermore, average portfolio purchase prices in the UK debt purchase market are expected to increase over the coming years due to: (i) improvements in collection efficiencies; (ii) sustained competition for the purchase of portfolios; and (iii) greater proportions of the portfolios sold containing fresher debt, with a higher proportion of paying accounts. We may also face competition in this market from financial investors (*i.e.,* those more suited to the purchase of a portfolio consisting of largely paying accounts, such as institutional investors). Moreover, such competition, also driven by greater financial resources, less expensive funding or lower return requirements, may lead to an increase in the purchase price demanded by debt originators for their debt portfolios, which we may not be willing or able to offer.

Our UK business mainly focuses on the purchase of debt portfolios. Some of our competitors have more significant UK DCA businesses in addition to operations involving the purchase of debt portfolios. These competitors may be able to offer originators a more attractive suite of services, or they may be able to use the consumer data provided at the DCA stage to help them price debt portfolios more accurately, or collect debt receivables more effectively or efficiently, than we can.

There can be no assurance that we will be able to offer competitive bids for debt portfolios, or that we will be able to maintain the advantages in tracing technology, consumer profile development, or low servicing costs that we believe that we currently possess in the UK market. If we are unable to develop and expand our business or adapt to changing market needs as well as our current or future competitors are able to do, or if our competitors are able to make advances in their pricing or collections methods that we are not able to make, we may be unable to purchase debt portfolios at prices we deem appropriate in order to operate profitably in the UK. Any of these developments could have a material adverse effect on our business, results of operations or financial condition.

Competition in the German market

The German debt collection market is highly fragmented and consists of numerous companies with varying profiles. These companies compete with us on, among other things, the basis of price. New entrants to the German market and existing competitors may offer more attractive pricing levels, both for debt collection contracts and for debt portfolio purchases, and accept lower returns in order to gain or increase market share. There can be no assurances that this price competition will not result in us paying higher prices for portfolios that we purchase or charging less for our debt collection services, both of which could decrease our margins and have a material adverse effect on our business, results of operations or financial condition.

We face bidding competition in our acquisition of debt portfolios in the German market. We believe that successful bids are awarded based on price and a range of other factors, including service, compliance, reputation and relationships with the sellers of debt portfolios. Some of our current competitors, and potential new competitors, in the German market may have more effective pricing and collection models, greater adaptability to changing market needs and more established relationships in our industry or the business sectors in which we operate. Moreover, our competitors in the German market may elect to pay prices for debt portfolios that we determine are not economically sustainable and, in that event, our volume of debt portfolio purchases may decrease. There can be no assurance either that our existing or potential debt portfolio sources within the German market will continue to sell their portfolios at recent levels or at all, or that we will continue to make competitive bids for debt portfolios.

Some of our current competitors, and potential new competitors, in the German market may have substantially greater financial resources, less expensive funding or lower return requirements than we currently have. The CMS industry in Germany might further consolidate and our competitors might merge, creating size and scale benefits that we might not be able to match. In addition, in the future we may not have the financial resources to make competitive bids for portfolio purchases and debt collection contracts, especially when competing with competitors that have greater financial resources than we have. Competition is not limited to the bidding process, as some of our clients will simultaneously retain multiple CMS companies to perform collections on their behalf, thereby intensifying the competition for ongoing and new business. There can be no assurances that we will be able to develop and expand our business in Germany or adapt to changing market needs as well as our current or future competitors. Any of these developments could have a material adverse effect on our business, results of operations or financial condition.

Competition in the Northern European market

The Northern European CMS industry is fragmented and consists of competitors with varying profiles. The Northern European Division faces competition from new and existing debt collection providers, other purchasers of portfolios of overdue debt and other overdue receivables and debt originators that manage their own portfolios rather than outsourcing or selling them. This competition includes, but is not limited to, competition on the basis of price. New market entrants and existing competitors may offer more attractive pricing levels, both for debt collection contracts and for debt portfolio purchases, and accept lower returns in order to gain or increase market share. There can be no assurances that this price competition will not result in the Northern European Division paying higher prices for portfolios that it purchases or charging less for its debt collection services, both of which could decrease its margins and have a material adverse effect on our business, results of operations or financial condition.

Competition in other markets

We also operate in Austria and Switzerland and have minor operations in Croatia. In the future, we may expand into additional markets. We face significant competition in each of our current markets and expect to face significant competition in any other market that we may enter into in the future. There can be no assurances that we will be able to develop and expand our business in these markets or adapt to changing market needs as well as our current or future competitors.

Errors in our collection process or other operational matters could have a negative effect on our business and reputation.

Our ability to collect debt according to the correct contractual terms and to treat consumers fairly is critical to our business and our reputation. Our reputation is fundamental to maintaining our relationships with current and potential clients and regulators. The following events, among others, may have a negative effect on our reputation and/or our financial results: negative media publicity relating either to us or the wider CMS industry, allegations of unethical or improper behaviour by us or third parties we use in the collection process, our inability to collect debt on an accurate and timely basis, our failure to respect and treat the consumers fairly, failures in our collection and data protection processes, the actions of third parties engaged by us in the debt collection process, IT platform failure or other operational issues, litigation, regulatory restrictions, investigations, fines or enforcement actions and matters affecting our financial reporting.

The collection of debt involves interpretations of contractual terms that may vary by debt originator, which may impact the calculation of consumers' resulting payment obligations and the collection strategies we employ. The inherent complexity of debt calculation and historical inaccuracies may result in our failure to choose the appropriate collection strategies and could lead to incorrect payment calculations in the future. Furthermore, under German law, if we agree on a payment plan with a consumer based on an incorrect calculation of the debt, such payment plan will become binding and may not be renegotiated. Therefore, processing errors may have an adverse effect on our business, results of operations or financial condition.

Such processing or other operational errors could lead to an increase in new consumer complaints which could harm our reputation with debt originators, consumers and/or regulatory authorities. Any of the aforementioned events could thereby result in financial liability for us and could jeopardize our relationships with the debt originators with which we have already established a business relationship or our ability to establish new relationships with other debt originators, have a negative impact on a consumer's willingness to pay a debt owed to us or to our clients, diminish our attractiveness as a counterparty or lead to increased regulation of the CMS industry, each of which could have a material adverse effect on our business, results of operations or financial condition. See "—*Negative attention and news regarding the debt purchase and collection industry and individual debt purchasers and collectors, including us, may have a negative impact on a consumer's willingness to pay a debt owed to us and may diminish our attractiveness as a* *counterparty for debt originators and other third parties*," "*—We are subject to EU, UK, German and Norwegian regulations, among others, and changes to the regulatory environment or a failure to comply with applicable laws, regulations, authorizations, licenses and codes of practice may negatively affect our business*" and "*—We are subject to audits conducted by sellers of our debt portfolios and clients that place debt with us for collection on a contingent basis, and we may be required to implement specific changes to our policies and practices as a result of adverse findings by such sellers as a part of this audit process, or certain sellers may remove us from their panels of preferred purchasers, which could limit our ability to purchase debt portfolios from them in the future, which could materially and adversely affect our business*."

Negative attention and news regarding the debt purchase and collection industry and individual debt purchasers and collectors, including us, may have a negative impact on a consumer's willingness to pay a debt owed to us and may diminish our attractiveness as a counterparty for debt originators and other third parties.

There are various factors that may cause consumers to be more reluctant to pay their debt in full or at all, or more willing to pursue legal actions against us (including, in the UK, through complaints to the UK FOS), and, in Germany, through consumer protection associations (*Verbraucherschutzvereine*) or other similar third party agencies and in the other jurisdictions in which we operate), even if such actions are not warranted. These factors include, *inter alia*: (i) publications in online, print and broadcast media, from time to time, of stories about the debt collection or debt purchase industry that may cite specific examples of real or perceived abusive collection practices as well as regulatory investigations and enforcement actions; (ii) online articles, blogs and tweets that may lead to the rapid dissemination of a story and increase exposure to negative publicity surrounding the debt purchase and CMS industry in general or in relation to us or any of our clients in particular; (iii) websites where consumers list their concerns about the activities of debt collectors and seek online guidance from others on how to react to collection efforts and (iv) the activities of commission driven claims management companies bringing complaints about our activity on behalf of individuals or a cohort of customers. These websites are increasingly providing consumers with letter templates, guidance and other strategies to protest collection efforts and to try to avoid their obligations. To the extent that these forms and strategies are based upon erroneous legal information,the cost of collections may increase. Finally, in Germany, consumer blogs and consumer protection associations (*Verbraucherschutzvereine*) are becoming more common and add to the negative attention surrounding the CMS industry.

Negative publicity could also result from us being named in published industry complaint data sites, receiving negative attention due to internal disputes, failing to prevent potential unlawful behavior of our employees and engaging in disputes with former employees or being subject to negative publicity relating to any of our clients or any former employers of our key executives. Negative publicity relating to violations by any of the third parties we engage, of legal or other regulatory requirements, could also result in negative publicity or reputational damage to us.

Any such negative publicity could jeopardize our existing relationships with debt originators or our ability to establish new relationships with other debt originators, diminish our attractiveness as counterparties generally or lead to requests by the debt originator to reassign debt portfolios. Any of the foregoing could impact our ability to purchase debt portfolios or our ability to collect debt owed to us or to our clients, and may materially and adversely affect our business, results of operations or financial condition.

We are subject to risks associated with our contracts and business model for debt collection services, including our ability to correctly assess pricing terms and the potential early termination or a reduction in the volume of claims we service.

The profitability of our debt collection services will generally depend upon our ability to successfully calculate prices by taking into consideration all economic factors and our ability to manage day-to-day operations under these contracts. Under most of our debt collection contracts we do not get paid unless a consumer begins paying on a claim and we may be unable to accurately predict the costs or identify the risks associated with these contracts or the complexity of the services, which may result in lower than expected margins, losses under these contracts or even the loss of clients. Some of our material contracts for debt collection services subject us to early termination clauses in a range of circumstances and also include benchmark clauses or, in a small number of contracts, penalties and /or service credits for the failure of service level agreements. If we are unable to satisfy the terms of our contracts, then we could potentially have contracts terminated and lose clients and income.

The majority of our material debt collection contracts have an initial stated term, typically one to three years, and, in some cases, termination clauses permitting the debt originator to cancel the contract at its discretion following the expiration of an agreed notice period. There can be no assurances that our clients will not exercise their rights to terminate their contracts prior to expiration or that we will be successful in negotiating new contracts with clients as such contracts expire. In addition, we are also exposed to unforeseen changes in the scope of existing contracts, including prices or volumes, that may occur as a result of any changes in the general business or political landscape of our clients. Generally, our debt collection contracts do not have volume commitments, and a client can eliminate or reduce the volume of claims it outsources to us for debt collection without formally terminating the contract. We may have disputes or disagreements with our clients as to the level of services we have agreed to provide or contract terms. The potential effects of these risks may increase as we enter into larger contracts. If we are unable to fulfill our obligations under our contracts for any reason, we risk the loss of revenue and fees under that contract, the potential loss of a client and significant harm to our reputation. Any of our contracts could become more costly than initially anticipated, and as a result, we may experience significant increases in our operating costs and/or potential litigation. Furthermore, we may experience delays in integrating with our existing operations any additional collection platforms that we acquire or the carve-outs of our clients' in-house collections departments. Accordingly, if we are unable to collect or maximize payments from consumers through our various initiatives, our business and financial condition may be adversely affected. Any of these developments could have a material adverse effect on our business, results of operations or financial condition.

