Company No. B197497

Garfunkelux Holdco 2 S.A.

Consolidated Financial Statements
For The Year Ended 31 December 2021

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YEAR ENDED 31 DECEMBER 2021

GARFUNKELUX HOLDCO 2 S.A.
OFFICERS, PROFESSIONAL ADVISORS AND AUDITORS
YEAR ENDED 31 DECEMBER 2021

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GARFUNKELUX HOLDCO 2 S.A.
MANAGEMENT REPORT
YEAR ENDED 31 DECEMBER 2021

The Directors present their annual report and the audited consolidated financial statements of Garfunkelux Holdco 2 S.A. ("the Company") and its subsidiaries (together "the Group") for the year ended 31 December 2021.

BUSINESS AND GENERAL CONDITIONS

The Company was incorporated on 1 June 2015. The Group acquired Lowell Financial Services GmbH (formerly GFKL Financial Services AG) and its subsidiaries ("DACH") on 30 June 2015 and Metis Bidco Limited and its subsidiaries ("UK") on 13 October 2015.

On 31 May 2016, the Group acquired a 100% share in IS Group Management GmbH and its subsidiaries ("IS Inkasso") through Lowell Financial Services GmbH (formerly GFKL Financial Services GmbH), an indirect subsidiary of the Company.

On 30 September 2016, the Group acquired a 100% share in DC Holding GmbH and its subsidiaries ("Tesch") through Lowell Financial Services GmbH (formerly GFKL Financial Services GmbH), an indirect subsidiary of the Company.

On 20 March 2018, the Group acquired a 100% share in Lindorff Sverige AB, Fair Pay Please AS and subsidiaries through Lowell Nordics Oy (formerly Hansa Bidco Oy, formerly Pofidax Oy), an indirect subsidiary of the Company, together the "Carve-Out Business" ("Nordics").

PRINCIPAL ACTIVITIES

The principal activity of the Group is the provision of credit management services: the acquisition and collection of non-performing consumer debt portfolios ("DP"); and the provision of third party collection services ("3PC").

FINANCIAL PERFORMANCE

Group overview

Lowell Group is one of the largest Credit Management Service ("CMS") providers in Europe and has leading positions across the UK, DACH and Nordic regions; three of the largest consumer credit markets in Europe.

Collection performance has continued to be resilient during 2021 despite new waves of the COVID-19 pandemic and varying levels of government restrictions in the period. Collections performance has been above 31 December 2020 collections forecasts in all regions, at 106% across the Group (collections performance at 31 December 2020 was below 31 December 2019 collections forecasts at 94% across the Group). Collection performance in the UK was especially strong in H1-21 with collections deferred as a result of management actions in Q2-20 continuing to be recovered ahead of management expectations. Collections performance in the Nordic and DACH regions has also been robust, with collections in excess of the 2020 static pool Estimated Remaining Collections ("ERC") forecasts.

The Group has implemented a number of cost initiatives during 2021 and effective cost management has proportionately reduced cost to collect and operating costs, resulting in widening margins for the Group. The Group's operating expenses have reduced by £41.1m during the year (2021 £489.0m, 2020 £530.1m). Benefits of these were visible in 2021 with the stable generation of cash flows from operating activities and Cash EBITDA margin improving year-on-year by 380bps to 59.1% (FY20: 55.3%). Cash EBITDA is defined on page 4.

Group cash flows have been re-invested in portfolio acquisitions with a 43% increase in portfolios purchased across the Group compared with the prior period which was subdued by the effects of the pandemic. The Group's purchasing activity in 2021 has benefited from its strong, long-standing and mutually beneficial forward flow agreements, accounting for 37% of its 2021 purchases.

FINANCIAL PERFORMANCE (CONTINUED)

Regional focus

Collections across all regions have remained resilient during 2020 and 2021, despite the COVID-19 pandemic.

UK collections performance benefitted from the resumption of litigation in the autumn of 2020, which had been paused as a consequence of management actions taken in Q2-20 in response to the COVID-19 pandemic. UK collections for the year were at 106% of Dec-20 static pool forecasts.

In DACH the Group has continued with its progress in rationalising its operating platforms across the regions and increasing operating efficiency. This work continues to ensure that the DACH region remains well placed to capture opportunities from its long-standing client relationships.

Collections performance in DACH has remained strong during the year; 106%, of Dec-20 static pool forecasts.

The Nordics has seen the least significant direct impact from the pandemic and any wider impact it may have had on clients and consumers. We continue to see the region report strong collection performance throughout 2021, with collections in the year at 104%, of Dec-20 static pool forecasts.

We continue to see a strong pipeline of opportunities particularly in the Nordics, and the Group remains well placed to capture these through its market leading presence in this region.

Financial analysis

The performance in 2021 can be categorised by three key themes: resilient collection performance, strong cost control and efficiency improvements.

The Group deployed £402.8m on Non-Performing Loans ("NPLs") across its three regions. This included growth capital of c.£144m, before currency translation effects, being the amount of purchases in excess of the average replacement rate of c.£258m. The replacement rate is defined as the estimated amount of purchases required to maintain our Group estimated remaining collections.

These purchases originated from a variety of sectors, including financial services, home retail, telecommunications and utilities.

The overall carrying value of portfolio investments at 31 December 2021 was £1,736.1m, remaining broadly consistent with the balance at 31 December 2020 of £1,661.8m.

The Group defines ERC as the expected collections on acquired portfolios using either 84-month or 120-month periods of estimation. As at 31 December 2021, 84-month ERC was £2,981.6m, an increase of 3.1% over 31 December 2020 (£2,890.8m), and 120-month ERC was £3,616.2m, an increase of 3.0% on 31 December 2020 (£3,509.7m).

Our diversified service offering also continues to facilitate the further embedding of strategic client relationships through the management of collection of debt on behalf of over 350 clients through our 3PC offering.

Total income for the year was £651.2m (2020: £609.9m), with the change predominately relating to an £51.7m increase in net portfolio write-up, being £72.3m for the year ended 31 December 2021 compared with £20.6m in the year ended 31 December 2020.

The Group made an operating profit of £162.1m in the year ended 31 December 2021 (2020: £79.8m) and after interest, related to the Group's funding structure, and taxation, the loss for the year ended 31 December 2021 was £3.5m (2020: loss of £127.8m). The loss after tax in 2021 was significantly reduced compared to the prior period due to higher net portfolio write-up, a reduction operating expenses primarily due to tighter cost control efficiencies, and a decrease in finance costs subsequent to the Group's refinancing activity in October 2020.

FINANCIAL PERFORMANCE (CONTINUED)

Financial analysis (continued)

The UK region holds a significant portion of the Group's total portfolio investments. The UK region reported an operating profit of £134.1m (2020: £56.7m) with the increase from 2020 largely attributable to the higher net portfolio write-up during the period of £39.0m compared to the prior period which was impacted by management judgements relating to the timing of collections as a result of operational actions taken during the early stages of the COVID-19 pandemic (12 months to December 2020: net portfolio write-down of £3.8m). At the same time, the UK region is experiencing the efficiency and engagement benefits of its investment and growth in digital collection capabilities, with a decrease in both direct and indirect expenses recorded in 2021.

While experiencing lower purchase volumes and softness in 3PC handovers from clients, which have not yet recovered to pre COVID-19 levels, the DACH region's backbook has continued to perform strongly, with collection performance over 100% vs Dec-20 expectations. Net portfolio write-up in DACH for FY21 was £8.5m, reflecting the strong performance during the year, this was a reduction of £5.6m on the previous year due to the reduced purchase volumes. This reduction in net portfolio write up, together with the impact of discontinued business and restructuring costs relating to organisational change, have led to a reported operating loss of £8.2m (2020: £11.2m).

The Nordics region achieved an operating profit of £50.7m in the year ended 31 December 2021, increasing 26% compared to the prior period (2020: £40.1m), with net portfolio write-up of £24.9m in the 12 months to December 2021 (12 months to December 2020: £10.3m). This was achieved through having the flexibility to carefully control direct cost from the onset of the COVID-19 pandemic alongside winning significant new 3PC clients, which positioned the region well for 2021.

On 17 June 2021 the Group renegotiated its existing UK securitisation facility, reducing the commitment from £255m to £175m on similar commercial terms and extending its maturity to July 2025. On the same date, the Group also entered into a further £225m UK securitisation on similar commercial terms to the existing facility, maturing in January 2027.

At 31 December 2021 the Group had £14.3m drawn on its RCF (31 December 2020: £16.0m) and an unutilised amount of £367.9m (31 December 2020: £393.0m). The Group had £377.7 drawn on its securitisation facilities at 31 December 2021 (31 December 2020: £229.2m). The Group continues to monitor and manage its liquidity as disclosed in note 1.

The Group benefits from its ability to generate strong cash flows from operating activities before portfolio acquisitions. In the year to 31 December 2021, the Group generated £450.0m of cash from operating activities before portfolio acquisitions and tax, with these cash flows available to use to service or pay down debt, pay income taxes, before the discretional deployment of capital into new portfolio acquisitions for growth. Largely due to the increase in purchases in 2021 compared to the prior period, the Group's net cash used in operating activities, after portfolio purchases and paying income taxes, fell to £67.8m (2020: £214.4m).

ERC and Cash EBITDA are non-IFRS financial measures but are widely used by investors to measure a company's asset base, ability to generate cash flow and operating performance. Analysts and investors use ERC and Cash EBITDA as supplemental measures to evaluate the overall operating performance of companies in our industry. Both measures are used by management to understand business performance and indeed are key required disclosures under the terms of the Group's Notes. Cash EBITDA is reconciled to operating profit on page 73.

Cash EBITDA is defined as cash collections on acquired portfolios plus service revenue, other revenue and other income less collection activity costs and other expenses (which together equal operating costs) and before exceptional items, depreciation, amortisation and impairment of non-performing loans. Cash EBITDA for the year ended 31 December 2021 was £530.9m, compared to £494.2m for the year ended 31 December 2020.

FINANCIAL PERFORMANCE (CONTINUED)

Financial analysis (continued)

The Group benefits from good cash flow visibility. The Group's ERC forecast has historically been highly accurate, and forecasts future collections from portfolios currently owned of £3,616.2m for the 120 months from 31 December 2021 (31 December 2020: £3,509.7m) for the combined UK, DACH and Nordic businesses. Of this, some £692m and £1,254m are forecast to be collected across the next 12 and 24 months respectively, before accounting for collections from portfolio purchases made across these future periods.

Cash income in the table below is defined as cash collections on acquired portfolios plus income from 3PC services.

These measurements may not be comparable to those of other companies and may be calculated differently from similar measurements under the indenture governing the Group's Notes. Reference to these non-IFRS financial measures should be considered in addition to IFRS financial measures, but should not be considered a substitute for results that are presented in accordance with IFRS.

KEY PERFORMANCE INDICATORS (KPIs)

	31 December 2021	31 December 2020
Portfolio investments acquired	£402.8m	£281.4m
Gross collections (in total)	£1,750.7m	£1,747.0m
Gross collections (DP)	£750.9m	£740.7m
Gross collections (3PC)	£999.9m	£1,006.3m
3PC income	£146.7m	£152.6m
Yield income from portfolio investments	£399.6m	£395.6m
Cash income	£897.5m	£893.4m
Cash EBITDA(1)	£530.9m	£494.2m
UK	£318.4m	£269.3m
DACH	£85.7m	£86.8m
Nordics	£137.9m	£141.1m
Holding companies	£(11.1)m	£(3.0)m
Operating profit	£162.1m	£79.8m
Loss for the year	£(3.5)m	£(127.8)m
84-month ERC	£2,981.6m	£2,890.8m
120-month ERC	£3,616.2m	£3,509.7m

(1) Cash EBITDA is defined as cash collections on acquired portfolios plus service revenue, other revenue and other income less collection activity costs and other expenses (which together equal operating costs) and before exceptional items, depreciation, amortisation and impairment of non-performing loans.