We may not be able to collect the expected amounts on our existing owned debt portfolios or the value of our owned debt portfolios may deteriorate, and this may lead to reduced profits, write-downs or lost market opportunities.

As the length of time involved in collecting on our existing owned debt portfolios may be extensive and since the factors affecting debt collection rates may be volatile and outside our control, we may be unable to identify economic trends or make changes in our purchasing strategies in a timely manner.

If our diligence for the purchased debt is not sufficiently comprehensive or if the assumptions used by us in our models are incorrect, including, but not limited to, claims not being time barred, the age and balances of the purchased claims being correctly stated by the sellers, consumers being alive and the claim not resulting from fraud, or if some of the accounts in a debt portfolio behave differently from the way we expect, these could result in a loss of value in a debt portfolio after purchase, subsequent negative revaluations in our statement of financial position and a continuing deterioration in value over time as actual collections can deviate significantly from the collection estimates produced by our pricing model as accounts age. We do not have an insurance policy that covers breaches of guarantees, representations and warranties with respect to the quality of the purchased debt in our debt purchase agreements. Therefore, we may not be able to pass on the losses in the event that we cannot take recourse against the seller.

We purchase debt mainly at a discount to face value, except for small amounts of debt purchased through our Northern European Division's value added service, for which we pay the full face value of the debt. Debt that we purchase typically consists of loans that consumers have failed to repay and, in certain cases that the debt originator has deemed to be uncollectable. It is crucial for our business that we are able to identify debt portfolios that are of sufficient quality for us to determine what we are likely to collect on the claims. Before making the decision to sell their overdue or defaulted debt and other overdue receivables, clients usually make various attempts to recover on such receivables, often using a combination of in-house recovery efforts and third-party collection agencies. These overdue claims are difficult to collect and we may not collect a sufficient amount to cover our investment associated with purchasing the debt portfolios of overdue receivables and the costs of running our business. There can be no assurances that any of the claims contained in our owned debt portfolios will eventually be collected. Furthermore, most of the debt claims that we own are unsecured and an increase in bankruptcy filings involving consumers could impact our ability to collect on those claims. If the cash flows from our existing owned debt portfolios (and the debt portfolios we purchase in the future) are less than anticipated, we may be unable to purchase all of the new debt portfolios that we would like to purchase, may need to pay a higher interest rate to finance the purchase of new debt portfolios or may need to accept lower returns. This could also result in further write-downs of our owned debt portfolios. As a result of further write-downs or any of the aforementioned factors, this could have a material adverse effect on our business, results of operations or financial condition.

Limitations imposed on us by debt originators of debt portfolios may adversely impact our operational flexibility.

We derived 70% and 68% of our total income from our debt purchase business for each of the year ended December 31, 2019 and the twelve months ended December 31, 2020. Contracts entered into with our clients for the purchase of debt portfolios typically impose various restrictions on our realization of value from the debt portfolios, including restrictions on our ability to resell portfolios, even if the legal title to the debt has been transferred to us. Debt originators from both our third-party collection services and purchased debt businesses may also restrict our flexibility in pursuing certain enforcement and collection activities. In addition, our clients may have the right to compel us to undertake or refrain from taking certain actions, including agreeing the fees that we can pass through to the respective consumers. Furthermore, debt originators may have rights to repurchase portfolios and require reassignment to protect against factors such as reputational risk. In instances where accounts are fraud-sensitive or where an accountholder has raised a complaint against the debt originator, among other things, debt originators may also have rights to repurchase or require reassignment of the respective debt portfolios. Debt originators may have the right to terminate such agreements upon a direct or indirect change of control of our company. Any of the foregoing factors may adversely impact the profitability of debt portfolios that we purchase and our operational flexibility and, therefore, have a material adverse effect on our financial condition and results of operations.

We are subject to audits conducted by sellers of our debt portfolios and clients that place debt with us for collection on a contingent basis, and we may be required to implement specific changes to our policies and practices as a result of adverse findings by such sellers as a part of this audit process, or certain sellers may remove us from their panels of preferred purchasers, which could limit our ability to purchase debt portfolios from them in the future, which could materially and adversely affect our business.

Our companies are subject to audits that are conducted by sellers of our debt portfolios and clients who place debt with us for contingent collections. In the UK, regulations and contractual provisions require us to provide our clients with the opportunity to conduct such an audit whereas in Germany and Northern Europe, client audits are available pursuant to provisions in some of our contractual agreements. In addition, relevant authorities may perform audits pursuant to the relevant laws and regulations in Germany, in the four countries in the Nordic region and in the other jurisdictions in which we operate and in connection with such audits, we need to provide the relevant authorities with information upon their request. Audits may occur with little or no notice and the assessment criteria used by each seller and creditor varies based on their own requirements, policies and standards. Although much of the assessment criteria is based on regulatory requirements in the UK, Germany and in Northern Europe, we may be asked to comply with additional terms and conditions that are unique to particular debt originators in either the UK, Germany or Northern Europe. From time to time, clients may determine that we are not in compliance with certain of their criteria and in such cases, we may be required to dedicate resources and to incur expenses to address such concerns through the implementation of new policies and procedures or by other means. We may also be subject to audits in the other jurisdictions in which we operate. In addition, to the extent that we are unable to satisfy the requirements of a particular client or where our noncompliance is deemed sufficiently significant or systemic, such client may remove us from its panel of preferred purchasers or suppliers, which could limit our ability to purchase debt portfolios from, or service the collection of debt for, such client in the future, which could materially and adversely affect our business. Furthermore, in certain circumstances in the UK, audit reports may need to be provided to the regulator, and there is also a risk that any non-compliance identified in those reports may be viewed by the regulator as a breach of our regulatory obligations owed to it.

We may also be subject to audits as determined by the contractual provisions agreed with our financing and co-investment partners. If we were unable to remedy any material noncompliance identified by any such audit, this could impact the continuation of the underlying structures.

The statistical models and decision science tools that we use in our business may prove to be inaccurate, we may not achieve anticipated levels of return and we may be unable to appropriately identify and address underperforming portfolios.

We use internally developed models and other decision science tools extensively in our operations. At the time of purchase, however, we are likely to have imperfect information about the precise age of the debt, the ability of the consumer to pay, the time at which the consumer will pay and the cost required to service and collect on such debt. Therefore, our ERC figures could be inaccurate. Moreover, our performance metrics, such as ERC and Gross Money Multiples, are forward looking in nature and have inherent limitations as they are based on historical data and assumptions based on such data, which may prove to be inaccurate. In addition, our historical information about portfolios may not be indicative of the characteristics of subsequent portfolios purchased from the same debt originator or within the same industry due to changes in business practices or economic developments and our internal databases may not be as extensive as needed for a comprehensive decision science. There is a significant amount of management judgment and estimation involved in purchasing and valuing portfolios and there can be no assurances that management's judgments and estimations will prove to be accurate. Furthermore, although we have review structures in place designed to ensure that portfolios performing significantly outside of forecast will be reviewed by management, there can be no assurances that we will be able to appropriately identify and address underperforming portfolios.

In addition, our decision science team may not be able to achieve the desired results and may not be able to create the decision science functions which we need in order to operate profitably.

Furthermore, if we purchase types of debt portfolios with which we have limited experience or from clients with which we have no prior dealings, our ability to properly price and collect on such debt portfolios may be adversely affected. Lack of reliable information, or the use of inaccurate assumptions, can lead to mispricing of owned debt portfolios, which may have an adverse effect on the financial returns from such portfolios or can lead us to underbid on and lose bids for debt portfolio purchases. Our statistical models and analysis tools make use of information provided by third parties, such as credit information suppliers and other mainstream or public sources, or generated by software products. We have no control over the accuracy or sufficiency of information received from such third parties. If such information is inaccurate or insufficient, we could incorrectly price portfolios that we purchase, incorrectly value our existing owned debt portfolios, set debt originator prices or performance goals inaccurately, and/or experience lesser liquidation rates or greater operating expenses.

There can be no assurances that any of the current or future debt contained in our owned debt portfolios will eventually be collected. If we are not able to achieve results consistent with our forecasted levels of collection and underlying cost assumptions, valuation impairments may be recognized, our portfolios may be written down and revenue and returns on purchases of portfolios may be reduced. Any of the foregoing factors could have a material adverse effect on our business, results of operations or financial condition.

Our need to adapt to consumers' changing financial circumstances may result in increased servicing costs, reduced cash flow or imprecise modeling.

We proactively work with consumers who experience a reduced ability to pay their debt to try to reach an appropriate payment plan through means such as reduced average monthly payments. This adaptability on ourpart could lead to increased servicing costs as our employees renew contact with consumers and revise pre-existing payment arrangements. Furthermore, a reduction in monthly payments would reduce our cash generation and returns on capital. A change from our original estimates of servicing costs or consumers' monthly payments may mean we may not achieve our expected returns. Additionally, our modeling for future pricing decisions may be rendered less reliable if we are unable to accurately predict the number of consumers who will, or which consumers will, need to reduce their debt payments or the amounts of such reductions. As a result, our financial condition, financial returns and results of operations may be materially and adversely affected.

We may experience volatility in our reported financial results due to the revaluation of our owned debt portfolios and the timing of portfolio purchases during the financial year.

Our owned debt portfolios are initially recognized at a carrying value equal to the portfolio's purchase price and are subsequently measured at amortized cost using the EIR method. Following acquisition, the value of these assets may be adjusted as the cash flow projections associated with the portfolios are reassessed based upon actual collections results. Accordingly, the value of our owned debt portfolios as recorded in our consolidated financial statements may fluctuate as a result of these reassessments.

There is sometimes a gap between the point in time when we purchase a portfolio and the point in time when we begin earning returns on the purchased portfolio. This is because we do not always have control over when a deal to purchase a portfolio will close, and we need to locate consumers, build a consolidated profile of each such consumer's circumstances and formulate an appropriate repayment solution before we can start to collect on a purchased portfolio. As a result, we may experience fluctuating cash flows and delays in generating income from purchased portfolios. Any of the foregoing factors could have a material adverse effect on our business, results of operations or financial condition.

We use a number of estimates and assumptions in the preparation of our consolidated financial statements, which could prove to be incorrect or cause our earnings to fluctuate.

The preparation of our consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. These estimates and associated assumptions are based on historical experience and various other factors that are considered by management to be reasonable under the circumstances at the time. These estimates and assumptions form the basis of judgments about the carrying amounts of assets and liabilities that are not readily available from other sources. Areas requiring more complex judgments may shift over time, based on changes in accounting policies, accounting standards or our business profile.

Complex judgments are required in relation to revenue recognition, impairment of our purchased loan portfolios, collection forecast and impairment tests of our goodwill, among others. For example, the estimates used to calculate our returns on our owned debt portfolios are primarily based on historical cash collection experience and payer dynamics. If future cash collections are materially different in amount or timing, our earnings could be affected, either positively or negatively. Higher collection amounts or cash collections that occur sooner than projected will have a favorable impact on revenue in the form of income increases or impairment reversals. In addition, higher collection amounts or cash collections that occur sooner than projected could have the effect of reducing the expected future value of our loan portfolios, requiring us to purchase additional loan portfolios in order to maintain our level of expected future cash flows, which we might not be able to do. Lower collection amounts or cash collections that occur later than projected will have an adverse impact and may result in an impairment of the purchased loan portfolio. Impairments, in turn, cause reduced and fluctuating earnings. In the future, should actual results differ from management's estimates and assumptions (particularly with respect to revenue recognition and collection forecast) this could have a material adverse effect on our business, prospects, results of operations and financial condition.

It can take several years to realize cash returns on our investments in owned debt portfolios, during which time we are exposed to a number of risks in our business.

We generally measure our investments based on a projected return, typically up to 120 months, based on the historical data and collection forecast for our UK Division, DACH Division and Northern European Division. We estimate that it will take an average of 26 months for our 2020 owned debt portfolio acquisitions to collect the gross cash cost of each of the owned debt portfolio, and, in some cases, it may take significantly longer than average to realize cash returns equal to this initial investment. During this period, significant changes may occur in the economy, the regulatory environment, our business or our markets, which could lead to a reduction in our expected returns or forecasted collection plan, a reduction of which could cause us to record an impairment of our owned debt portfolios, or reduce the value of the debt portfolios that we have purchased. Given the multi-year payback period on substantially all our purchases, each portfolio purchase exposes us to the risk of such changes for a significant period of time, which could have a material adverse effect on our business, results of operations or financial condition.

Our forward flow agreements may contractually require us to purchase portfolios at unfavorable or uneconomic prices.

From our UK Division's Start Date (June 1, 2004) to December 31, 2020, 44% of its portfolio purchases were made pursuant to forward flow agreements or agreements that were a mixture of a forward flow agreement with a spot purchase, representing £904.6 million in portfolio purchases. From our DACH Division's Start Date (September 30, 2003) to December 31, 2020, 48% of its portfolio purchases were made under forward flow agreements, representing €332.3 million in portfolio purchases. From our Northern European Division's Start Date (January 1, 2003) to December 31, 2020, 30% of its portfolio purchases were made pursuant to forward flow agreements or agreements that were a mixture of a forward flow agreement with a spot purchase, representing €372.6 million in portfolio purchases. Commitments under such forward flow contracts are typically for approximately one to three years, although in the UK, we have entered into five year forward flow agreements with two creditors. However, depending upon the length of the contractual arrangements, forward flow agreements generally contain termination clauses that allow the arrangement to be terminated early and on relatively short notice in certain circumstances, such as where there is a change of control or at will for certain of our clients. We may be required to purchase debt under a forward flow agreement for an amount greater than we would have otherwise agreed to pay at the time of purchase due to pressure from larger clients or major debt portfolio sellers, which could result in reduced returns. In addition, we could be faced with a choice between decreasing our purchasing volume, agreeing to forward flow agreements at a higher average price or agreeing to fewer contractual protections concerning the portfolios we purchase, any of which could have a material adverse effect on our results of operations. We generally allow for some margin for future fluctuations in value of the debt we purchase through forward flow agreements, but future fluctuations in value may exceed that margin due to circumstances beyond our control, such as economic conditions or other market conditions. If the quality of debt purchased varies from our pricing assumptions, we may price the contract improperly, which could have a material adverse effect on our business, results of operations or financial condition.

We may not be able to procure sufficient funding on favorable terms to purchase further debt portfolios as they become available.

Historically, we have funded purchases of portfolios through cash generated by our operations, borrowings and loans procured by our relevant majority shareholders. Our ability to obtain funding in the future from these sources will depend on our performance and prospects, as well as other factors beyond our control. Such factors may include weak economic and capital market conditions during or prior to periods in which attractive debt portfolios are available for purchase, the ability and willingness of banks and other clients to lend to our industry generally or to us, in particular, and changes in fiscal, monetary and other government policies, among others. We believe that the combined operating cash flows of the Group, together with the cash resources and future borrowings under the Revolving Credit Facility, will be sufficient to fund our debt and tax servicing requirements as they become due, working capital requirements and anticipated debt purchases, although this may not be the case. In particular, future drawings under the Revolving Credit Facility will only be available if, among other things, we meet the financial covenants included in the Revolving Credit Facility Agreement. An inability to procure sufficient funding at favorable terms to purchase portfolios as they become available could have a material adverse effect on our business, results of operations or financial condition.

We could be adversely affected if third parties providing services on which we rely, including lawyers or data providers, perform poorly, cease to provide services or fail to comply with applicable regulatory requirements.

Our business is dependent on a number of key relationships with third parties as part of the supply chain to provide our services. For example, when our internal debt collection efforts are unsuccessful, we may engage law firms, with which we have framework service agreements, to collect or enforce the receivables in our name or in the name of our clients. Any failure by third parties involved in our supply chain to adequately perform services for us on an efficient basis for any reason (including insolvency) or to meet agreed service levels could materially reduce our cash flows, income and profitability, and adversely affect our reputation and results of operations.

Furthermore, these third parties may not be bound by our industry standards and practices. These third parties could commit fraud with respect to the consumer accounts that we place with them or fail to comply with applicable laws and regulations, such as Data Protection Laws, or to provide us with accurate data on the accounts they are servicing. To the extent that these third parties violate laws, other regulatory requirements or their contractual obligations to us, or act inappropriately in the conduct of their business, our business and reputation could be negatively affected or penalties could be directly imposed on us.

In addition, we depend on banking systems to execute payment transactions in connection with our business. A systematic shutdown or any other disruption of the banking industry or one of the banks we work with would impede our ability to process funds on behalf of clients and to collect on claims. Any of the foregoing factors could have a material adverse effect on our business, results of operations or financial condition.

We rely partly on data provided by multiple credit information suppliers and other sources in order to operate our business, and our UK operations, in particular, rely on the data provided substantially by one supplier. Our business, along with the businesses of our competitors, could be negatively affected if any third-party sources were to stop providing this data for any reason, including a change in laws or regulations, or if they were to raise the price of their services. In addition, any disruption of our relationship with our data suppliers could affect the intelligence systems upon which we rely. See "*—We are highly dependent on our intelligence systems and proprietary consumer profiles*" and "*—We generate a significant amount of our revenue from a small number of large clients and we are dependent on a small number of key suppliers*" for further discussion. Furthermore, if data suppliers provide us with inaccurate data, we may have no recourse against them if we are exposed to claims by our clients, consumers, or alleged debtors arising from the use of such inaccurate data, which may also lead to reputational damage. Conversely, through our subsidiaries we provide data to third parties as well and there is a risk that data provided by us may prove to be inaccurate or false and third parties could take recourse against us for providing false data.

In certain situations, we outsource some of our UK Division's accounts to third-party DCAs for collection. For example, we may use third-party DCAs late in the collections process when our in-house methods of contact have not succeeded or when an atypical consumer may be better served by a specialist DCA (*e.g.*, when the debt collection process is complicated by probate). Any failure by these third parties to adequately perform collection services for us or to remit such collections to us could materially reduce our cash flow, income and profits. We rely on these third parties to effectively manage their operations and to meet our servicing needs efficiently, but these third parties may not have the resources, management training and management depth that we have. This may negatively impact their ability to comply with applicable laws or other regulatory requirements. To the extent these third parties violate laws or other regulatory requirements in their collection efforts, it could negatively impact our business and reputation, and we may not be aware of the risk or occurrence of any such violation.

If any of these suppliers were to significantly limit access to their services, significantly raise their prices, experience labor disputes and work stoppages, become insolvent or cease to exist, this could impede our ability to collect on claims or increase our collections costs and therefore have a material adverse effect on our business, results of operations or financial condition.

Any of these developments could hinder or prevent us from using our decision science as part of our business and could have a material adverse effect on our business, results of operations or financial condition.

Our recent acquisitions or our future acquisitions or business combinations may prove unsuccessful or they may strain or divert our resources, and we may not be able to manage our growth effectively.

Our strategy involves selectively acquiring businesses to strategically increase our market share. Since 2016, we have acquired IS Inkasso Service, Tesch Group, Apontas, Lowell Sverige, Lowell AS, Lucas Credit Services Ltd and Solvencia AS.

The continuation of this strategy depends on, *inter alia*, identifying suitable acquisition or investment opportunities and successfully completing such transactions. There can be no assurances that we will be able to identify or complete purchases or acquisitions in the future. Furthermore, it may take longer than expected to realize projected benefits from such future purchases or acquisitions because we often cannot control the timing of the closing of such transactions. Moreover, successful completion of an acquisition may depend on consents from third parties, including regulatory authorities and private parties, which are beyond our control.

If we carve-out in-house collections operations from our clients or wholly acquire other CMS companies, we may not be able to successfully integrate these businesses with our own and we may be unable to maintain our standards, controls and policies, which may result in compliance issues, goodwill write offs and damage to our reputation. Our successful integration of acquired businesses will depend on our ability to effect any required changes in operations or personnel, and may require other capital expenditure or the funding of unforeseen liabilities. In addition, the integration and operation of any future acquisitions may expose us to certain risks, including difficulties in integrating the acquired businesses in a cost effective manner and establishing effective management information and financial control systems, the diversion of management's attention from our day-to-day business, the failure to maintain the quality of services that we have historically provided, transition difficulties with clients and unforeseen legal, regulatory, contractual, labor or other issues arising out of the acquisitions. Any failure to assess suitable acquisitions or to properly integrate them once acquired could have a material adverse effect on our business, financial condition and results of operations.

There can be no assurances that any of the anticipated benefits from our prior acquisitions will be realized or that we will be able to realize such benefits from any future acquisition. In addition, our acquisitions and future acquisitions may place additional constraints on our resources, including diverting the attention of our management from other business concerns or opportunities. Furthermore, acquisitions expose us to the risks associated with write-downs and impairments to goodwill.

Integration of the businesses and carve-out assets we acquire may require significant financial and operating resources and exposes us to a variety of risks. For example, our ability to maintain our standards, controls, policies and the quality of services that we have historically provided could be compromised while we are in the process of integrating a recently acquired business, and this could result in compliance issues, goodwill write-downs and damage to our reputation. Additionally, the successful integration of any businesses we acquire depends on our ability to make required changes in operations or personnel quickly and effectively, and achieving this may require further capital expenditure or the funding of unforeseen liabilities. Moreover, difficulties with establishing effective management information and financial control systems, the diversion of management's attention from our day-to-day business, difficulties with transitioning clients and unforeseen legal, regulatory, contractual, labor or other issues arising out of the acquisitions could also arise in connection with our integration of acquired businesses.