PRINCIPAL RISKS AND UNCERTAINTIES

As a result of its normal business activities, the Group has exposure to the principal risks outlined below. For further detail on the financial risks, as well as mitigation and controls, please refer to note 28.

The Group continues to operate within the same risk framework as prior years, underlying processes and overall governance structure in accordance with the three lines of defence model. The Group operates a uniform common risk framework across its markets to achieve a consistent approach to risk management, whilst allowing for local operating practices, and to ensure compliance with local legal and regulatory requirements.

The core objectives of the risk framework are to: (i) support the achievement of strategic objectives and priorities, (ii) enable effective oversight and governance, (iii) promote a strong risk and ethics culture based on customer care, conduct principles and integrity; and (iv) ensure compliance with our obligations to regulators, customers, clients, investors and other stakeholders.

The 1st line of defence (Operational Management) owns, manages and is accountable for the risk associated with its activities. The 1st line is responsible for identifying, measuring, assessing, controlling, mitigating and reporting on current and emerging risks, issues or incidents associated with its activities.

The 2nd line of defence (Risk & Compliance functions) oversees risk management. It establishes, implements and maintains an effective risk management program under the direction of the Investor Board, Regional Boards, Senior Management and Risk Committees.

The 3rd line of defence (Internal Audit) acts as an independent assurance function in accordance with the Institute of Internal Auditors Standards. This assurance covers how effectively the organisation assesses and manages its risks and includes assurance on the effectiveness of the 1st and 2nd lines of defence.

Governance and risk oversight are provided across the Group through legal entity Boards with shareholder oversight through the Investor Board and its Board sub-committees: (i) Group Risk Committee, (ii) Group Audit Committee and (iii) Group Remuneration Committee.

The Investor Board sets the strategic aims of the Group, ensures that the necessary resources are in place for the Group to meet its obligations, and is responsible for the allocation and raising of capital, setting and monitoring of risk appetite alongside reviewing business and financial performance.

Its sub-committees provide oversight and advice to the Investor Board within their specific remits notably on risk exposures, adherence to risk appetite, effectiveness of the risk management framework and the internal control framework.

Executive Management further strengthens the overall oversight through key management committees; nominally the Regional Risk & Control Committees & the Group Asset & Liability Committee (“ALCO”).

Strategic risk

There is a risk to earnings resulting from poor or lack of clear strategy and execution, adverse business decisions, and inadequate anticipation of emerging changes in the broader business, economic and political environment (e.g. a lack of availability of appropriately priced debt or a loss of key clients), including changing competitive threats (e.g. competition offering higher prices for debt portfolios) and disruptive innovations.

The Group continues to pursue a growth and change agenda and there remains a risk that the Group will not be able to execute this strategy. A failure to do so could place it at a competitive disadvantage to its peers.

Whilst the Group has chosen to operate within markets that it believes to be economically stable, however the impact of the Ukrainian conflict may add to the economic uncertainty across European markets already constrained by the after-effects of the COVID-19 pandemic.

PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)

Strategic risk (continued)

Whilst group analysis shows no evident correlation between individual economic trends and collections performance, there remains a risk that significant economic and societal stresses could impact collection performance. Even though overall collection performance was broadly resilient during the COVID-19 pandemic, should the current inflationary environment remain protracted and severe then there may be additional affordability pressures on collection performance.

The Group recognises that the post COVID-19 working environment will fundamentally differ to the pre COVID-19 office-based environment and has implemented a hybrid working model. It is recognised that fundamental changes to the operating practices may create emerging risks, such as employee engagement and retention, which the Group continues to monitor.

The Group has chosen to operate in well-regulated and mature credit markets as it believes this fosters good practices and portfolio stability.

These risks are actively monitored and managed within the individual regions and at a Group level through Risk Committees with senior management ownership identified for key risks.

Financial risk

There is a risk to earnings arising from the inability to meet contractual or contingent financial obligations, refinance at reasonable cost, from decisions made based on incorrect models, and economic loss, from changes in market risk factors such as interest rates, foreign currency exchange rates, credit ratings, counter-parties, market liquidity dynamics (including a lack of liquidity sufficient to allow for new investment in portfolio opportunities) and other potential impacts to solvency.

The Group funding model requires continuing access to the capital markets in order to refinance and issue new debt instruments. This risk is considered to be less prominent following the 2020 refinancing, given the nearest debt maturity horizon is now 2025. However, there remains a risk the Group may not be able to access such capital markets, as required, if it fails to deliver on its strategic objectives, deploys significant capital ineffectively or if its financial performance deteriorates materially.

The Group continues to monitor its funding requirements and evaluate alternative funding initiatives such as securitisations and partnerships. Alongside this, capital allocation, underwriting discipline and ongoing portfolio reviews continue to maintain a strong focus on portfolio profitability & returns.

The Group is exposed to market risk both through floating rate and non-Sterling denominated debt. The Group performs scenario planning as part of its budgeting process and these exposures are monitored and mitigated through the ALCO and Board Committees on an ongoing basis.

Compliance risk

There is a risk of legal or regulatory sanctions (including permissions being revoked or the suspension of the Group's ability to trade), financial loss or reputation damages resulting from failure to comply with laws, regulations, ethical standards, prescribed practices, internal policies and procedures and from fraud, corruption or bribery.

The Group operates in regulated markets and consumer protection remains an area where regulation is subject to continuous change across European markets. The Group takes its regulatory commitments extremely seriously and actively seeks to engage with both regulators and policy makers.

There is a risk that as governments consider their legislative agenda post the COVID-19 pandemic and during a period when inflationary pressures are evident, then there may be changes to laws or regulations to help consumers deal with weaker economic circumstances, their personal debt and associated collection fees.

PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)

Compliance risk (continued)

Consequently, there remains the risk that regulations will change and could negatively impact the Group's operations or that the Group could fail to comply with existing regulations and face increased scrutiny or eventual sanction.

Regulatory compliance and horizon scanning for regulatory changes are continually monitored through both Regional and Group Risk Committees.

Operational risk

There is a risk arising from inadequate or failed internal systems, processes, controls, people or from internal/external events affecting the operation of our business.

As the Group continues to grow and execute on its strategy, then the scale of its operations becomes more significant and to some degree more complex. These operations are in some circumstances supported by specialist third party suppliers.

The Group continues to focus on operational resilience and monitors performance and conduct of key suppliers through its third-party risk policy and associated procedures.

While operational performance has not been materially impacted through third party performance weaknesses or failures, there remains the risk that the Group's processes do not prove resilient or third party processes fail and expose the Group to a failure in business continuity or operational losses.

Information and data risk

There is a risk of financial loss, litigation, reputation damage or regulatory sanctions resulting from poor data management, inappropriate data privacy, inadequate management of records and information lifecycle, inability to protect data, systems and information from unauthorised access management, threats, cyber-attacks and security vulnerabilities.

The information and data risks are greatest in the case of a security or privacy breach as well as a failure to comply with GDPR or similar regulations.

Despite significant investment in cyber and information security, alongside IT infrastructure upgrades, the Group was subject to a cyber-attack in the DACH region in March 2022. This reflects the notably higher cyber risk profile that is currently prevalent across all businesses and exacerbated by the European conflict.

Whilst the Group and specialist advisors are still finalising the recovery of limited systems and data impacted, and the Group will continue to strengthen its cyber and information security protection and detection capabilities and technologies, there remains the risk that further attacks could penetrate defences and cause financial, operational and commercial losses. Further information is detailed in note 33.

Any material changes to the existing EU/UK permanent data adequacy decision may lead to more complex contractual arrangements or other safeguards to transfer personal data within the Group, which could lead to increased operational complexity. The Group continues to monitor regulatory compliance and developments for data privacy, data transfer and any associated data processing.

RISK MANAGEMENT

The Group has an active risk management program in place which is overseen by the Investor Board and Group Risk Committee and driven forward by the Group Chief Risk Officer, Group Chief Executive Officer and the Group Executive team.

RISK MANAGEMENT (continued)

Risk management in the Group is intended to:

- Support senior Management in achieving strategic objectives and priorities;
- Enable board members to carry out risk oversight responsibilities and governance duties;
- Promote a strong risk and ethics culture based on customer care and conduct principles; and
- Ensure compliance with our obligations to regulators, customers, investors and other stakeholders.

This is achieved throughout the Group via the following, all underpinned by an effective "three lines of defence" model:

- A strong risk culture, values and ethics;
- A clear risk strategy and objectives;
- A defined and embedded Risk Appetite Statement;
- A comprehensive risk governance structure; and
- An effective risk framework.

Governance & Oversight

Lowell's Corporate Governance arrangements are based on best practices as defined in the UK Corporate Governance Code 2018 and the Wates Corporate Governance Principles for Large Private Companies 2018 and the Group does this in the following ways:

Investor Board: Group oversight and strategy is provided by an Investor Board that comprises our Chairman, Executive Directors and Non-Executive Director and our ultimate equity holders. Beneath this Board sit Group Risk and Audit Committees, the Group Remuneration Committee, and a Group Executive Committee. The Investor Board has overall accountability for risk management.

Group Risk Committee: The Group Risk Committee provides oversight and advice to the Investor Board in relation to: (i) current and potential future risk exposures of the Group and future risk strategy, including determination of risk appetite and tolerance; and (ii) the effectiveness of the risk management framework and, in conjunction with the Group Audit Committee, internal controls required to manage risk.

Furthermore, the Group Risk Committee assists on such other matters as may be referred to it by the Investor Board and promotes a risk awareness culture across the Group. The Group Risk Committee meets quarterly.

Group Audit Committee: The Group Audit Committee provides oversight to the Investor Board regarding the completeness and accuracy of financial statements and effectiveness of internal control systems. The Group Audit Committee also ensures an independent, objective and effective Internal Audit function is in place. The Group Audit Committee meets at least quarterly.

Group Executive Committee: The Group Executive Committee is responsible for the delivery of strategy as agreed by the Investor Board. The Group Executive Committee is provided with monthly reports on the development of earnings, liquidity and the key performance indicators. On the basis of this management information, the Group Executive Committee monitors the business development of all companies within the Group on an ongoing basis and regularly discusses the current business situation with the general managers of the subsidiaries.

RESEARCH AND DEVELOPMENT

Development costs capitalised during the year total £13.9m, which includes work on internally generated software (31 December 2020: £10.1m).

OUTLOOK

During 2021 the Group demonstrated its financial resilience and materially strengthened its financial position as at 31 December 2021 and has substantial available liquidity going into 2022.

The Group's expectations of future collections, alongside its cost reduction programmes to drive efficiency and enhance margins, together with significant liquidity, strongly positions the Group to continue its balanced and disciplined growth ambitions and capture what it believes will be the expected opportunities across the next 12 to 24 months from increasing supply of NPLs to the market across all its regions.