In March 2018 we acquired Lowell Sverige and Lowell AS and in July 2019 we acquired Lucas Credit Services Ltd. We have made efforts to integrate these new entities into our corporate division and will perform similar integration activities for Solvencia AS which was closed on October 1, 2020; however, there can be no assurance that these efforts will be successful or that we will realize the expected benefit, or any benefit at all, from these acquisitions.

We currently operate primarily in the UK, Germany, Denmark, Norway, Sweden, Finland and Austria with a meaningful presence in Switzerland. If we expand into new jurisdictions through future acquisitions, our business will be subject to applicable laws, regulations and licensing requirements in those new jurisdictions, which may be different or more stringent than those currently applicable to our business. Such expansion would also subject us to additional risks related to inflation, recession, currency and interest rate fluctuations, an inability to enforce remedies, difficulty in adequately establishing, staffing and managing operations, risk of non-compliance and business integrity issues, variations in regulation and governmental policies, including additional fees, costs and licenses, and risk of political and social instability within those jurisdictions.

There can be no assurances that we will be able to manage our growth effectively and that our infrastructure, facilities and personnel will be adequate to support our future operations or to effectively adapt to future growth. Any of these developments could have a material adverse effect on our business, results of operations or financial condition.

We are highly dependent on our intelligence systems and proprietary consumer profiles.

Certain systems provide information that is critical to our business. In order to operate these systems, develop our proprietary consumer profiles and run our business generally, we rely to a large extent on data provided to us by a single private credit reference agency. If this private supplier were to terminate its agreement with us or stop providing us with data for any reason, or if such private supplier were to considerably raise the price of its services, our business would be materially and adversely affected. Also, if any of the information or data that we use became public, for example due to a change in government regulations, or if the UK were to introduce measures that have the effect of facilitating the tracing of consumers, we would lose a significant competitive advantage and our business could be negatively impacted. Furthermore, private or public sources of our data could make claims that the way in which we collect or use information and data violates terms and conditions applicable to such use, and whether or not such claims have any merit, our reputation could be harmed and our ability to continue to use such information and data in the manner in which it is currently used could be impaired. If our competitors are able to develop or procure similar systems or methods to develop data, or if we become unable to continue to acquire or use such information and data in the manner in which it is currently acquired and used, we would lose a significant competitive advantage and our business could be materially and adversely affected. If we were prohibited from accessing or aggregating the data in these systems or profiles for any reason, our operations and financial condition would be negatively and materially impacted. See "—*We are subject to EU, UK, German and Norwegian regulations, among others, and changes to the regulatory environment or a failure to comply with applicable* *laws, regulations, authorizations, licenses and codes of practice may negatively affect our business—Laws and Regulations affecting our Processing of Personal Data.*"

In addition, for certain of the systems, technologies and programs that we use, we rely on specialist IT providers. Some of these providers are small companies and their long-term financial viability cannot be assured. We cannot assure you that we will be able to find and retain alternative providers or acquire the rights to intellectual property important to our operations if our current or future providers become financially unstable. To the extent any of these systems, technologies or programs do not function properly and we cannot find and retain a suitable IT provider to help remedy the fault, we may experience material adverse effects on our business that require substantial additional investments to remedy, or which we may not be able to remedy at all.

Furthermore, as some of the systems, technologies and programs that we use have been developed internally, we cannot be assured that our level of development documentation is comparable to that of third party software packages and we may have certain employees that possess important, undocumented knowledge of our systems. If any such employee were no longer to work for us, our ability to maintain, repair or modify our collections platform may be limited.

We may not be able to successfully maintain and develop our IT infrastructure platform or decision science systems, anticipate, manage or adopt technological advances within our industry or prevent a breach or disruption of the security of our IT infrastructure platform and decision science systems.

We rely on our IT infrastructure platform and decision science systems and our ability to integrate these technologies into our business is essential to our competitive position and our success. This dependency subjects us to inherent costs and risks associated with maintaining, upgrading, replacing and changing these systems as well as reliance on certain external suppliers for the ongoing provision of support services, including impairment of our information technology, substantial capital expenditures and demands on management time. For example, the carve-out of in-house collection operations or the acquisition of another company may force us to upgrade the IT platform and decision science systems of the newly acquired operations or entity to meet our standards, causing increased capital expenditures and demands on management time.

IT and telecommunications technologies are evolving rapidly and are characterized by short product life cycles. We may not be successful in anticipating, managing or adopting technological changes on a timely basis. We may not be successful in implementing improvements of our IT or decision science systems and improving operation efficiency through further IT development, which could result in additional costs. The cost of these improvements could be higher than anticipated or result in management not being able to devote sufficient attention to other areas of our business. We depend on having the capital resources necessary to invest in new technologies to purchase and service claims, and there can be no assurances that adequate capital resources will be available to us at the appropriate time. Furthermore, if we become unable to continue to acquire, aggregate or use such information and data in the manner or to the extent in which it is currently acquired, aggregated and used, due to lack of resources, regulatory restrictions or any other reason, we may lose a significant competitive advantage. For example, in Germany we hold a data trading license that provides us with the future potential to enter into the data trading field and leverage our extensive databases. However, this and other potential initiatives are not yet fully developed and may not achieve their desired results, which could cause us to lose valuable market opportunities and fall behind our competition in advanced decision science.

Any security breach in our IT infrastructure platform and decision science systems, or any temporary or permanent failure in these systems, could disrupt our operations. We may be required to enhance capabilities and resilience and we may be subject to future attempts to gain unauthorized access to confidential or sensitive information. Our websites could potentially suffer cyber-attacks, which could disrupt our IT infrastructure platform and decision science systems and impair our ability to provide online services. In addition, in the event of a catastrophic occurrence, our ability to protect our infrastructure and maintain ongoing operations could be significantly impaired. Our business continuity and disaster recovery plans cover the majority of our systems and services, but may not be successful in mitigating the effects of a catastrophic occurrence, such as fire, flood, tornado, power loss, sabotage or telecommunications failure for some or all of our IT infrastructure platform and decision science systems. Any of these developments could hinder or prevent us from using our IT infrastructure platform or decision science systems as part of our business and could have a material adverse effect on our business, results of operations or financial condition.

Our operations could suffer from telecommunications or technology downtime, increased technology costs or an inability to successfully anticipate, manage or adopt technological advances within our industry.

Our success depends on sophisticated telecommunications and computer equipment, as well as software systems. In the normal course of our business, we must record and process significant amounts of data quickly and accurately to access, maintain and expand the databases we use for our pricing and collection activities. We also use these systems to identify and contact large numbers of consumers and record the results of our collection efforts. These systems could be interrupted by terrorist acts, natural disasters, power losses, computer viruses or similar events. Any failure of our systems, especially if it also impacts our backup or disaster recovery systems, would disrupt our operations and materially and adversely affect our business. Any temporary or permanent loss of our ability to use our telecommunications or computer equipment and software systems could disrupt our operations and have a material adverse effect on our financial condition, financial returns or results of operations.

Furthermore, our business depends heavily on services provided by various internet service providers and local and long distance telephone companies. Our ability to use telecommunications systems to contact consumers is governed by Data Protection Laws and telecommunications and privacy requirements and regulatory rules and guidance issued by regulators. These may change and may make using, accessing, transferring or storing consumer documentation more onerous in the future. If our equipment or systems cease to work or it becomes difficult to continue to use them in the same manner as we do today as a result of any regulatory development, we may be prevented from providing services and we may not be able to collect on the receivables we have purchased. We may face similar consequences if there is any change in the telecommunications market that would affect our ability to obtain favorable rates on communication services or if there is any significant interruption in internet or telephone services. Since we generally recognize revenue and generate operating cash flow primarily through collections, any failure or interruption of services and collections would mean that we would continue to incur payroll and other expenses without any corresponding income.

Additionally, computer and telecommunications technologies are evolving rapidly and are characterized by short product life cycles. We may not be successful in anticipating, managing or adopting technological changes on a timely basis, which could reduce our profitability or disrupt our operations and harm our business. While we believe that our existing information systems are sufficient to meet our current demands and continued expansion, our future growth may require additional investment in these systems. We depend on having the capital resources necessary to invest in new technologies to acquire and service our debt portfolios. We cannot ensure you that adequate capital resources will be available to us when we need to make such investments.

Improper disclosure of our clients' sensitive data, consumer data or a breach of Data Protection Laws could negatively affect our business or reputation.

We handle and process large amounts of potentially sensitive or confidential information, such as personal information of consumers, including names and account numbers, locations, contact information and other account specific data. Any security or privacy breaches of these databases could expose us to liability, increase our expenses relating to resolution of these breaches, harm our reputation and deter clients from conducting business with us. We rely on our decision science systems to record and process significant amounts of data quickly and accurately to access, maintain and expand the databases we use for our debt collection and for our analysis of potential debt purchases. Our ability to conduct our business, including our ability to price the purchase of portfolios, trace consumers and develop tailored repayment plans, depends on our ability to use consumer data in our decision science systems.

Our ability to obtain, retain, share and otherwise process consumer data is governed by Data Protection Laws, privacy requirements and other regulatory restrictions. For example, in Germany and the UK, personal data may only be collected for specified, explicit and legitimate purposes, and may only be processed in a manner consistent with these purposes. Furthermore, the processing of personal data must be adequate, relevant and limited to what is necessary in relation to the purposes for which it is processed, and it must not be kept in a form that permits identification of consumers for a longer period of time than necessary for the purposes of the collection or other legal obligations, *e.g.*, in Germany, obligations pursuant to the German Commercial Code (*Handelsgesetzbuch* (HGB)). See "*—We are subject to EU, UK, German and Norwegian regulations, among others, and changes to the regulatory environment or a failure to comply with applicable laws, regulations, authorizations, licenses and codes of practice may negatively affect our business—Laws and Regulations affecting our Processing of Personal Data*". In addition, we are subject to strict data protection requirements in many of the other jurisdictions in which we operate.

We may not be able to prevent the improper disclosure or processing of such sensitive information in breach of contract and applicable law. These databases and consumer data are vulnerable to damage from a variety of sources, including telecommunications and network failures and natural disasters. The databases are also vulnerable to human acts both by individuals outside of the Group as well as our employees, including fraud, identity theft and other misuse of personal data. Moreover, our systems may be subject to physical or electronic break-ins, computer viruses and similar disruptive problems. Any security or privacy breach of these databases could expose us to liability, increase our expenses relating to the resolution of these breaches, harm our reputation and deter vendors from selling debt to us. Any material failure to process consumer data in compliance with applicable laws could result in the revocation of our licenses, monetary fines, criminal charges and breach of contractual arrangements. Any issue of data protection could have a material adverse effect on our business, results of operations or financial condition.

Failure to protect our consumer data from unauthorized use or provide adequate data protection could negatively affect our business.