The Group intends to continue to develop all of its regions and service lines, leveraging its competitive advantage with regards to diversification of origination, scale of data assets and use of forward flow arrangements.

In a regional context, the Group expects growth in all of its core markets, investing in excess of its calculated ERC replacement rate, on-boarding new servicing clients and increasing its share of wallet with existing clients.

The Group anticipates an increase in the volume of DP opportunities across its three regions following the COVID-19 pandemic, supported by continued consumer credit growth and the requirement for originators to manage balance sheets and utilise the expertise of leading CMS providers such as Lowell. The Group can benefit from these opportunities given its reputation as a trusted partner to credit originators, who in turn have a greater incentive to sell NPLs due to regulatory and liquidity pressures.

The DACH and Nordic regions continue to engage in meaningful servicing operations and grow their portfolio of 3PC clients; moderate growth is expected in the next twelve months in what are increasingly competitive markets.

While the evaluation of its impact to the business remains ongoing, management do not expect the cyber incident in DACH to significantly affect the Group's outlook and are optimistic that business has been deferred rather than lost.

The Group has commenced initiatives in all regions to focus on tighter cost control and drive operational efficiency through change and information technology projects. The benefits of these investments and cost reductions are already visible in 2021 and are expected to further crystallise in 2022 - 2023 as the Group continues its focus on margin accretion and efficiency improvements.

The Group will continue its focus on balance sheet strength and maintain leverage within its stated target of 4.0x – 3.5x.

As a result of the positive industry backdrop, the Group's strengthened liquidity and capital position, and the Group's leading positions across its markets, Management believes the Group to be well positioned to further leverage its size and scale as a pan-European CMS provider. The Group expects to strengthen its market leading positions and continue to grow the business for the long-term and in the best interests of all its stakeholders.

Underlying growth in our markets is expected to continue, driven by key trends:

- Structural change in the landscape of financial services whereby new offerings for financial products are coming to market from non-traditional financial services providers using digital and innovative distribution channels and who regularly outsource their debt servicing to service providers like Lowell. This structural change already serves as a growth driver for our business and will continue to do so as the new entrants win market share in a growing market.
- Growth in consumer finance has been evident across Europe for a number of years as consumers have continued to use financial products as a means to facilitate consumption. Coupled with an expected turn in the credit cycle post the COVID-19 pandemic it is anticipated there will be an increased supply of NPLs to the market and volumes for the debt service industry.

OUTLOOK (continued)

- Regulatory changes, together with credit originators viewing credit management as a non-core activity, will increase pressure to outsource or sell to trusted partners. This will lead to increased use of debt management and debt purchase services.

2021 was a significant year of delivery for Lowell, showing that in periods of unprecedented global uncertainty, the Group is able to continue to operate effectively, purchase portfolios at attractive IRRs and generate net cash inflows through business-as-usual activity.

Furthermore, on 13 April 2022, the Group entered into an agreement to purchase 100% of the share capital of Hoist Finance UK Limited. The transaction includes the operations of Hoist Finance UK and its entire unsecured non-performing loan portfolio, comprising of over 2 million consumer accounts, with approximately £585m 180-month Estimated Remaining Collections as at December 2021. The loan portfolio is almost exclusively in the credit card and personal loan sector. The acquisition continues Lowell's growth trajectory as well as delivering targeted, strategic expansion into the UK financial services sector, specifically banking. Lowell will also benefit from improved data insight from the financial services market, materially speeding up pricing and analysis whilst reducing investment risk. The transaction is valued at £370m on an enterprise value basis as at 31 December 2021 which accounts for £340m of net debt. Completion is subject to the approval of the Financial Conduct Authority and is expected Q3 2022.

In addition, on 13 April 2022, Lowell entered into a new securitisation agreement, being a Publicly Rated Asset Backed Securitisation ("ABS"). The new securitisation, via Wolf Receivables Financing Plc, comprises 357,000 reperforming customer accounts with c£180m 120m ERC. The securitisation will raise proceeds of £100m via the issuance of Senior Notes at a coupon of SONIA+325bps. This new securitisation is a clear demonstration of Lowell's strength in rehabilitating consumer accounts from non-paying to generating stable reperforming cash flows which support investment grade ABS senior notes.

The acquisition of Hoist Finance UK will be funded via a combination of proceeds from the new securitisation, strong operating cash flow and existing committed funding sources.

Approved by the Board of Directors and signed on behalf of the Board by:

Cédric Pedoni
Director
17 May 2022

GARFUNKELUX HOLDCO 2 S.A.
INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GARFUNKELUX HOLDCO 2 S.A.
YEAR ENDED 31 DECEMBER 2021

To the Shareholders of
Garfunkelux Holdco 2 S.A.
488, route de Longwy
L-1940 Luxembourg
Luxembourg

REPORT OF THE REVISEUR D'ENTREPRISES AGREE

Report on the audit of the consolidated financial statements

Qualified Opinion

We have audited the consolidated financial statements of Garfunkelux Holdco 2 S.A. and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2021, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Basis for Qualified Opinion

The Group was subject to a cyber-attack in the DACH region (being the Lowell Financial Services GmbH company and its subsidiaries) in March 2022.

As a result of this incident, the Group could not provide all necessary supporting audit evidence required for the below amounts related to DACH region included in the consolidated financial statements for the year ended as at 31 December 2021:

- Service revenue in amount of GBP 4.1 million from third party collection business ("3PC business") for the year then ended, and the corresponding amount recorded in Trade and other receivables as at 31 December 2021;
- Portfolios acquired during the year ("DP business") in amount of GBP 3.1 million, and the corresponding amounts recorded in Portfolio investments as at 31 December 2021 and in Income from portfolio investments and Net portfolio write-up for the year then ended; and
- Collections in the year from DP business in amount of GBP 20.5 million for the year then ended, and the corresponding amounts recorded in Portfolio investments as at 31 December 2021 and in Income from portfolio investments and Net portfolio write-up for the year then ended.

We were also unable to confirm or verify the above amounts by alternative means.

The Group is in the process of reconstructing these records, but was not able to do so prior to the approval of the consolidated financial statements. Accordingly, we were not able to determine whether any adjustments might be necessary to the amounts shown in the consolidated financial statements for Portfolio investments, Income from portfolio investments, Net portfolio write-up, Service revenue, Tax credit, Loss for the year and Retained deficit as at and for the year ended 31 December 2021.

We conducted our audit in accordance with the Law of 23 July 2016 on the audit profession ("Law of 23 July 2016") and with International Standards on Auditing ("ISAs") as adopted for Luxembourg by the Commission de Surveillance du Secteur Financier ("CSSF"). Our responsibilities under the Law of 23 July 2016 and ISAs as adopted for Luxembourg by the CSSF are further described in the « Responsibilities of "réviseur d'entreprises agréé" for the audit of the consolidated financial statements » section of our report. We are also independent of the Group in accordance with the International Code of Ethics for Professional Accountants, including International Independence Standards, issued by the International Ethics

Standards Board for Accountants ("IESBA Code") as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the consolidated financial statements, and have fulfilled our other ethical responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information stated in the consolidated report including the consolidated management report but does not include the consolidated financial statements and our report of the "réviseur d'entreprises agréé" thereon.

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

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

As described in the "Basis for Qualified Opinion" section above, we were unable to obtain sufficient appropriate evidence regarding the amounts shown in the consolidated financial statements as at and for the year ended 31 December 2021 for Portfolio investments, Income from portfolio investments, Net portfolio write-up, Service revenue, Tax credit, Loss for the year and Retained deficit as a result of the matter described this section. Accordingly, we are unable to conclude whether or not the other information is materially misstated with respect to this matter.

Responsibilities of the Board of Directors for the consolidated financial statements

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

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

Responsibilities of the réviseur d'entreprises agréé for the audit of the consolidated financial statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report of the "réviseur d'entreprises agréé" to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report of the "réviseur d'entreprises agréé". However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

Report on other legal and regulatory requirements

The consolidated management report is consistent with the consolidated financial statements and has been prepared in accordance with applicable legal requirements.

Luxembourg, 17 May 2022

KPMG Luxembourg
Société anonyme
Cabinet de révision agréé

R. Tumanshin

Partner

GARFUNKELUX HOLDCO 2 S.A.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
YEAR ENDED 31 DECEMBER 2021

	Note	Year ended 31 December 2021 £000	Year ended 31 December 2020 £000
Profit or (loss)			
Income			
Income from portfolio investments	16	399,644	395,568
Net portfolio write up	16	72,306	20,596
Portfolio fair value release	16	(1,102)	(1,289)
Service revenue		174,547	188,971
Other revenue		3,669	4,562
Other income		2,116	1,446
Total income		**651,180**	**609,854**
Operating expenses			
Collection activity costs		(256,576)	(290,299)
Other expenses	5	(232,461)	(239,756)
Total operating expenses		**(489,037)**	**(530,055)**
Operating profit		**162,143**	**79,799**
Finance income	6	3,096	6,022
Finance costs	7	(181,963)	(243,534)
Loss for the year, before tax		**(16,724)**	**(157,713)**
Tax credit	8	13,213	29,874
Loss for the year		**(3,511)**	**(127,839)**
Other comprehensive income/(expenditure)			
Items that will not be reclassified to profit or loss			
Actuarial gains/(losses) on pension plans	31	818	(787)
Deferred tax on actuarial (gains)/losses on pension plans	8	(172)	54
		646	**(733)**
Items that will or may be reclassified subsequently to profit or loss			
Foreign operations – foreign currency translation differences		(19,317)	(12,643)
Other comprehensive (expenditure) / income, net of tax		**(18,671)**	**(13,376)**
Total comprehensive expenditure for the year		**(22,182)**	**(141,215)**

The notes on pages 19 to 72 form part of these consolidated financial statements.

GARFUNKELUX HOLDCO 2 S.A.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2021

	Note	31 December 2021 £000	31 December 2020 £000
Assets			
Non-current assets			
Goodwill	11	1,178,491	1,221,265
Intangible assets	12	130,538	158,411
Property, plant and equipment	13	39,063	55,196
Portfolio investments	16	1,203,065	1,106,672
Other financial assets	18	3,874	5,842
Deferred tax assets	9	60,403	41,236
Total non-current assets		**2,615,434**	**2,588,622**
Current assets			
Portfolio investments	16	533,018	555,093
Inventories		44	24
Trade and other receivables	17	44,962	44,527
Other financial assets	18	15,530	12,277
Derivatives	28	1,418	956
Assets for current tax		241	716
Cash and cash equivalents	19	155,889	114,552
Assets classified as held for sale		-	3,072
Total current assets		**751,102**	**731,217**
Total assets		**3,366,536**	**3,319,839**
Equity			
Share capital	24	4,385	4,385
Share premium and similar premiums		1,109,586	1,109,586
Reserves		(122,885)	(104,214)
Retained deficit		(401,975)	(398,464)
Total equity		**589,111**	**611,293**
Liabilities			
Non-current liabilities			
Borrowings	20	2,467,937	2,309,085
Provisions for pension	31	9,072	10,102
Provisions	22	4,608	5,280
Other financial liabilities	23	33,732	44,518
Deferred tax liabilities	9	40,230	33,582
Total non-current liabilities		**2,555,579**	**2,402,567**
Current Liabilities			
Trade and other payables	21	123,240	105,900
Provisions	22	8,907	31,944
Borrowings	20	57,280	111,455
Derivatives	28	846	2,710
Other financial liabilities	23	9,885	14,552
Current tax liabilities		21,688	36,421
Liabilities classified as held for sale		-	2,997
Total current liabilities		**221,846**	**305,979**
Total equity and liabilities		**3,366,536**	**3,319,839**

The notes on pages 19 to 72 form part of these consolidated financial statements.

GARFUNKELUX HOLDCO 2 S.A.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
YEAR ENDED 31 DECEMBER 2021

	Share Capital £000	Share premium & similar premiums £000	Capital Reserve £000	Translation reserve £000	Valuation reserve £000	Retained deficit £000	Total £000
Balance at 1 January 2020	**4,385**	**516,721**	**(8,291)**	**(81,666)**	**(881)**	**(270,625)**	**159,643**
Loss for the year	-	-	-	-	-	(127,839)	(127,839)
Capital contribution[1]	-	590,083	-	-	-	-	590,083
Revaluation of share premium	-	2,782	-	-	-	-	2,782
Actuarial loss on pension	-	-	-	-	(787)	-	(787)
Exchange differences	-	-	-	(12,643)	-	-	(12,643)
Deferred tax on pension	-	-	-	-	54	-	54
Total comprehensive income/(expenditure) for the year	**-**	**592,865**	**-**	**(12,643)**	**(733)**	**(127,839)**	**451,650**
Balance at 31 December 2020	**4,385**	**1,109,586**	**(8,291)**	**(94,309)**	**(1,614)**	**(398,464)**	**611,293**
Loss for the year	-	-	-	-	-	(3,511)	(3,511)
Actuarial gain on pension	-	-	-	-	818	-	818
Exchange differences	-	-	-	(19,317)	-	-	(19,317)
Deferred tax on pension	-	-	-		(172)	-	(172)
Total comprehensive income/(expenditure) for the year	**-**	**-**	**-**	**(19,317)**	**646**	**(3,511)**	**(22,182)**
Balance at 31 December 2021	**4,385**	**1,109,586**	**(8,291)**	**(113,626)**	**(968)**	**(401,975)**	**589,111**

The notes on pages 19 to 72 form part of these consolidated financial statements.

[1]The equity contribution was made without the issuance of shares and recognised as share premium, consistent with Luxembourg legislation.

GARFUNKELUX HOLDCO 2 S.A.
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED 31 DECEMBER 2021

	Note	Year ended 31 December 2021 £000	Year ended 31 December 2020 £000
Net cash generated by operating activities	29	**67,793**	**214,439**
Investing activities			
Purchase of property, plant and equipment	13	(1,227)	(2,293)
Purchase of intangible assets	12	(16,753)	(40,935)
Acquisition of subsidiaries, net of cash acquired	10	-	(13,628)
Net cash used in investing activities		**(17,980)**	**(56,856)**
Financing activities			
Proceeds from issue of Senior Secured Notes	30	-	1,731,580
Proceeds from loans and borrowings	30	439,438	378,554
Proceeds from capital contribution		-	590,083
Transaction costs related to loans and borrowings	30	(3,748)	(42,563)
Repayment of borrowings	30	(297,996)	(2,650,488)
Payment of lease liabilities	14	(14,601)	(9,683)
Derivative settlement		(2,513)	(6,433)
Interest paid		(122,604)	(164,193)
Net cash used in financing activities		**(2,024)**	**(173,143)**
Net increase / (decrease) in cash and cash equivalents		**47,789**	**(15,560)**
Cash and cash equivalents at beginning of period		114,552	124,495
Effect of movements in exchange rates on cash held		(6,452)	5,617
Cash and cash equivalents at end of period*	19	**155,889**	**114,552**

*Cash and cash equivalents at 31 December 2021 contains £60.4m of restricted cash (31 December 2020: £66.9m). See note 19 for further details.

The notes on pages 19 to 72 form part of these consolidated financial statements.

1. Significant accounting policies

Corporate information

The consolidated financial statements of Garfunkelux Holdco 2 S.A. and its subsidiaries (together "The Group") for the year ended 31 December 2021 were authorised for issue in accordance with a resolution of Directors on 17 May 2022. Under Luxembourg Law, the consolidated financial statements are approved by the shareholder at the Annual General Meeting. Garfunkelux Holdco 2 S.A. (the Company or the parent) is incorporated as an S.A. (Société Anonyme) and domiciled in Luxembourg. The registered office is located at 488 Route de Longwy, L-1940 Luxembourg.

The Group is principally engaged in the provision of credit management services. Information regarding the Group structure is presented in note 15. Information on other related party transactions is presented in note 32.

General information and basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The consolidated financial statements have been prepared on a historical cost basis except for derivative financial instruments that have been measured at fair value. Those standards have been applied consistently to the historical periods. The financial year is the calendar year.

Basis of consolidation

The Group consolidated financial statements consolidate the financial statements of Garfunkelux Holdco 2 S.A. ("the Company") and all its subsidiary undertakings (together "the Group") for the year ended 31 December 2021.

The Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing voting rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable return from its involvement with the investee; and
- The ability to use its power over the investee to affect its return.

Generally, there is a presumption that a majority of voting rights results in control. To support its presumption and when the Group has less than a majority of voting rights or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee including:

- The contractual arrangements with the other investee;
- Rights arising from the contractual arrangements; and
- The Group voting rights and potential voting rights.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Functional and presentation currency

The individual financial statements of each Group company are prepared in the currency of the primary economic environment in which it operates (its "Functional Currency"). For the purposes of these consolidated financial statements, the results are prepared in Sterling, (the Group's "Presentational Currency"). All amounts have been rounded to the nearest thousand, unless otherwise indicated.

1. Significant accounting policies (continued)

Going concern

The Group's business and activities are set out in the Consolidated Statement of Comprehensive Income ("SCI") and Consolidated Statement of Financial Position ("SFP") on pages 15 and 16 respectively. In addition, note 28 to these consolidated financial statements includes the Group's financial risk management objectives; details of its financial instruments and hedging activities and its exposures to credit risk and liquidity risk.

The Group's result for the year ended 31 December 2021 was an operating profit of £162.1m (year ended 31 December 2020: £79.8m) and a net asset position of £589.1m at 31 December 2021 (31 December 2020: £611.3m). Taking finance income and costs into consideration the Group's loss before tax for the year ended 31 December 2021 was £16.7m (31 December 2020: £157.7m). The loss before tax in 2021 was significantly reduced compared to the prior period due to the higher net portfolio write-up, a reduction operating expenses primarily due to tight cost control and a decrease in finance costs resultant of the Group's refinancing activity in October 2020.

The business as a whole is cash generative before portfolio acquisitions, interest and tax, generating cash of £450.1m in the year to 31 December 2021 (year ended 31 December 2020: £503.1m), with operating cash flow after portfolio acquisitions and tax being £67.8m (year ended 31 December 2020 £214.4m). The Group continually monitors its cash flow requirements to ensure that enough cash is available to meet its commitments.

Management believes collections have continued to be resilient during 2021 despite new waves of the COVID-19 pandemic and varying levels of government restrictions in the period. Collection performance has been above 31 December 2020 collections forecasts in all regions, at 106% across the Group (Collections performance at 31 December 2020 was below 31 December 2019 collections forecasts at 94% across the Group). Collections' performance in the UK was especially strong in H1-21 with collections deferred as a result of management actions in Q2-20 continuing to be recovered. Collections performance in the Nordic and DACH regions has also been robust, with collections in excess of the static pool ERC forecasts at c.104% and c.106% respectively. Group cash flows have been re-invested in portfolio acquisitions with a 43% increase in portfolios purchased across the Group compared with the prior period.

The Group has implemented a number of cost initiatives during 2021 and effective cost management has proportionately reduced cost to collect and operating costs, resulting in widening margins for the Group. The Group's operating expenses have reduced by £41.1m during the year (2021 £489.0m, 2020 £530.1m).

The Group expects the business to continue to grow during the next 12 months, with further portfolio purchases increasing the size of the balance sheet and a focus on driving both collections performance and cost efficiencies. Consequently, operating cash flow generation is expected to be stable during this period. If required, management also have significant control over the Group's cash flow principally relating to control over the level of portfolio acquisitions, together with cost mitigations, delaying a number of change projects and reducing other discretionary expenditure.

In assessing whether the going concern basis is appropriate to adopt, the Directors have undertaken a review of forecast cash flow models and both severe but plausible scenarios and a reverse stress test scenario, for a period in excess of 12 months from the date of approval of these financial statements. The severe but plausible scenarios have taken into account both the Group's historical performance through periods of stress and external events, for example the COVID-19 pandemic, which may negatively impact a customer's ability to pay. The scenarios consider the impact of cash flow reductions of 15% across the UK, DACH and the Nordics, with the Group maintaining c.£100m of liquidity in the next 18 months under the most severe scenario considered. The scenarios are considered to be severe but plausible by management and, both before and after taking Management actions as required, the Group maintains sufficient liquidity and cash reserves to continue as a going concern.

1. Significant accounting policies (continued)

Going concern (continued)

On 17 June 2021 the Group renegotiated its existing UK securitisation facility, reducing the commitment from £255m to £175m on similar commercial terms and extending its maturity to July 2025. On the same date, the Group also entered into a further £225m UK securitisation on similar commercial terms to the existing facility, maturing in January 2027.

As a result of the new and amended securitisation facilities during the period, the Group now has three main sources of funding at 31 December 2021 €630m, £440m and €795m, of Senior Secured notes ("notes"), a €455m RCF and two securitisation facilities, with options to reset to £225m and £175m respectively. As detailed in note 20, at 31 December 2021, £14m was drawn on the RCF and there were £378m of outstanding borrowings in total across the two securitisation facilities. Covenants are detailed in note 20. No covenants have been breached, or are expected to be breached, during the following 12-month period. The earliest debt maturity horizon is July 2025 and the latest is January 2027, being the existing and new securitisation facilities respectively. The Group's notes all mature in either 2025 or 2026. The Group continues to monitor its funding requirements and the Directors believe, given the debt maturity horizon following the recent financing activity, there is sufficient time to consider the extension or re-negotiation of existing facilities, or exploration of new funding arrangements as appropriate.

At the balance sheet date management assessed that the combined operating cash flows of the Group, together with the cash resources and borrowings under the Group's Revolving Credit Facility, will be sufficient to fund the Group's debt and tax servicing requirements as they become due, working capital requirements and anticipated debt purchases. However, the Group's ability to obtain funding in the future from these sources will depend on its performance and prospects, as well as other factors beyond its control, such factors may include weak economic and capital market conditions. An inability to procure sufficient funding at favourable terms to purchase portfolios as they become available could have an adverse effect on the Group's business, results of operations or financial condition.

Based on the above the Directors believe that it remains appropriate to prepare the financial statements on a going concern basis.

Foreign currency

Transactions in foreign currencies are translated to the respective Functional Currencies of Group entities at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the Functional Currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the SCI. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the Functional Currency at foreign exchange rates ruling at the dates the fair value was determined.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to the Group's Presentational Currency (Sterling) at foreign exchange rates ruling at the balance sheet date. The revenues and expenses of foreign operations are translated at an average rate for the period where this rate approximates to the foreign exchange rates ruling at the dates of the transactions. Exchange differences arising from this translation of foreign operations are reported as an item of other comprehensive income and accumulated in the translation reserve. When a foreign operation is disposed of, such that control, joint control or significant influence (as the case may be) is lost, the entire accumulated amount in the Foreign Currency Translation Reserve, net of amounts previously attributed to non-controlling interests, is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while still retaining control, the relevant proportion of the accumulated amount is reattributed to non-controlling interests. When the Group disposes of only part of its investment in an associate or joint venture that includes a foreign operation while still retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

1. Significant accounting policies (continued)

Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of completion) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. At acquisition, non-controlling interest ("NCI") is measured at fair value. Acquisition-related costs are recognised in profit or loss as incurred.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition date fair value. Changes in fair value or measurement period adjustments may change the fair value of the assets recognised (see below).