Failure to protect, monitor and control the use of our consumer data could cause us to lose a competitive advantage. We rely on a combination of contractual provisions and confidentiality procedures to protect our consumer data, and our consumer data is stored and protected in our IT infrastructure platform with access limitations in accordance with our technical and organizational measures. These measures afford only limited protection, and competitors or others may gain access to our consumer data. Our consumer data could be subject to unauthorized use, misappropriation or disclosure, despite our having required our employees, consultants and clients to enter into confidentiality agreements. There can be no assurances that such confidentiality agreements will not be breached or will be of sufficient duration and that adequate remedies will be available in the event of an unauthorized use or disclosure. Policing unauthorized use of such rights can be difficult and expensive, and adequate remedies may not be available or available in an acceptable time frame. A failure to protect our consumer data from unauthorized use, or to comply with current applicable or future laws or regulations, could have a material adverse effect on our business, results of operations or financial condition.

Our confidentiality agreements may be breached, or may fail to protect our proprietary processes and systems.

We rely upon unpatented proprietary know-how and continuing technological innovation and other trade secrets to develop and maintain our competitive position. Certain of our employees possess valuable trade secrets about our models, consumer databases and our business processes, and the risk of disclosure of such proprietary know-how could be heightened if any such employee ceases to work for us. While it is our policy to enter into confidentiality agreements with our employees and third parties to protect our proprietary know-how, there can be no assurance that:

- our confidentiality agreements will not be breached or will be of sufficient duration;
- such agreements will provide meaningful protection for our trade secrets or proprietary know-how; or
- adequate remedies will be available in the event of an unauthorized use or disclosure of these trade secrets and know-how.

In addition, there can be no assurances that others will not obtain knowledge of these trade secrets through independent development or other access by legal means.

We may initiate lawsuits to enforce our confidentiality agreements and the ownership of our intellectual property. Initiating litigation relating to intellectual property rights is costly and may divert technical and management personnel from their day-to-day responsibilities. In many cases it may not be possible to initiate a lawsuit prior to the disclosure of our trade secrets or proprietary know-how, at which point the damage to our competitive position may be severe or irreparable. Furthermore, we may not prevail in any such litigation or proceeding. A determination in a proceeding that results in a finding of non-infringement or non-violation by others of our intellectual property or confidential agreements may result in the use by competitors of our technologies or processes, which may have a material and adverse effect on our financial condition, financial returns and results of operations.

Our risk management procedures may fail to identify or anticipate future risks.

We continually review our risk management policies and procedures and will continue to do so in the future. Although we believe that our risk management procedures are adequate, many of our methods of managing risk and exposures are based upon observed historical market behavior and statistic-based historical models. As a result, these methods may not accurately predict future exposures, which could be significantly greater than historical measures indicate. Other risk management methods depend on the evaluation of information regarding markets, debt originators, DCAs, consumers or other matters that are publicly available or otherwise accessible to us. We rely on intermediaries such as DCAs, and we may be held liable for the acts of intermediaries if we cannot demonstrate that we have adequate procedures in place to prevent risks such as bribery. For example, debt originators typically require us to assume responsibility for the acts of their respective third-party intermediaries in relation to ongoing compliance matters. Furthermore, we keep track of employee misconduct and have policies and procedures in place to minimize its impact, but these procedures may not prove sufficient (for example, to avoid employee fraud). Failure (or the perception that we have failed) to develop, implement, monitor and, when necessary, preemptively upgrade our risk management policies and procedures could, at the very least, give rise to reputational issues for both us and any associated debt originators, and may result in breaches of contractual obligations by us, for which we may incur substantial losses and face removal from debt originators' purchasing panels. Risks that we fail to anticipate, and/or adequately address, could have a material adverse effect on our business, prospects, results of operations and financial condition.

Loss of one or more members of senior management or a significant number of trained personnel could negatively affect our business.

Our future success depends on the skills, experience and efforts of our senior management and other key personnel and our ability to retain such members of our senior management team and other key employees. We may not be able to retain our executive officers and key management personnel or attract additional qualified management in the future. The loss of the services of our senior management and other key personnel could seriously impair our ability to continue to purchase portfolios or collect claims and to manage and expand our business, which could have a material adverse effect on our business, results of operations or financial condition.

In addition, our growth requires that we continually hire and train new consumer account associates (each, a "**CAA**"). As is typical among companies that rely on call center operations in the UK market, employee turnover among CAAs in our UK Division has been significant. For example, as of December 31, 2020, the average tenure of our CAAs in the UK was 50 months. Increases in the turnover rate among our CAAs at any of our companies could increase our recruiting and training costs and limit the number of experienced personnel available to service our and our clients' portfolios. If this were to occur, we would not be able to service such portfolios effectively and the constraint on our resources may reduce our ability to continue our growth and to operate profitably. The demand in our industry for personnel with the relevant capabilities and experience is high and our success in attracting and retaining employees is not guaranteed. There can be no assurances that we will be able to continue to hire, train and retain a sufficient number of qualified personnel to maintain adequate staffing levels or to be flexible enough to react to changing market environments.

We also have a number of employees who possess critical knowledge about our IT infrastructure platform, decision science systems and our debt purchase operations, and an inability to retain these employees could negatively impact our business. Any of these developments could have a material adverse effect on our business, results of operations or financial condition.

Increases in labor costs, potential labor disputes and work stoppages could negatively affect our business.

Our financial performance is affected by the cost of labor. As of December 31, 2020, the Group had 3,800 FTEs. An increased demand for our employees from competitors could increase costs associated with employee compensation, which could have a material adverse effect on our business, results of operations or financial condition.

In the UK, although no union has reached the membership threshold required for formal recognition, if any union were to reach membership levels of 10% or more of our UK Division's total employees and were to be formally recognized, such union would need to be consulted on a number of business decisions affecting its members' terms of employment. In addition, if the unions to which our UK employees currently belong were to consolidate, or if any union were to attract more employees, that union may seek employment terms that could adversely affect the stability of our work force and increase our costs.

Our German employees have established a company works council (*Konzernbetriebsrat*), two joint works councils (*Gesamtbetriebsräte*) and seven works councils (*Betriebsräte*). We also have two collective bargaining agreements (*Manteltarifverträge*) currently in force for German employees who were carved out of our clients' operations. In accordance with the German One-Third Participation Act (*Drittelbeteiligungsgesetz*) in connection with applicable provisions of the Stock Corporation Act (*Aktiengesetz*), we have established a Supervisory Board (*Aufsichtsrat*).

The Northern European Division's employees are unionized and/or represented by works councils in many of the countries in which it operates.

Any move by our employees toward further unionization or any other labor relations disputes or work stoppages and/or strikes could disrupt our operations and have a material adverse effect on our business, results of operations or financial condition.

Litigation, investigations and proceedings may negatively affect our business.

We may be adversely affected by judgments, settlements, unanticipated costs or other effects of legal and administrative proceedings now pending or that may be instituted in the future, or from investigations by authorities, regulatory bodies or administrative agencies. There are certain lawsuits pending, which, if the outcomes are resolved against us in a way that materially differs from our expectations, could have a material adverse effect on our business, results of operations or financial condition.

We may become subject to claims and a number of judicial and administrative proceedings, including consumer credit disputes with consumers, labor disputes, contract disputes, intellectual property disputes, environmental proceedings, government audits and proceedings, tax audits and disputes and client disputes. In some proceedings, the claimant may seek damages as well as other remedies, which, if granted, would require expenditures on our part, and we may ultimately incur costs relating to these proceedings that exceed our present or future financial accruals or insurance coverage. Even if we or our directors, officers and employees (as the case may be) are not ultimately found to be liable, defending claims or lawsuits could be expensive and time consuming, divert management resources, damage our reputation and attract regulatory inquiries. Any of these developments could have a material adverse effect on our business, results of operations or financial condition.

In recent years, there has been a substantial increase in consumers' propensity to bring claims related to debt collection to the courts in their attempts to claim refunds of sums paid under consumer credit agreements or to avoid making payments going forward. This litigation has been fueled by a substantial rise in claims management companies that aggressively advertise for potential claimants and then bring claims in the hope and expectation that they will be paid a portion of any debt written off. Substantial complaint volumes have been made in the UK in relation to premiums for mis-sold PPI (which can form part of the debt being collected) and other types of charges added onto credit accounts. Claims could also be brought in relation to other areas of alleged noncompliance, which could affect a large portfolio of agreements. We may in the future be named as defendants in litigation, including under consumer credit, collections and other laws. We may also have disagreements or disputes with sellers from which we purchase debt, parties to which we outsource accounts, business partners who collect claims on our behalf or other counterparties. For example, certain law firm parties with whom we contract for collection services have asserted claims against us relating to our agreed fee structure and, in connection with the winding down of similar relationships with other business partners in Germany in particular, we may face additional claims. Such claims against us, complaints, disputes or disagreements, regardless of merit, could result in or subject us to costly litigation and divert our management personnel from their regular responsibilities. Furthermore, if such claims are adversely determined against us, we could be forced to suspend certain collection efforts or pay damages, and our reputation, financial condition, financial returns and results of operations could be materially and adversely affected.

Our collections may decrease and/or the timing of when we collect be delayed if the number of consumers becoming subject to personal insolvency procedures increases.

We recover on claims that may become subject to insolvency procedures under applicable laws and we also purchase portfolios containing claims that are currently subject to insolvency proceedings. In the UK, these include individual consumers who may have an individual voluntary arrangement with their creditors. In Germany, these include insolvency proceedings regarding natural persons (*Verbraucher*).

Various economic trends and potential changes to existing legislation may contribute to an increase in the number of consumers subject to personal insolvency procedures. Under some insolvency procedures, a person's assets may be sold to repay creditors, but because the debt portfolios that we service are generally unsecured, we are generally unable to collect on such debt portfolios through these proceedings. Therefore, our ability to successfully collect on portfolios may decline, or the timing of our collections on portfolios may be delayed, as a result of an increase in personal insolvency procedures. These scenarios could have a material adverse effect on our business, results of operations or financial condition.

We may be unable to enforce accounts where any underlying debt documentation is legally defective.

When we commence enforcement actions through legal proceedings, courts may require a copy of the account statements or applications to be attached to the pleadings in order to obtain a judgment against a particular consumer. Where we are unable to produce account documents in response to a consumer's request, that account would be legally unenforceable. Furthermore, if any of the account documents we do have were found to be legally unenforceable, courts may deny our claims. Any changes to laws, regulations or rules that affect the manner in which we initiate enforcement proceedings, including rules affecting documentation, could result in increased administration costs or limit the availability of litigation as a collection tool, which could have a material adverse effect on our business and results of operations. Additionally, our ability to collect by means other than legal proceedings may be impacted by laws that require that certain types of account documentation be in our possession prior to the institution of any collection activities, which could also have a material adverse effect on our business and results of operations.

We may purchase portfolios that contain accounts that are not eligible to be collected, including due to defects in consumer documentation that may make the credit agreements unenforceable, and an enforcement of related claims may be difficult.