All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant IFRS standards. Changes in the fair value of contingent consideration classified as equity are not recognised.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 (Business Combinations) are recognised at their fair value at the acquisition date, except that of deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements that are recognised and measured in accordance with IAS 12 (Income Taxes) and IAS 19 (Employee Benefits) respectively.

On a business combination the portfolio investments are recalculated to fair value using an appropriate discount rate at the date of acquisition, calculated based on actual performance and forecasts at that date.

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

Goodwill

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is allocated, at acquisition, to the cash-generating units (CGUs) that are expected to benefit from that business combination. Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest (if any) in the entity over the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed.

Total goodwill is tested for impairment at least annually. If there is evidence of impairment in any CGU, goodwill allocated to that CGU is also tested for impairment.

The Group calculates the recoverable amount of each CGU by determining the higher of its fair value less costs to sell, and value in use. Certain assumptions are made in relation to the value in use calculation including forecast cash flows, growth rates, future portfolio acquisitions and an appropriate discount rate.

If the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rated basis in relation to the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period. On disposal of a subsidiary, the goodwill attributable to that subsidiary is included when calculating the profit or loss on disposal.

1. Significant accounting policies (continued)

Revenue recognition and effective interest rate method

Finance revenue on acquired portfolio investments

Income from portfolio investments represents the yield from acquired portfolio investments, net of VAT where applicable. Acquired portfolio investments are held to collect contractual cash flows of payments of solely principal and interest, recognising them at amortised cost and in line with IFRS 9.

The effective interest rate ("EIR") is the rate that exactly discounts the day one estimated future cash receipts of the acquired portfolio asset to the net carrying amount at initial recognition, (i.e. the price paid to acquire the asset). These estimated future cash receipts are reflective of the estimated remaining life of the portfolios and range from 84 months to 120 months.

Acquired portfolio investments are acquired at a deep discount and classified as purchased or originated credit impaired ("POCI") in line with IFRS 9. As a result, the estimated future cash flows and hence EIR, reflect the expected life time credit losses within each portfolio.

Increases in portfolio carrying values can and do occur should forecasted cash flows be deemed greater than previous estimates and because of the rolling nature of the period to derive future cash receipts. The difference in carrying value following an enhanced collection forecast is recognised in the net portfolio write up line item within income, with subsequent reversals also recorded in this line. This line represents the net impairment gains or losses on portfolio investments.

As part of the acquisition accounting around the purchase of Metis Bidco Limited by Simon Bidco Limited on 13 October 2015 the portfolio investments were uplifted to their fair value at the date of acquisition. The portfolio fair value release represents the unwinding of this fair value uplift (see note 16). This uplift is being unwound in line with the standard profile of a gross ERC curve of these portfolios.

Service revenue

Service revenue represents amounts receivable for tracing and debt collecting services (commissions and fees) provided to third party clients including collection lawyers, net of VAT where applicable. Performance obligations within service contracts are the collection of cash and hence these are satisfied when the Group collects on debt. Payment is due from clients shortly after cash is collected on their behalf. Revenue is recognised when performance obligations are satisfied.

Impairment of acquired portfolio investments

Acquired portfolio investments are reviewed for indications of impairment in accordance with the IFRS 9 forward looking expected credit loss ("ECL") model. As the Group's portfolio investments are classified as POCI assets, lifetime ECL is included in the calculation of EIR. Impairment represents changes to carrying values, discounted at the EIR, of the portfolio investments as a result of reassessments of the estimated future cash flows. These are recognised in net portfolio write up in the SCI.

The impairment adjustment is calculated by discounting regularly revised cash flow forecasts developed for each individual portfolio investment, at the initially set EIR. The cash flow forecasts, which represent the undiscounted value of the ERC of our portfolio investments at a given point in time, are calculated over the portfolio expected useful life, based on previous month's collections and portfolio performance information collated within our proprietary valuation model.

1. Significant accounting policies (continued)

Financial instruments

Financial assets and financial liabilities are recognised in the Group's Consolidated SFP when the Group becomes a party to the contractual provisions of the instrument.

On initial recognition, a financial asset is classified at amortised cost, fair value through profit or loss ("FVTPL"), or fair value through other comprehensive income ("FVOCI"). The Group does not have any financial assets classified as FVOCI.

Financial assets and liabilities at fair value through profit or loss

This category relates to financial assets and liabilities that must be recognised at fair value through profit or loss. Such assets or liabilities are initially recognised at transaction price, which at this point equates to fair value. They must be measured subsequently at fair value.

The main assets and liabilities in the Group falling into this category are derivative financial instruments that do not fall under the scope of hedge accounting in accordance with IFRS 9.

Amortised cost financial assets

A financial asset is measured at amortised cost if both of the following conditions are met:

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

Portfolio investments are acquired from institutions at a substantial discount from their face value. The portfolios are initially recorded at their fair value, being their acquisition price, and are subsequently measured at amortised cost using the EIR method.

The Group has forward flow agreements in place in relation to the future acquisition of portfolio investments. The fair value and subsequent amortised cost of portfolios acquired under these agreements are determined on the same basis as the Group's other acquired portfolio investments.

The portfolio investment is analysed between current and non-current in the SFP. The current asset is determined using the expected cash flows arising in the next twelve months after the SFP date. The residual amount is classified as non-current.

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'Trade and other receivables'. Trade and other receivables are measured at amortised cost using the EIR method, less any impairment. Interest income would be recognised by applying the effective interest rate, however the Group only holds short-term receivables for which the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those held at fair value through profit or loss are assessed for indicators of impairment at least at the end of each period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

1. Significant accounting policies (continued)

Financial instruments (continued)

Derecognition of financial assets

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

Financial liabilities and equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Financial liabilities

All financial liabilities held by the Group are measured at amortised cost using the EIR method, except for those measured at fair value through the SCI, e.g. derivative liabilities. The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

Derivative financial instruments

The Group does not hold derivative instruments for trading purposes.

Derivative financial instruments have been used for hedging. As of the balance sheet date, they relate to hedges taken out to hedge the risk of variability in cash flows.

Derivatives are initially recognised at fair value on the date on which the derivative contract is entered into, and subsequently re-measured at their fair value at each reporting date. The resulting gain or loss is recognised in the SCI immediately. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Fair value measurements

The fair value of financial instruments is determined in accordance with IFRS 13 (Fair Value Measurement), as described in note 28.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, if it is probable that the Group will be required to settle that obligation and if a reliable estimate of the amount of the obligation can be made.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the SFP date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the discounted present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

1. Significant accounting policies (continued)

Pensions

Defined benefit pensions

The Group provides defined benefit pension plans through some of its German and Nordic subsidiaries. Provisions for pensions are calculated pursuant to IAS 19. Actuarial models are used to calculate the provisions for pensions and the related pension expenses. These calculations use various assumptions such as current actuarial probabilities (discount factors, increase in cost of living etc.), assumptions regarding turnover based on age and years of service as well as experience-based assumptions concerning the probability of occurrence of pension payments, annuity payments or endowment payments. Changes in assumptions result in actuarial gains and losses being recognised in Other Comprehensive Income ("OCI"). The probabilities used in the inputs may deviate from actual developments due to changes in market and economic conditions. Sensitivity analysis is used to determine the financial effects of the deviations in the significant inputs.

Defined contribution pensions

The Group operates a defined contribution scheme for the benefit of its employees. Contributions payable are charged to the SCI in the period they are payable.

Taxation

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

Current tax

The tax currently payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in the SCI because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the period end.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each SFP date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the SFP date. Deferred tax is charged or credited in the SCI, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

1. Significant accounting policies (continued)

Taxation (continued)

Deferred tax (continued)

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

VAT

Income, expenses and assets are recognised net of VAT, except:

- Where the VAT incurred on purchased goods and services cannot be reclaimed from the tax authorities, in which case the VAT is recognised as part of the cost of the asset or as an expense.
- Receivables and liabilities are stated with the amount of VAT included.

The VAT amount reclaimable from, or payable to, the tax authorities is reported under receivables or liabilities in the balance sheet.

Collection activity costs

Collection activity costs represent direct staff costs and the direct third party costs in providing services as a debt collection agency or collecting debts on acquired portfolio investments; examples include printing and postage, third party commissions, search and trace costs, litigation, telephone and SMS costs. Costs are recognised when they are incurred.

Current versus non-current classification

The Group presents assets and liabilities in the consolidated statement of financial position based on current/non-current classification.

An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities respectively.

1. Significant accounting policies (continued)

Investment vehicles

Investment vehicles are all securitisation vehicles that the Group has an interest in but does not control. The Group uses investment vehicles in the normal course of business to facilitate acquisitions of portfolios in accordance with local law, to allow co-investment with other parties, or to implement the financing required to acquire portfolios.

Securitisation vehicles in which the Group holds an economic interest are usually operated according to predetermined criteria that are part of the initial design of the vehicles. The Group is exposed to variability of returns from the vehicles through its holding of various securities in the vehicles. When assessing whether it has control, the Group considers whether it has the power to influence any key decisions that could significantly affect these vehicles' returns, alongside its total variability related to its economic interests in the vehicles. For investment vehicles currently in existence, the Group has concluded that it does not have sufficient power over the vehicles or variability to their returns and therefore does not control the vehicles.

Share-based Payments

Some employees (including senior executives) of the Group receive remuneration in the form of share-based payments settled by the main shareholder of the Group as described in note 27.

IFRS 2 Share-based Payment requires an entity to account for a transaction in which it either:

- Receives goods or services when another entity in the same group (or a shareholder of any group entity) has the obligation to settle the share-based payment transaction; or
- Has an obligation to settle a share-based payment transaction when another entity in the same group receives the goods or services;

unless the transaction is clearly for a purpose other than payment for goods or services supplied to the entity receiving them.

Equity-settled transactions

To the extent a cost is recognised, the cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model.

The cost is recognised in employee benefits expense together with a corresponding increase in equity (other capital reserves), over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the SCI for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

In the consolidated financial statements of the Group, the share-based payment arrangements described in note 27 have been classified as equity settled transaction because the Group has no obligation to settle the transaction with the employees for services it receives.

1. Significant accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and bank deposits with a term from inception of three months or less, less bank overdrafts where there is a right to offset. Bank overdrafts are presented as current liabilities to the extent that there is no right to offset with cash balances in the same currency.

The Group holds cash on behalf of third parties as part of its collection activities and its securitisation facilities. This restricted cash is shown within cash with a corresponding liability recognised in other payables.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives, using the straight-line method, on the following bases:

Hardware	3 to 5 years
Office equipment	3 to 15 years
Leasehold improvements	Life of lease (1 to 15 years)

The gain or loss arising on the disposal of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the SCI.

Borrowing costs are added to the costs of an asset provided it is a qualifying asset pursuant to IAS 23.

Intangible assets

Separately acquired or internally generated intangible assets are stated at cost less accumulated amortisation and any recognised impairment loss.

An internally generated intangible asset arising from development (or from the development phase of an internal project) is recognised only if technical feasibility has been demonstrated such that the asset will be available for use or sale, that there is an intention and ability to use or sell the asset, that it will generate future economic benefit, and that the expenditure attributable to the asset during its development can be measured. Where no internally generated intangible asset can be recognised, development expenditure is expensed as incurred.

Amortisation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives on the following bases:

Software	3 to 5 years	Straight line
Licences	1 to 5 years	Straight line
Trademarks	15 years	Straight line
Customer relationships	5 to 10 years	Expected life of the underlying contract (collection profile)

Development costs are not amortised until the project they relate to is complete and goes live. Once the project is live the costs are moved from development costs to the relevant category and amortised over the applicable useful economic life.

Assets are reviewed for signs of impairment at least annually and more frequently if necessary. Impairments are recognised where the carrying value of the asset exceeds the future economic benefit.

1. Significant accounting policies (continued)

Leases and Right-of-use assets

The Group leases various properties, equipment and cars. Rental contracts are typically made for fixed periods but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. This is the case if the contract gives the right to control the use of an asset for a period of time in exchange for consideration. This right to control is established if:

- The Group has the right to obtain substantially all of the economic benefits from use of the asset; and
- The Group has the right to direct the use of the asset.

The identified asset should be physically distinct or be implicitly specified at the time the asset is made available. Even if the asset is specified, the Group does not have the right to use the asset if the supplier has the substantive right to substitute the asset throughout the period of use. If the contract is for use of a portion of an asset that is not physically distinct, it is not an identified asset unless it represents substantially all of the capacity of that asset.

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Right-of-use assets are measured at cost comprising the amount of the initial measurement of lease liability adjusted for any lease payments made at or before the commencement date less any lease incentives received plus any initial direct costs and an estimate of restoration costs.

The lease liability is measured at present value, discounted at the incremental borrowing rate, and includes fixed payments, variable lease payments linked to an index or rate and the exercise price under a purchase option that the Group is reasonably certain to exercise. It is remeasured when there is a change in future lease payments arising from a change in an index or rate or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

Each lease payment is allocated against the lease liability. A finance cost is charged to profit or loss over the lease period using the incremental borrowing rate, so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment and small items of office furniture with a market value, when new, of less than £/€5,000.

2. Significant accounting estimates and judgements

The reported results of the Group are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of the Group's financial statements. IFRS requires the Directors, in preparing the Group's financial statements, to select suitable accounting policies, apply them consistently, and make judgements and estimates that are reasonable.

The judgements and estimates used in applying the Group's accounting policies that are considered by the Directors to be the most important to the portrayal of its financial position are detailed below. The use of estimates, assumptions or models that differ from those adopted by the Group would affect its reported results.

Portfolio investment valuation

Portfolio investments are acquired from institutions at a substantial discount from their face value and are subsequently measured at amortised cost using the EIR method.

The calculation of the EIR for each portfolio is based on the estimation of future cash flows, known as ERCs. These ERCs are based upon historical collections data from other portfolios with similar features such as type and quantum of debt, or age. The calculation of the ERC for each portfolio investment is inherently judgemental as it involves the estimation of future cash flows based upon collections data from the individual debt owed.

Actual cash flows are regularly compared to estimates to assess the accuracy of previous forecasts. Future collections may differ from those estimated at this point in time and if they do differ, an adjustment is recorded to the carrying value of the portfolio and is included as a net portfolio write up or write down within income.

The ERC of the portfolio investments has been assessed at the period-end on a regional basis. Management have considered the observable information available in forming judgements for each region, noting that collections, despite the COVID-19 pandemic, have remained resilient during 2020 and 2021.

Management's key judgement is focused on the UK collections performance, where an element of collections were deferred as a consequence of management actions taken in Q2-20 in response to the COVID-19 pandemic. Collection performance in the Nordic and DACH regions has continued to be robust with performance ahead of the ERC forecasts. The key judgement in the UK relates to a significant proportion of the deferred collections being recovered during 2021, ahead of management's expectations. Management has therefore re-evaluated its underlying portfolio-level ERC in line with the Group's revaluation policy to assess the future collections expectation in relation to timing of collections and quantum of collections. The ERC curves in the UK region have been assessed at the year-end, with more insight and performance data now available in the period since the onset of COVID-19 in March 2020. Where required under the Group's revaluation policy, individual portfolio curves have been reforecast. The resultant portfolio curves support the judgements initially taken in Q2-20.

This key judgement and the associated assumptions regarding cash flow forecasts are management's best estimate of future performance based on current market and customer information available.

An uplift or reduction in expected future cash flows of 1% would increase or decrease the closing carrying value of portfolio investments at 31 December 2021 by £17.4 (31 December 2020: £16.9m).

2. Significant accounting estimates and judgements (continued)

Goodwill and valuation of intangible assets

The Group recognises goodwill on the acquisition of businesses. Goodwill is the excess of the cost of an acquired business over the fair value of its net assets. The determination of the fair value of acquired net assets requires the exercise of management judgement, particularly for those financial assets or liabilities for which there are no quoted prices, or assets such as acquired investment portfolios where valuations reflect estimates of future cash flows.

Goodwill is not amortised but is tested for impairment on an annual basis, or more frequently if events or changes in circumstances indicate that it might be impaired. ERCs, underpinned by forecast portfolio acquisitions, form the principal cash flows along with 3PC revenue for the CGUs.

Determining whether goodwill is impaired requires an estimation of the value in use of the CGUs to which goodwill has been allocated. Calculation of the value in use requires an estimate of future cash flows expected to arise from each CGU after a suitable discount rate has been applied to calculate present value. This inherently involves a number of judgements in that cash flow forecasts are prepared for periods that are beyond the normal requirement of management reporting, and the appropriate discount rate relevant to the business is an estimate.

The Group’s significant estimate in the cash flow analysis underpinning the impairment review is the level of portfolio acquisitions that can be achieved over the forecast period within each CGU, based on the future profitability and funding profile of the Group. Management is forecasting a sustained increase in portfolio acquisitions in future periods compared to prior periods, with at least £400m of portfolio acquisitions in FY22. Given the forecasted increase in portfolio purchases, naturally, there is an increased execution risk. If the CGUs are unable to achieve the level, or close to the level, of forecast purchases over a sustained period of time there is a risk that the goodwill carrying value might be impaired.

Based on the CGU’s value in use, a consistent fall in the forecast portfolio acquisitions across the entire forecast period of 19% in the UK, 8% in Nordics and 6% in DACH would result in an impairment at 31 December 2021. Management believes it is highly unlikely that the Group would observe a sustained reduction in portfolio acquisitions of this level and believes if a reduction in portfolio acquisitions did occur, it would be the result of a short-term supply-side shock, similar to the COVID-19 pandemic in 2020.

Furthermore, the Group’s forward flow commitments already in place partially mitigate the risk of a short-term fall in forecast portfolio acquisitions. The Group already has £250m of forward flow commitments for FY22 in place which guarantee a level of portfolio acquisitions.

While management has confidence over the Group’s forecasts and the supply of NPLs to the market, future conditions are never certain and the Group may not always acquire portfolios in line with its expectations.

The WACC rate applied to the cash flows in the impairment review is also an important estimate. An increase in the WACC rate of 3.2 percentage points in the UK, 0.5 percentage points in DACH and 1.5 percentage points in the Nordics would result in an impairment at 31 December 2021.

See note 11 for further details.

3. Segmental reporting

Segmentation

IFRS 8 requires operating segment reporting to be based on information provided to the chief operating decision maker which, in this case, is considered to be the Group Executive Committee. Information is presented to the Group Executive Committee on the basis of the three main regions within which the Group operates – the UK, DACH (Germany, Austria and Switzerland) and Nordic (Sweden, Norway, Denmark and Finland) regions. This is in line with the management of the Group. Holding company costs include amounts recognised in relation to holding companies introduced to the Group on the acquisitions of the UK, DACH and Nordic regions.

The UK, DACH and Nordic operating segments derive revenues from the acquisition and collection of consumer debt portfolios and receivables management.

All revenues are derived from external customers.

Segmental results

Year ended 31 December 2021

	UK	DACH[4]	Nordics	Holding companies	Total
	£000	£000	£000	£000	£000
Total income	286,144	185,396	180,742	(1,102)[1]	651,180
Collection activity costs	(86,839)	(108,875)	(60,862)		(256,576)
Other operating expenses	(59,509)	(62,734)	(49,007)	(12,764)[2]	(184,013)
Operating profit before depreciation, amortisation and impairment	**139,796**	**13,787**	**70,873**	**(13,866)**	**210,590**
Depreciation, amortisation and impairment	(5,670)	(22,026)	(20,131)	(620)[3]	(48,447)
Operating profit / (loss)	**134,126**	**(8,239)**	**50,742**	**(14,486)**	**162,143**
Finance income					3,096
Finance costs					(181,963)
Loss before tax					**(16,724)**
Income tax					13,213
Loss for the year					**(3,511)**

[1] Total income in holding companies relates to the fair value step up on acquisition of Metis Bidco by Simon Bidco.

[2] Other operating expenses in holding companies relate to central costs. On 1 January 2021 the Group transferred a number of employees from regional entities to the Group holding companies, resulting in an increase in holding company expenses.

[3] Depreciation, amortisation and impairment in holding companies relates tradename assets recognised on acquisition of the UK region.

[4] DACH total income includes £27.8m of lawyer service revenue and DACH collection activity costs includes £28.2m of lawyer collection costs.

3. Segmental reporting (continued)

Segmental results (continued)

Year ended 31 December 2020

	UK £000	DACH[4] £000	Nordics £000	Holding companies £000	Total £000
Total income	230,833	217,717	162,547	(1,244)[1]	609,854
Collection activity costs	(95,257)	(134,591)	(60,451)	-	(290,299)
Other operating expenses	(73,521)	(65,942)	(47,097)	(3,839)[2]	(190,399)
Operating profit before depreciation, amortisation and impairment	**62,055**	**17,184**	**55,000**	**(5,082)**	**129,157**
Depreciation, amortisation and impairment	(5,400)	(28,408)	(14,928)	(622)[3]	(49,358)
Operating profit / (loss)	**56,655**	**(11,224)**	**40,072**	**(5,704)**	**79,799**
Finance income					6,022
Finance costs					(243,534)
Loss before tax					**(157,713)**
Income tax					29,874
Loss for the year					**(127,839)**

[1] Total income in holding companies relates to the fair value step up on acquisition of Metis Bidco by Simon Bidco.

[2] Other operating expenses in holding companies relate to central costs.

[3] Depreciation, amortisation and impairment in holding companies relates to customer relationship and tradename assets recognised on acquisition of the UK and DACH regions.

[4] DACH total income includes £36.5m of lawyer service revenue and DACH collection activity costs includes £37.1m of lawyer collection costs.

	At 31 December 2021 £000	At 31 December 2020 £000
Non-current assets		
UK	573,904	580,759
DACH	528,714	583,503
Nordics	245,473	270,610
Total non-current assets	**1,348,091**	**1,434,872**

Non-current assets above exclude portfolio investments, other financial assets and deferred tax assets.

3. Segmental reporting (continued)

Secondary segment

In addition to the primary geographical segment on which the chief operating decision maker reviews the performance of the Group, data is also reviewed on a business line basis. These principally comprise:

- The acquisition and collection of non-performing consumer debt portfolios (DP); and
- The provision of third party collection services (3PC).