In the normal course of our debt portfolio purchases, and in the management of any forward flow agreements that we may enter into from time to time, some individual accounts may be included in the portfolios that fail to conform to the terms of the purchase contracts or that we do not have the regulatory permissions to collect upon, and we may seek to return these accounts to the debt originator for payment or replacement. Such debt originator may, however, be unable to meet its obligations to us or we may not identify non-conforming accounts soon enough, or at all, to qualify for recourse to the debt originator. Furthermore, our debt purchase agreements impose or may impose restrictions on our ability to return non-conforming accounts by imposing a minimum threshold value that must be met. Each contract specifies which accounts are eligible and which are not. Examples of ineligible accounts could include those that have a foreign address, those that have been subject to fraud, those that have an incorrect balance or those involving a consumer serving time in prison. Accounts that would be eligible for recourse if discovered in a timely fashion, but that we do not discover in time for such recourse, are likely to yield no return.

If we fail to identify whether our requirements are met during the due diligence process undertaken during a debt purchase transaction, the applicable credit agreement may become unenforceable and require us to undertake a remediation exercise that may result in balance adjustments and/or cash refunds due on the purchased accounts. In some cases, such remediation exercises may result in the amounts of compensation exceeding the purchase price and therefore resulting in total loss of the portfolio value and potentially additional expenditure on our part. The quality of historical consumer documentation may not allow, in each case, the discovery of past breaches relating to form and content requirements that would impair our ability to correctly assess the value of the portfolio, resulting in the risk of loss or reduction in the particular owned debt portfolio's value.

As our business relies on our ability to enforce the contracts underlying our owned consumer accounts, a contract found to be invalid or unenforceable could hinder our ability to recover from purchased accounts. If we purchase debt portfolios containing too many accounts that do not conform to the terms of the purchase contracts or contain accounts that are otherwise uncollectable or unenforceable, we may be unable to recover a sufficient amount, or anything at all, and such a portfolio purchase could be unprofitable. Additionally, we may be unable to ascertain whether the debt originator has been in compliance in connection with the underlying accounts at a sufficiently early stage. With respect to any future acquisitions of other debt collection companies, we may not have any contractual protection in relation to liabilities or operating or other problems in relation to the loan portfolios of the acquired company, and we may not discover such shortcomings until after completion of such acquisitions. This could lead to adverse accounting and financial consequences, such as the need to make substantial provisions against the acquired assets or to write down acquired assets.

For a significant number of portfolios, particularly in Germany, we act as beneficial owner. We may not be able to collect on a portfolio to which someone else holds legal ownership, or we may need to spend time and resources establishing our own legal ownership of the portfolio if such ownership was unclear. Moreover, in instances where underlying documentation does not prove the existence, ownership or enforceability of an account, or where an account balance is incorrect, we may not always have the right to transfer such accounts back to the debt originator. Additionally, in such instances, we may be contractually required to repurchase accounts that we have subsequently sold to third parties.

Furthermore, enforcement of claims under German law generally requires a creditor to obtain an execution title (*Vollstreckungstitel*). An execution title is not automatically transferred with the underlying claim. An execution title is generally rendered in the name of a specific creditor that has the sole right to enforce the claim. Although for many of our German portfolio debt purchases we benefit from acting as a beneficial owner with the original creditor as trustee, which allows us to enforce on the basis of existing execution titles, we may not be able to enforce the claim using the existing execution title if the original creditor is no longer available to serve as trustee, *e.g.*, in the event that the creditor is liquidated. We also may not use an existing execution title if we are the legal owner of the claim. In such situations, an execution title must be amended by way of a circumscription of title (*Titelumschreibung*), subject to certain legal requirements set forth by the German Code of Civil Procedure (*Zivilprozeßordnung*). This procedure allows other persons who are not named in the respective execution title to use it for enforcement. The circumscription of title bears additional cost and time that is incurred for any single claim and may result in considerable additional expense. Additionally, under certain circumstances it may be difficult or impossible to achieve a circumscription of title, *e.g.*, if the documentation required by law is not available or the original creditor ceases to exist, which may prevent us from enforcing a claim.

Any of the foregoing factors could materially and adversely affect our financial condition, financial returns and results of operations.

Historical operating results and quarterly cash collections may not be indicative of future performance.

Our past performance may not be indicative of future operating results. Our results of operations and financial condition are dependent on our ability to generate collections from overdue receivables, which in turn is impacted by the ability of consumers to pay. The ability of consumers to refinance their existing debt, as well as annual cycles in disposable income, could result in a reduction in the volume of NPLs available for collection or purchase. Furthermore, collections within portfolios tend to be lower in months where there are fewer working days, for example months with public holidays. In addition, we are exposed to quarterly variations in our operating results, which may be affected by the timing of the closing of debt portfolio purchases, which we often cannot control and may be uneven during the year, and the speed with which we can integrate the portfolios into our systems. Any of the foregoing factors could have a material adverse effect on our business, results of operations or financial condition.

We are exposed to the risk of currency fluctuations.

We have operations throughout Europe and are therefore exposed to financial risks that arise from changes in exchange rates. Currency exchange fluctuations could cause losses if assets denominated in currencies with a falling exchange rate lose value, while at the same time liabilities denominated in currencies with a rising exchange rate appreciate. As a result of these factors, fluctuations in exchange rates could affect our results of operations. For example, we present our consolidated financial reports in pound sterling but the operations of our DACH Division are primarily conducted in euro. In addition, the Northern European Division is active across Denmark, Norway, Sweden and Finland and conducts business in several currencies. Our business is therefore sensitive to fluctuations in foreign currency exchange rates, especially euro to pound sterling exchange rates. The presentation of our results of operations may be affected by the translation of foreign currencies into pound sterling for the purpose of our consolidated financial statements. We do not currently hedge any of our foreign exchange risks. Consequently, to the extent that foreign exchange rate exposures are not hedged, fluctuations in currencies may adversely affect our financial results in ways unrelated to our operations. For example, decreases in the value of the pound sterling relative to the euro, Danish krone, Swedish krona or Norwegian krone may have a positive impact on the results of operations presented in our consolidated financial reports solely due to the effects of translating the results of operations from our DACH Division and the Northern European Division from euro, Danish krone, Swedish krona and Norwegian krone into pound sterling. A positive impact on the results of operations presented in our consolidated financial reports due to decreases in the value of pounds sterling relative to the euro, Danish krone, Swedish krona or Norwegian krone may overstate the underlying performance and results of operations of our business or suggest an improvement in the performance and results of operations of our business when, after adjusting for the effects of currency translations, no such improvement has occurred or a deterioration has occurred. Conversely, increases in the value of the pound sterling relative to the euro, Danish krone, Swedish krona or Norwegian krone may have a negative impact on the results of operations presented in our consolidated financial reports solely due to the effects of translating the results of operations from our DACH Division and the Northern European Division from euro, Danish krone, Swedish krona and Norwegian krone into pound sterling. A negative impact on the results of operations presented in our consolidated financial reports due to increases in the value of pounds sterling relative to the euro, Danish krone, Swedish krona or Norwegian krone may understate the underlying performance and results of operations of our business or suggest a deterioration in the performance and results of operations of our business when, after adjusting for the effects of currency translations, no such deterioration has occurred or an improvement has occurred. Any of these developments could have a material adverse effect on our business, results of operations or financial condition.

Although we may enter into certain hedging arrangements in the future, there can be no assurance that hedging will be available or continue to be available on commercially reasonable terms. In addition, if we were to use any hedging transactions in the future in the form of derivative financial instruments, such transactions may result in market-to-market losses and may prove to be ineffective.

The realization of any of these risks could have a material and adverse effect on our business, financial condition and results of operations, which could in turn adversely affect our ability to fulfill our obligations under the Notes and the Note Guarantees or cause the market price of the Notes to decline.

Uneven debt portfolio supply patterns may prevent us from pursuing all of the debt purchase opportunities we would like to pursue and may result in our experiencing uneven cash flows and financial results.

Debt portfolios do not become available for purchase on a consistent basis throughout the year. Accordingly, there may be times when a number of portfolios, or particularly large portfolios, are available for purchase at similar times, which may prevent us, due to restrictions in our funding ability, from pursuing all of the then available debt purchase opportunities. As a result, we may fail to maintain our market share. The inconsistency in the availability of debt portfolios for purchase may mean that during certain financial reporting periods we may make few or no purchases of debt portfolios. In addition, large purchases at the end of a financial period would likely have a material and adverse effect on our reported financial ratios.

It is not unusual to experience a gap between the time of acquisition of a debt portfolio and the time that we begin earning returns on the acquired portfolio as we need to locate consumers, build a consolidated profile of each such consumer's circumstances and formulate an appropriate repayment solution before we can start to collect on an acquired portfolio. As a result, we may experience uneven cash flows and delays in generating income from purchased loan portfolios. For example, if we were to acquire a material portfolio at the end of a reporting period, then this would increase our net debt or reduce our cash on hand without generating cash or contributing to Group Adjusted Cash EBITDA for the relevant period. See "—*We may not be able to procure sufficient funding on favorable terms to purchase further debt portfolios as they become available*."

Rising interest rates could impair the ability of our consumers to pay their debt, which could have a material adverse effect on our financial condition, financial returns and results of operations.

Rising interest rates could impair the financial viability of consumers who have variable interest rate obligations or other significant debt that bears floating rate interest. If our consumers experience a reduced ability to pay their debt, debt collection agencies may require higher commissions to address increased collection activity costs, and we could face higher payment plan default rates and lower average payments, any of which could reduce our cash generation or prolong the time required to collect cash, and reduce our return on capital and on ERC. Even if we are able to develop payment plans in relation to certain of these obligations, such measures may prove unsuccessful. Furthermore, we could more quickly reach a point of saturation with certain consumers (*i.e.*, the number of accounts matched to a consumer may reach a point at which that consumer lacks the financial means to pay on all of the accounts that we own). Even if our efforts were to prove successful in avoiding some defaults, total collections may still decline or the timing of receipt of payments may lengthen, any of which would impair our financial condition and results of operations.

We may enter into interest rate hedges in the future which may be ineffective or may not be implemented correctly.

Although we are subject to the risk of changes in interest rates, we no longer use interest rate swaps to hedge the effect of changes in the interest rate on our profit and loss. We may enter into interest rate hedges in the future, and at such time we may be subject to the risk of changes in interest rates and their impact on our derivative instruments. We may use interest rate swaps to hedge the effect of changes in the interest rate on our profit and loss. We may further hedge parts of our cash-flow risk that arises out of variable interest agreements on the refinancing side. We may enter into a derivative contract by paying fixed interest payments in exchange for receiving floating rate interest payments. When interest rates rise, our unhedged floating rate and new financing costs rise (to the extent we are party to relevant instruments), thereby reducing our profit or increasing our loss, but we may also receive higher interest income from our derivative instruments, which would offset (to the extent of such increase in income) the decline in profit or increase in loss from the rise in financing costs. Conversely, when interest rates decline, our unhedged floating rate and new financing costs decline (to the extent we are party to relevant instruments), thereby increasing our profit or decreasing our loss, but our interest income from any of our derivative instruments would decline, thus offsetting (to the extent of such decrease in income) any changes to profit and loss due to interest rate movements. At such time as we enter into hedges, we will be subject to the risk that there is a mismatch either between the interest swap performance and the change in the underlying funding cost that the derivative instruments are structured to hedge. We may also be exposed to the risk that our hedges could be implemented or priced incorrectly. Volatility in interest rates could impact valuation of interest rate swaps and therefore impair our ability to enter into these contracts on terms that enable us to achieve the hedging we need. If interest rates turn negative, our derivative instruments (to the extent we are party to such instruments) would not achieve our hedging needs. In addition to paying fixed interest payments, a negative interest rate would increase our interest payment instead of our receiving a floating rate interest payment in return. Furthermore, our derivative contracts (to the extent we are party to such contracts) may be subject to termination or break clauses, which may force us to renegotiate or replace those contracts on unattractive terms. Any of these events could cause losses and have a material adverse effect on our business, results of operations or financial condition. Moreover, although we may enter into certain hedging arrangements in the future, there can be no assurance that hedging will be available or continue to be available on commercially reasonable terms.