	Year ended 31 December 2021 £000	Year ended 31 December 2020 £000
Income		
DP	470,848	414,875
3PC income	146,742	152,523
Lawyer service revenue	27,805	36,448
Other	5,785	6,008
Total income	**651,180**	**609,854**

4. Loss before tax

Loss for the period is after charging:	Year ended 31 December 2021 £000	Year ended 31 December 2020 £000
Depreciation and impairment of property, plant and equipment (note 13 & 14)	13,072	14,027
Amortisation and impairment of intangible assets (note 12)	35,375	29,991
Loss on disposal of property, plant and equipment and intangible assets	1,080	178
Staff costs (note 5c)	189,255	206,798

5. Staff costs and other operating expenses

a) Other operating expenses

	Year ended 31 December 2021 £000	Year ended 31 December 2020 £000
Staff costs (note 5c)	90,540	101,341
Depreciation of property, plant and equipment (note 13 & 14)	13,072	14,027
Amortisation of intangible assets (note 12)	35,178	29,991
Impairment of assets	197	5,338
Loss on disposal of property, plant and equipment and intangible assets	1,080	178
Licences and maintenance for IT equipment	22,420	32,140
Building and facility costs	4,899	6,393
Other operating expenses	65,075	50,348
Total other operating expenses	**232,461**	**239,756**

Other operating expenses includes primarily office costs, consultancy, professional fees and change programme costs.

5. Staff costs and other operating expenses (continued)

b) Auditor's remuneration

	Year ended 31 December 2021 £000	Year ended 31 December 2020 £000
Audit fees of Parent Company and consolidated financial statements	220	232
Audit fees of financial statements of subsidiaries	1,213	931
Services relating to tax	44	-
Other services	152	520
Total auditor's remuneration	**1,629**	**1,683**

Other services comprise interim review fees and assurance fees in connection with financing.

The extent of non-audit services fees payable are reviewed by the Audit Committee in the context of the fees paid by the Group to its other advisors during the period. The Committee also reviews the nature and extent of the non-audit services to ensure that independence is maintained.

c) Staff costs

	Year ended 31 December 2021 £000	Year ended 31 December 2020 £000
Collection activity costs	98,715	105,457
Other expenses	90,540	101,341
Total staff costs	**189,255**	**206,798**

	Year ended 31 December 2021 £000	Year ended 31 December 2020 £000
Wages and salaries	159,834	174,748
Social security costs	21,237	23,233
Pension costs to defined contribution schemes	8,045	8,032
Pension costs to defined benefit schemes	139	785
Total staff costs	**189,255**	**206,798**

The average number of employees during the period was:

	Year ended 31 December 2021 Number	Year ended 31 December 2020 Number
Operational staff	2,404	2,642
Business support	1,028	1,272
Total average number of employees	**3,432**	**3,914**

The period end number of employees was:

	31 December 2021 Number	31 December 2020 Number
Operational staff	2,338	2,535
Business support	952	1,265
Total number of employees at period end	**3,290**	**3,800**

5. Staff costs and other operating expenses (continued)

d) Directors' remuneration

The Directors are not paid by any Company that forms part of the Group.

Emoluments paid to other key employees who are not Directors of this Company but are Directors of subsidiaries of the Company are detailed in note 32. Eight employees are paid by subsidiary undertakings of the Company for their services as Directors to the Group.

6. Finance income

	Year ended 31 December 2021 £000	Year ended 31 December 2020 £000
Bank interest receivable	983	514
Interest receivable on loans to affiliated companies	-	625
Net foreign exchange gain	2,113	-
Net gain on financial instruments designated as FVTPL	-	4,883
Total finance income	**3,096**	**6,022**

7. Finance costs

	Year ended 31 December 2021 £000	Year ended 31 December 2020 £000
Interest payable on the Senior Secured Notes	114,613	112,452
Interest payable on the Senior Unsecured Notes	-	18,250
Fees payable on borrowings	7,541	44,461
Interest and fees payable on Revolving Credit Facility	5,445	12,887
Interest payable on shareholder loan	43,948	39,633
Interest payable on securitisation	6,760	7,151
Fees payable on other finance structures	664	800
Other interest payable	249	4,606
Interest expense from lease liabilities	1,626	2,268
Net loss on financial instruments designated as FVTPL	1,117	-
Net foreign exchange loss	-	1,026
Total finance costs	**181,963**	**243,534**

In November 2020 the Group redeemed its existing Senior Secured and Senior Unsecured Notes and issued Senior Secured Notes. Deferred fees associated with the redeemed notes were immediately recognised in P&L as part of the transaction, resulting in higher fees payable on borrowings in 2020 compared to the current year. See note 20 for further details.

8. Income tax

a) Amounts recognised in the Statement of Comprehensive Income

	Year ended 31 December 2021 £000	Year ended 31 December 2020 £000
Current taxation		
Corporation tax	5,913	6,584
Adjustment in respect of previous periods	(7,609)	(864)
Total current tax charge	**(1,696)**	**5,720**
Deferred tax		
Origination and reversal of temporary differences	(3,282)	(41,677)
Change in estimate of recoverable deferred tax	1,425	7,889
Impact of change in tax rate	(9,660)	(1,806)
Total deferred tax credit (note 9)	**(11,517)**	**(35,594)**
Total tax credit	**(13,213)**	**(29,874)**

	Year ended 31 December 2021 £000	Year ended 31 December 2020 £000
Pension Provisions	**172**	**(54)**

b) Reconciliation of effective tax rate

The standard average effective rate of corporation tax in Luxembourg is 24.94%. However, as the Group is located in different countries, the standard average effective rate of corporation tax for the Group is 22% (2020: 22%). The tax credit assessed for the period is lower than this and the differences are explained below:

	Year ended 31 December 2021 £000	Year ended 31 December 2020 £000
Loss on ordinary activities before tax	**(16,724)**	**(157,713)**
Tax credit on loss on ordinary activities at a combined countries rate of 22% (2020: 22%)	(3,679)	(34,697)
Effects of:		
Permanent differences	3,455	665
Net of expenses not deductible and income not taxable	4,650	1,246
Adjustment in respect of prior years deferred taxes	1,426	6,968
Impact of tax losses carried forward	92	921
Adjustment in respect of prior years current taxes	(7,609)	(864)
Tax rate differences	(11,459)	(4,105)
Other	(89)	(8)
Total tax credit	**(13,213)**	**(29,874)**

9. Deferred tax

Deferred tax assets and liabilities are attributable to the following as at 31 December 2021 and 31 December 2020.

	31 December 2021 £000	31 December 2020 £000
Recognised in profit or loss		
Intangible assets	(34,484)	(42,644)
Portfolio investments	(34,695)	(36,969)
Tax losses carried forward	78,695	72,157
Other	10,657	15,110
Net tax assets / (liabilities)	**20,173**	**7,654**

Deferred tax assets and liabilities are offset where the Group has a legally enforceable right to do so.

The movement in deferred tax balances throughout the period are as follows:

	Year ended 31 December 2021 £000	Year ended 31 December 2020 £000
SCI effect	11,517	35,594
Equity effect	(172)	54
Acquisition of subsidiaries	-	(5,031)
Disposal of subsidiaries	-	1,765
Exchange rate differences	1,173	(1,530)
Movement in the period	**12,518**	**30,852**

	31 December 2021 £000	31 December 2020 £000
Deferred tax asset	60,403	41,236
Deferred tax liability	(40,230)	(33,582)
Net deferred tax asset / (liability)	**20,173**	**7,654**

At 31 December 2021 deferred tax assets of £13.0m (31 December 2020: £16.0m) have not been recognised in respect of tax losses because it is not probable that future taxable profit will be available against which the losses can be utilised. Tax losses recognised are expected to be offset against future taxable profits.

The Group notes that as part of the Finance Bill 2021, the UK corporation tax rate will increase to 25% with effect from 1 April 2023. This has increased the value of the deferred tax asset on the balance sheet. The change has been reflected in the financial statements.

10. Acquisition of subsidiaries

Acquisition of Solvencia AS

On 1 October 2020, the Group acquired 100% of the ordinary share capital of Solvencia AS from Fortum. Solvencia AS is a credit management company that operates in the Nordic region. The Group also entered into a 3PC contract on behalf of Fortum's electricity sales.

11. Goodwill

	Year ended 31 December 2021 £000	Year ended 31 December 2020 £000
Cost		
Opening balance	1,221,265	1,184,974
Addition on acquisition of subsidiary	-	658
Effect of currency translation	(42,774)	35,633
At period end	**1,178,491**	**1,221,265**
Net book value		
At period end	**1,178,491**	**1,221,265**

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units that are expected to benefit from that business combination. The carrying amount of goodwill has been allocated to three aggregated CGUs on the basis that these represent the lowest level at which goodwill is monitored for internal management purposes. The CGUs identified are the UK, comprising of all subsidiary companies operated in the UK owned by Simon Holdco Limited, DACH, consisting of all subsidiary companies operated in DACH owned by Lowell Holding GmbH and Nordics, consisting of all subsidiary companies operated in the Nordic region owned by Lowell Nordics Oy.

Foreign currency denominated goodwill is retranslated at each balance sheet date and gives rise to the currency translation effect shown above.

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired.

The recoverable amount of the CGUs is determined as the higher of fair value less cost to sell and value in use. The Group's goodwill impairment review at 31 December 2021 determines value in use as the CGUs recoverable amount. The most significant assumptions for the value in use calculation are the level of portfolio acquisitions during the forecast period and the discount rate applied. Other key assumptions are those regarding the growth rates and expected changes to collections and direct costs during the forecast period. The Group uses cash flow forecasts from the latest budgets, prepared for the next four years and extrapolates these forecasts to an appropriate period to reflect the CGU's business model. A terminal value is calculated into perpetuity, using the following growth rates:

	31 December 2021 £000	31 December 2020 £000
UK CGU	1.5%	2.0%
DACH CGU	1.5%	2.0%
Nordics CGU	1.5%	1.5%

Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The forecast cash flows for each of the CGU's are discounted using a rate specific to that CGU's weighted average cost of capital and using inputs from sector peers and the broader market, as set out in the table below:

	31 December 2021 £000	31 December 2020 £000
UK CGU	8.9%	6.3%
DACH CGU	7.6%	5.6%
Nordics CGU	7.6%	6.0%

11. Goodwill (continued)

The Group prepares cash flow forecasts derived from the latest budget, as approved by the Board of Directors in December 2021. The forecasts assume growth rates in acquisitions which in turn drive the forecast collections and cost figures.

The Group has conducted a sensitivity analysis on the impairment test of the CGU's carrying value. Each sensitivity has been performed independently.

UK CGU

The CGU has a carrying value of £556m. The CGU's recoverable amount exceeds its carrying amount by £955m. Based on the value in use a sustained reduction in portfolio acquisitions of 19%, a fall in the forecast cash flows of 40%, or an increase in WACC of 3.2 percentage points to 12.1% would result in an impairment at 31 December 2021.

DACH CGU

The CGU has a carrying value of £444m. The CGU's recoverable amount exceeds its carrying amount by £71m. Based on the value in use a sustained reduction in portfolio acquisitions of 6%, a fall in the forecast cash flows of 9%, or an increase in WACC of 0.5 percentage points to 8.1% would result in an impairment at 31 December 2021.