We may not be successful in achieving our strategic goals.

We may not be successful in developing and implementing our strategic plans for our businesses. If the development or implementation of such plans is not successful, we may not produce the revenue, margins, earnings or synergies that we need to be successful and to offset the impact of adverse economic conditions that may exist currently or develop in the future. We may also face delays or difficulties in implementing process and system improvements, which could adversely affect our ability to successfully compete in our core markets. In addition, the costs associated with implementing such plans may exceed anticipated amounts and we may not have sufficient financial resources to fund all of the desired or necessary investments required in connection with our plans, including one-time costs associated with our business consolidation and operating improvement plans.

The existing and future execution of our strategic and operating plans will, to some extent, also be dependent on external factors that we cannot control, such as regulatory, legislative changes, systemic failures in our industry or the industry sectors of our clients and changes in fiscal and monetary policies or the economic environment in our markets. In addition, these strategic and operational plans need to be continually reassessed to meet the challenges and needs of our businesses in order for us to remain competitive. The failure to implement and execute our strategic and operating plans in a timely manner or at all or the failure to realize the cost savings or other benefits or improvements associated with such plans could have a material adverse effect on our business, results of operations or financial condition.

Pending and future tax audits within our Group and changes in fiscal regulations could lead to additional tax liabilities.

We are subject to routine tax audits by local tax authorities. Our UK Division's tax returns are prepared in accordance with UK tax legislation and prevailing case law. Certain tax positions taken by our UK Division are based on industry practice, tax advice and drawing similarities from our facts and circumstances to those in case law. These positions may relate to tax compliance, sales and use, value added, franchise, gross receipts, payroll, property and income tax issues, including tax base and apportionment. Challenges made by tax authorities to our UK Division's application of tax rules may result in adjustments to the timing or amount of taxable income or deductions. If any such challenges are made and are not resolved in our favor, they could have an adverse effect on our financial condition and result of operations.

In addition, we are exposed to potential tax risks related to acquisitions, disposals and reorganizations, if our position with regard to the tax consequences of the acquisitions, disposals and reorganizations is challenged in a tax audit. Furthermore, our UK Division's effective tax rate in a given financial year reflects a variety of factors that may not be present in the succeeding financial year or years. One such factor affecting this effective tax rate is the relevant standard rate of corporation tax assessed against our UK Division, which is subject to change. This rate is currently 19% as of April 2020. In addition, changes in fiscal regulations or the interpretation of tax laws by the courts or the tax authorities including those tax laws relating to the utilization of tax loss or credit carry forwards, and changes in our assessment of certain matters, such as the ability to realize deferred tax assets or claim tax deductions for interest on intragroup loans, may also have a material adverse effect on our business.

Our DACH Division's tax audits in Germany have been finalized for corporate income tax (*Körperschaftsteuer*), trade tax (*Gewerbesteuer*) and VAT (*Umsatzsteuer*) for financial years up to and including the year ended December 31, 2009 in the case of the DACH Division companies. Ongoing tax audits for the DACH Division, which comprise, for most DACH Division companies, the period up to and including the financial year ended December 31, 2016, tax audits for later periods not yet subject to a tax audit or tax audits in other countries may lead to higher tax assessments in the future. For example, the DACH Division operates a number of tax groups (*Organschaften*) in Germany and these tax structures may be challenged in future tax audits. Non-recognition of our tax groups by the German tax authorities could lead to additional tax liabilities. In connection with the last tax audits of Tesch, part of the interest on shareholder loans was considered as a constructive dividend by the tax authorities resulting in an additional suspended corporate income tax, trade tax and withholding tax of approximately €0.8 million (whereby approximately €0.67 million is covered by a contractual indemnity claim). This treatment has been challenged by tax appeals and leap-frog actions (*Sprungklagen*). An adverse outcome in the tax appeals and proceedings could lead to additional tax liabilities (including interest) and could have an adverse effect on our financial condition and result of operations.

Recent changes in Luxembourg tax laws may have a material impact on the tax position and results of the Issuer.

As part of its anti-tax avoidance package, the EU Commission published a draft Anti-Tax Avoidance Directive on January 28, 2016, which was formally adopted by the EU Council on July 12, 2016 in Council Directive (EU) 2016/1164 (the "**ATAD I**"). The Council Directive (EU) 2017/952 of May 29, 2017 then amended the ATAD I with respect to hybrid mismatches with third countries (the "**ATAD II**").

On December 21, 2018, Luxembourg enacted a law (the "**ATAD I Law**") transposing the ATAD I into Luxembourg legislation. The ATAD I Law may have an impact on the tax position and the performance of the Issuer. Amongst the measures contained in the ATAD I Law is an interest deductibility limitation rule. The ATAD I Law provides that "exceeding borrowing costs" in excess of the higher of (a) €3,000,000 or (b) 30% of an entity's adjusted earnings before interest, tax, depreciation and amortization (EBITDA) will not be deductible in the year in which they are incurred but would remain available for carry forward over the five subsequent financial years. "Exceeding borrowing costs" is a defined term which relates to the amount by which the tax-deductible borrowing costs exceed "interest revenues and other equivalent taxable revenues."

Furthermore, the Luxembourg law dated December 20, 2019 (the "**ATAD II Law**") transposed the ATAD II into Luxembourg legislation. With respect to situations of double deductions or deductions without inclusion resulting from hybrid mismatches, the ATAD II Law extends the scope of the ATAD I Law to third countries. The ATAD II requires EU Member States to either deny deduction of payments, expenses or losses or include payments as taxable income, in case of hybrid mismatches. It includes situations involving permanent establishments, reverse hybrids, imported mismatches, hybrid transfers and dual residence. The ATAD II Law applies as of January 1, 2020, except for the provision on reverse hybrid mismatches which will apply as of January 1, 2022. The exact impact of the

ATAD I Law and the ATAD II Law will need to be monitored on a regular basis, notably in the light of any future guidance from the Luxembourg tax authorities.

Due to the forfeiture of loss carry forwards under German tax laws, we may be unable to use loss carry forwards to set off future gains.

Tax loss carry forwards and unused losses of the current financial year are forfeited in full if more than 50% of the subscribed capital, membership rights, participation rights or voting rights in certain of our German companies are transferred, directly or indirectly, to an acquirer or related parties of such acquirer (or a group of acquirers with common interests) within a period of five years or of comparable measures (the so-called "**harmful acquisition**"). If and to the extent the tax loss carry forwards and unused losses of the current financial year are covered by the built-in gains of the loss-making company's business assets that are subject to domestic taxation, a forfeiture of such items would generally not apply.

With respect to the acquisition of Carl Holding GmbH by Lowell Holding GmbH in 2015, we believe that tax loss carry forwards of Carl Holding GmbH (now merged into Lowell Holding GmbH) will be forfeited, but tax loss carry forwards of Lowell Holdco GmbH will be protected by the built-in gains clauses and thus remain available for offsets against future profits. If tax authorities and the tax court do not follow that position and thus claim for forfeiture of tax loss carry forwards, a deferred tax asset accrued for at the Lowell Holdco GmbH level with an amount of €7.8 million may be forfeited, thus such forfeiture may have a material adverse effect on our business, financial condition and results of operations.

Due to restrictions on the deduction of interest expenses under applicable tax laws, we may be unable to fully deduct interest expenses on our financial liabilities.

Interest payments on our debt may not be fully deductible for tax purposes, which could adversely affect our financial results. Subject to certain prerequisites, the interest barrier rules of different jurisdictions impose certain restrictions on the deductibility of interest for tax purposes. However, any restrictive interest deduction limitation rules could have a negative effect on our financial position and result.

The VAT treatment of the purchase of non-performing loans performed by us may be challenged or changed resulting in additional cash out for VAT.

A substantial part of the business of our DACH Division is the purchase of portfolios of NPLs. Our DACH Division collects the receivables for its own account, taking the risk of final payment default. Generally, the purchase price for NPLs is determined by estimating the value of collectable receivables ("**economic nominal value**")—which is less than the nominal value of the receivables—less the cost of debt collection and of pre-financing and discounted using an appropriate discount rate. In 2003, the European Court of Justice ("**ECJ**") decided that the purchase of receivables for a subsequent cash collection (factoring) is to be treated as a supply of a taxable service from the purchaser to the seller (C-305/01, MKG). The seller would be relieved from the collection of the receivables as well as from the risk of (final) payment default. The ECJ decision was also adopted by the German tax authorities for the purchases of NPLs (old version of Section 2.4 para. 1 and para. 8 German VAT Guidelines, "**UStAE**"). On October 27, 2011, the ECJ decided that acquisitions of NPLs are not subject to VAT (C93/10, GFKL). This court decision was adopted by the German Federal Tax Court ("**BFH**") in a decision dated January 26, 2012

(V R 18/08). The BFH decision also said that no input VAT could be claimed on costs incurred in connection with NPLs acquisitions as well as on costs incurred in connection with the collection of the receivables, and referred back to the local Tax Court Düsseldorf. Our DACH Division has since withdrawn its initial lawsuit. Consequently the cases are not binding on our DACH Division. These court cases as well as another comparable case (BFH decision dated July 4, 2013 (V R 8/10)) have been adopted by the German tax authorities in a tax decree issued by the German Federal Ministry of Finance dated December 2, 2015 and in updated VAT Guidelines (Section 2.4 para. 1, para. 7 and para. 8 German VAT Guidelines).

The VAT Guidelines include the possibility to apply for previous guidance from the German tax authorities with respect to NPLs acquired before July 1, 2016 or, in the case of revolving contracts, before January 1, 2019, i.e., that the purchase of NPLs still qualifies as a VAT-taxable service allowing for the deduction of input VAT for the respective historical periods. As the DACH Division did not entirely treat the purchases of NPLs as subject to VAT according to the MKG jurisprudence, in some cases no VAT was collected and paid to the tax authorities, in the period for the year ended December 31, 2004 to December 31, 2020, the DACH Division shows an accrual of €5.2 million (including interest).

Any VAT payments could have a material adverse effect on our margins and results of operations and financial condition. In addition, changes in fiscal regulations or the interpretation of tax laws by the courts or the tax authorities may also have a material adverse effect on our business.

Failure to register under the U.S. Investment Company Act may result in a material adverse effect on the Issuer.

The Issuer and the Guarantors have not been and will not be registered with the SEC as an investment company pursuant to the U.S. Investment Company Act in reliance on the exemption from registration provided by Section 3(c)(7) of the U.S. Investment Company Act. No action positions are available for non-U.S. obligors (a) whose outstanding securities owned by U.S. persons are owned exclusively by Qualified Purchasers and (b) which do not make a public offering of their securities in the United States. Accordingly, investors in the Notes will not be accorded the protections of the U.S. Investment Company Act. Counsel for the Issuer and the Guarantors will opine, in connection with the sale of the Notes and the Note Guarantees, that none of the Issuer and the Guarantors is at such time an investment company required to be registered under the U.S. Investment Company Act (assuming, for the purposes of such opinion, the accuracy and completeness of all representations and warranties made or deemed to be made by investors in the Notes). No opinion or no-action position has been requested of the SEC.

If the SEC or a court of competent jurisdiction were to find that the Issuer or any Guarantor is required, but has failed, to register in violation of the U.S. Investment Company Act, possible consequences include, but are not limited to, the following: (i) the SEC could apply to a district court to enjoin the violation; (ii) investors could sue the Issuer or the applicable Guarantor and recover any damages caused by the violation of the registration requirement of the U.S. Investment Company Act; and (iii) any contract to which the Issuer or the applicable Guarantor is party that is made in, or whose performance involves a, violation of the U.S. Investment Company Act would be unenforceable by any party to the contract unless a court were to find that under the circumstances enforcement would produce a more equitable result than non-enforcement and would not be inconsistent with the purposes of the U.S. Investment Company Act. Should the Issuer or any Guarantor be subjected to any or all of the foregoing, there would be a material adverse effect on the Issuer or the applicable Guarantor.

If the Issuer determines that a purchaser of the Notes that is a U.S. person was not a Qualified Purchaser at the time of its acquisition of the Notes, the Issuer will have the right, at its option, to require such person to dispose of its Notes to a person or entity that is qualified to hold the Notes immediately upon receipt of a notice from the Issuer that the relevant purchaser was not a Qualified Purchaser.

Terrorist attacks, war and threats of attacks and war may materially and adversely affect consumer spending, and in turn, our financial condition, financial returns and results of operation.

Terrorist attacks in the UK, Germany, Northern Europe and abroad, as well as war and threats of war or actual conflicts involving the UK, German, Northern Europe or other countries, may dramatically and adversely impact the economies of the countries in which we operate and cause consumer confidence and spending to decrease. Any of these occurrences could affect our ability to collect our receivables and result in a material adverse effect on our financial condition, financial returns and results of operation.

The withdrawal of the UK from the European Union may have a negative effect on global economic conditions, financial markets and our business.

On January 31, 2020, the withdrawal of the UK from the European Union ("**Brexit**") became effective and the UK entered into a transition period, currently from January 31, 2020 until at least December 31, 2020 during which the European Union will treat the UK as if it were still a member of the European Union (the "**Transition Period**"). If the UK and the European Union are unable to negotiate an acceptable ongoing trade deal at the end of the Transition Period, this could have an impact on the general and economic conditions in the UK, which will directly adversely affect the financial condition of our consumers.

As no member state of the EU has previously chosen to leave the EU, the legal and political process for doing so is untried and uncertain. There are a number of areas of uncertainty in connection with the future of the UK and its relationship with the EU and the negotiation of Brexit-related matters may take several years. Given this uncertainty and the range of possible outcomes, it is currently impossible to determine the impact that Brexit and the nature and extent of government responses in the formulation of fiscal and monetary policies, and/or any related matters may have on general economic conditions in the UK. It is also not possible to determine the impact that these matters will have on our business. In addition, the instability could be further exacerbated by a push for independence by Scotland and/or Northern Ireland.

If the UK and the European Union are unable to agree to certain trading and customs terms to become effective at the end of the Transition Period, the UK could lose its present rights or terms of access to the single EU market and EU customs areas and to the global trade deals negotiated by the EU on behalf of its members. A decline in trade between the UK and the EU could also affect the attractiveness of the UK as a global investment center and, as a result, could have a detrimental impact on the level of investment in the UK, and ultimately, on the UK's economic growth.

Should no data adequacy status be conferred on the UK by the European Commission, there could also be restrictions on the ability to transfer personal consumer data between the UK and the European Union which could limit our ability to operate in a manner consistent with past practice and increase operating and compliance costs.

Any reduction in our consumers' willingness or ability to pay their debts due to Brexit-related changes in the economic environments of the UK, Germany or Northern Europe could materially affect our revenue and our ability to perform debt collection in a manner consistent with our past practice. See "*—Changes in the economic environment, in particular in the UK and Germany, may have a material adverse effect on our financial condition, financial returns and results of operations*." In addition, any fundamental shift in the macroeconomic environment in the UK or the other parts of Europe in which we operate could adversely affect the accuracy of our predictions regarding the expected returns from the debt portfolios we purchase and service. See "*—The statistical models and decision science tools that we use in our business may prove to be inaccurate, we may not achieve anticipated levels of return and we may be unable to appropriately identify and address underperforming portfolios*."

Lack of clarity about future UK laws and regulations as the UK determines which European Union laws to replace or replicate, including financial laws and regulations, data privacy and collection laws and regulations and tax and free trade agreements, may increase costs associated with operating in either or both of the UK and Germany, depress economic activity and restrict our access to capital.

In particular, our UK Division is subject to a number of EU laws and regulations governing its operations, and uncertainty regarding the future applicability of these regulations may increase our compliance costs. Additionally, any substantial change in the regulations applicable to our UK business could jeopardize our ability to continue to operate in a manner consistent with our past practice. See "*—We are subject to EU, UK, German and Norwegian regulations, among others, and changes to the regulatory environment or a failure to comply with applicable laws, regulations, authorizations, licenses and codes of practice may negatively affect our business—Regulations affecting Our UK Division*."

Developments concerning the withdrawal of the UK from the European Union could adversely affect our ability to service our current debt and our ability to incur indebtedness in the future.

The value of the pound sterling against the U.S. dollar and the euro declined in the months following the result of the Brexit referendum and there can be no assurance that further Brexit-related declines in the value of the pound will not occur in the months or years to come. It is unclear how the withdrawal of the UK from the European Union will affect the EU single market and other important financial and trade relationships and how any of these changes will affect us. See "*—The withdrawal of the UK from the European Union may have a negative effect on global economic conditions, financial markets and our business*."

In particular, Brexit-related declines in the value of the pound and related issues could have adverse consequences for us with respect to our outstanding debt obligations, which could adversely affect our financial condition. To the extent we rely on our revenue in sterling to service our euro-denominated indebtedness, further declines in the value of the pound relative to the euro may increase the proportion of revenue we need to devote to our debt service obligations and adversely affect our financial results. In addition, we report our financial results for the Group in pound sterling. Accordingly, we must translate our euro-denominated indebtedness into pound-equivalent amounts in order to prepare our quarterly and yearly financial reports, and further declines in the value of the pound relative to the euro may increase the pound sterling-denominated value of the debt we disclose in these reports.

Furthermore, the Existing Indentures and the Revolving Credit Facility Agreement contain covenants restricting our and our subsidiaries' corporate activities. Certain of these covenants impose limitations in amounts denominated in pound sterling, including the covenant limiting the amount of additional indebtedness we or our subsidiaries may incur. If future debt is incurred in a currency other than pound sterling for purposes other than refinancing, the Indenture will require, for the purpose of determining compliance with these restrictions, that we convert the principal amount of such debt into a pound sterling equivalent value based upon the relevant exchange rate then in effect. As such, if the pound sterling were to continue to decrease in value, the amount of debt we could incur under these restrictions would effectively decrease for all debt denominated in a currency other than pound sterling, and such limitations on our ability to incur additional debt in euro and other currencies may adversely affect our ability to finance our operations and conduct our day-to-day business.

We may be subject to fluctuations on our liquidity and capital resources

Historically, the Group's liquidity requirements consisted mainly of debt and tax servicing requirements, funding of its purchases of debt portfolios and acquisitions, capital expenditure and working capital. The Group's principal sources of liquidity have been funds raised in connection with bond offerings, its net cash generated from operating activities (before debt portfolio purchases), borrowings under the Group's revolving credit facility ("RCF"), securitizations of purchased debt portfolios and shareholder loans. To strengthen the groups liquidity profile, In November 2020 the Group issued three tranches of Senior Secured notes ("notes") being €600m floating rate notes due in May 2026, €740m fixed rate notes and £400m fixed rate notes both due in November 2025. Together with an equity contribution of £600m from the Group's parent, the proceeds were used to redeem all of the Group's outstanding Senior Secured and Senior notes. In December 2020 the Group issued additional notes, being €30m floating rate notes due in May 2026, €55m fixed rate notes and £40m fixed rate notes both due in November 2025. At November 2020 the maturity of the Group's RCF was also extended to August 2025. At 31 December 2020 the underutilized amount under the RCF was €437.2 million. In addition, the securitisation available undrawn commitment was £25.8m.

The Group benefits from its ability to generate strong cash flows from operating activities before portfolio acquisitions. In the year to 31 December 2020, the Group generated £503.1m of cash from operating activities before portfolio acquisitions, with these cash flows available to use to service or pay down debt, pay income taxes, purchase new debt portfolios and for other uses. We may from time to time seek to retire or purchase our outstanding debt through cash purchases and/or exchanges, in open market purchases, privately negotiated transactions or otherwise. Such repurchases or exchanges, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. The amounts involved may be material. While the Group's collections have historically been predictable throughout the year, its debt purchase activity can vary greatly from one quarter to the next. This is driven by the timing of one off debt sales by vendors during the year, the timing of which the Group does not control, along with its own desire to purchase a portfolio at a given point in time. This could lead to volatility in the Group's cash balances quarter on quarter.

The Group's ability to generate cash from operations depends on its future operating performance, which is in turn dependent, to some extent, on general economic, financial, competitive, market, regulatory and other factors, many of which are beyond its control, as well as other factors discussed in these risk factors. Brexit related declines in the value of the Pound and related issues could have adverse consequences for us with respect to our outstanding debt obligations, which could adversely affect our financial condition. To the extent we rely on our revenue in sterling to service our Euro denominated indebtedness, further declines in the value of the Pound relative to the Euro may increase the proportion of revenue we need to devote to our debt service obligations and adversely affect our financial results. In addition, we report our financial results for the Group in Pound sterling. Accordingly, we must translate our Euro denominated indebtedness into Pound equivalent amounts in order to prepare our quarterly and yearly financial reports, and further declines in the value of the Pound relative to the Euro may increase the Pound sterling denominated value of the debt we disclose in these reports. We believe that the combined operating cash flows of the Group, together with the cash resources and future borrowings under the RCF, will be sufficient to fund our debt and tax servicing requirements as they become due, working capital requirements and anticipated debt purchases, although this may not be the case.