Nordics CGU

The CGU has a carrying value of £179m. The CGU's recoverable amount exceeds its carrying amount by £242m. Based on the value in use a sustained reduction in portfolio acquisitions of 8%, a fall in the forecast cash flows of 23%, or an increase in WACC of 1.5 percentage points to 9.1% would result in an impairment 31 December 2021.

12. Intangible assets

	Software and licences £000	Development costs £000	Customer relationships £000	Trademarks £000	Total £000
Cost					
At 1 January 2021	68,699	16,208	175,687	16,672	277,266
Additions	2,247	13,901	-	605	16,753
Reclassification	6,075	(6,075)	-	-	-
Currency exchange differences	(1,089)	(582)	332	40	(1,299)
Disposals	(3,339)	(4,924)	-	(763)	(9,026)
At 31 December 2021	**72,593**	**18,528**	**176,019**	**16,554**	**283,694**
Accumulated amortisation					
At 1 January 2021	(40,015)	3,743	(72,003)	(10,580)	(118,855)
Charge for the year	(13,908)	-	(20,056)	(1,214)	(35,178)
Disposals	6,685	1,109	-	1,210	9,004
Asset impairment	-	-	-	(197)	(197)
Currency exchange differences	(1,262)	(283)	(5,314)	(1,071)	(7,930)
At 31 December 2021	**(48,500)**	**4,569**	**(97,373)**	**(11,852)**	**(153,156)**
Net book value					
At 31 December 2021	**24,093**	**23,097**	**78,646**	**4,702**	**130,538**
At 31 December 2020	**28,684**	**19,951**	**103,684**	**6,092**	**158,411**

Reclassifications: Development costs are generally "Software and licences". When projects go live and development costs are reclassified they are transferred to "Software and licences".

Intangible assets acquired through the acquisition of subsidiaries are included in cost at their fair value at the time of the acquisition.

13. Property, plant and equipment

The following items are included within 'Property, plant and equipment' on the balance sheet:

	31 December 2021 £000	31 December 2020 £000
Assets owned by the Group	7,696	11,630
Right-of-use assets (note 14a)	31,367	43,566
Total	**39,063**	**55,196**

Assets owned by the Group

	Leasehold improvements £000	Hardware £000	Office Equipment £000	Total £000
Cost				
At 1 January 2021	4,375	4,531	14,517	23,423
Additions	-	526	701	1,227
Currency exchange differences	-	-	(757)	(757)
Disposals	(1,862)	(195)	(3,001)	(5,058)
At 31 December 2021	**2,513**	**4,862**	**11,460**	**18,835**
Accumulated depreciation				
At 1 January 2021	(1,708)	(2,483)	(7,602)	(11,793)
Charge for the year	(660)	(701)	(2,212)	(3,573)
Disposals	881	181	2,718	3,780
Currency exchange differences	-	-	447	447
At 31 December 2021	**(1,487)**	**(3,003)**	**(6,649)**	**(11,139)**
Net book value				
At 31 December 2021	**1,026**	**1,859**	**4,811**	**7,696**
At 31 December 2020	**2,667**	**2,048**	**6,915**	**11,630**

Property, plant and equipment acquired through the acquisition of subsidiaries are included in cost at their fair value at the time of the acquisition.

14. Leases

The Group's leases

The Group's leases represent right-of-use assets and their corresponding lease liabilities in respect of its office properties, car leases and office equipment.

There is one property leases in the UK, which has been negotiated for a lease term of 15 years, commenced on 9 December 2013, and includes an option to break, free of charge, in November 2023. During 2020, the Group made the decision to relocate the UK office to a new property and therefore intends to use the termination provisions in November 2023 for the current property lease.

The Group successfully negotiated the termination of a separate UK office property lease during 2021.

There are two main property leases in Germany. One which has been negotiated for a lease term of 10 years, commenced on 3 February 2014 and the other which has been negotiated for a lease term of 12 years and commenced on 31 March 2020. There are also 26 other property, plant and equipment leases in the DACH region which are not individually material.

There are eight property leases in the Nordic region which are negotiated for lease terms of between one and ten years.

Car leases run for three to four years with the option to extend.

a) Right-of-use assets

Amounts recognised on the balance sheet

	31 December 2021 £000	31 December 2020 £000
Leasehold Property	25,641	35,693
Cars	753	1,192
Office equipment	4,973	6,681
Total	**31,367**	**43,566**

Included within 'Property, plant and equipment' in the balance sheet.

Additions to right-of-use assets during the 2021 financial year were £1.0m (2020: £19.2m).

There was no evidence of impairment on right-of-use assets at 31 December 2021.

b) Lease liabilities

	31 December 2021 £000	31 December 2020 £000
Non-current	26,926	37,580
Current	8,329	11,035
Total	**35,255**	**48,615**

Included in the line item 'Other financial liabilities' in the consolidated statement of financial position.

14. Leases (continued)

c) Amounts recognised in the consolidated statement of comprehensive income

Depreciation charge for right-of-use assets	31 December 2021 £000	31 December 2020 £000
Leasehold Property	6,679	7,440
Cars	713	1,005
Other office equipment	2,107	1,384
Total	**9,499**	**9,829**

	31 December 2021 £000	31 December 2020 £000
Finance costs		
Interest expense	1,626	2,268
Other expenses		
Expense relating to short-term leases (included in other expenses)	316	374
Expense relating to leases of low-value assets that are not short-term leases (included in other expenses)	25	41
Expense relating to variable lease payments not included in lease liabilities (included in other expenses)	485	552

The total cash outflow for leases in 2021 was £14.6m (2020: £11.9m) of which £1.6m (2020: £2.3m) relates to interest expense and £13.0m (2020: £9.7m) relates to the payment of lease liabilities.

d) Other commitments

Other than the information noted above for leases, the Group has no other outstanding commitments at 31 December 2021 (31 December 2020: none).

15. Group structure

The Group includes the following subsidiary undertakings. All subsidiaries are included in the consolidation:

Name	Country of incorporation	Ordinary share holding % as at 31 December 2021	Ordinary share holding % as at 31 December 2020
Garfunkelux Holdco 3 S.A.	Luxembourg	100	100
Lowell Holding GmbH	Germany	100	100
Lowell Financial Services GmbH	Germany	100	100
Zyklop Inkasso Deutschland GmbH	Germany	100	100
GFKL PayProtect GmbH	Germany	100	100
GFKL Collections GmbH	Germany	100	100
Deutsche Multiauskunftei GmbH	Germany	100	100
Lowell Service Center GmbH	Germany	100	100
Proceed Collection Services GmbH	Germany	100	100
Sirius Inkasso GmbH	Germany	100	100
Inkasso Becker Wuppertal Gmbh & Co. KG	Germany	100	100
IBW Verwaltungsund - und Beteiligungs GmbH	Germany	100	100
Intratech GmbH[6]	Germany	-	100
debifact Factoring GmbH & Co. KG	Germany	100	100
debifact Verwaltungs GmbH	Germany	100	100
Simon Holdco Limited	Jersey	100	100
Simon Midco Limited	UK	100	100
Simon Bidco Limited	UK	100	100
Hansa Holdco Limited	UK	100	100
Metis Bidco Limited	UK	100	100
Lowell Finance Holdings Limited[2]	UK	100	100
Lowell Group Financing Plc[2]	UK	100	100
Lowell Group Limited	UK	100	100
Lowell Funding Limited[2]	UK	100	100
Lowell Acquisitions Limited[2]	UK	100	100
Lowell Holdings Limited[2]	UK	100	100
Lowell Finance Limited[2]	UK	100	100
Lowell Financial Limited	UK	100	100
Lowell Portfolio I Limited	UK	100	100
Tocatto Limited[2]	UK	100	100
Lowell UK Shared Services Limited[4] (formerly Lowell Portfolio III Holdings Limited)	UK	100	100
Lowell Portfolio III Limited[2]	UK	100	100
Lowell Group Shared Services Limited[5] (formerly Lowell Portfolio IV Holdings Limited)	UK	100	100
Lowell Portfolio IV Limited	UK	100	100
Lowell Solicitors Limited	UK	100	100
Interlaken Group Limited[2]	UK	100	100
Fredrickson International Limited	UK	100	100
SRJ Debt Recoveries Limited[2]	UK	100	100
Lowell Receivables Financing 1 Limited	UK	100	100
Overdales Legal Limited[8] (formerly Lucas Credit Services Limited)	UK	100	100
Lowell Group Management GmbH	Austria	100	100
Lowell Inkasso Service GmbH	Austria	100	100
Lowell Portfoliomanagement GmbH	Austria	100	100
Lowell Inkasso Service GmbH	Switzerland	100	100
Lowell Inkasso Servis d.o.o	Croatia	100	100
Tesch Inkasso Forderungsmanagement GmbH	Germany	100	100
Tesch Service GmbH	Germany	100	100

15. Group structure (continued)

Name	Country of incorporation	Ordinary share holding % as at 31 December 2021	Ordinary share holding % as at 31 December 2020
DC Portfolien GmbH	Germany	100	100
Tesch Mediafinanz GmbH[7]	Germany	-	100
Tesch Inkasso Finance GmbH	Germany	100	100
Apontas GmbH & Co KG	Germany	100	100
Apontas Verwaltungs GmbH	Germany	100	100
Lowell Investment GmbH	Germany	100	100
Lowell Service GmbH	Germany	100	100
Lowell Nordics Oy	Finland	100	100
Lowell Sverige AB	Sweden	100	100
Lowell AS	Norway	100	100
Lowell Norge AS	Norway	100	100
Lowell Finans AS	Norway	100	100
Lowell Danmark A/S	Denmark	100	100
Lowell Finans A/S	Denmark	100	100
Aktieselskabet af 18. Maj 2018 A/S	Denmark	100	100
Lowell Suomi Oy	Finland	100	100
Solvencia AS[1]	Norway	-	100
Lowell Treasury Co. Limited	UK	100	100
Lowell Receivables Financing 2 Limited[3]	UK	100	-

[1]Solvencia AS was acquired on 1 October 2020 and merged with Lowell AS on 1 January 2021.

[2]Certain non trading entities are currently going through a voluntary members liquidation initiated on 18 December 2019.

[3]Lowell Receivables Financing 2 Limited was incorporated on 17 May 2021.

[4]Name changed from Lowell Portfolio III Holdings Limited to Lowell UK Shared Services Limited on 2 June 2020.

[5]Name changed from Lowell Portfolio IV Holdings Limited to Lowell Group Shared Services Limited on 2 June 2020.

[6]Intratech GmbH was sold on 30 September 2021.

[7]Tesch Mediafinanz GmbH was sold on 1 January 2021.

[8]Name changed from Lucas Credit Services Limited to Overdales Legal Limited on 3 March 2021.

16. Portfolio investments

	31 December 2021 £000	31 December 2020 £000
Non-current		
Portfolio investments	1,203,065	1,106,672
Current		
Portfolio investments	533,018	555,093
Total	**1,736,083**	**1,661,765**

The movements in acquired portfolio investments were as follows:

	31 December 2021 £000	31 December 2020 £000
At start of year	**1,661,765**	**1,660,138**
Portfolios acquired during the year	402,751	281,406
Collections in the year	(750,904)	(740,756)
Income from portfolio investments	399,644	395,568
Net portfolio write up	72,306	20,596
Portfolio fair value release	(1,102)	(1,289)
Net foreign exchange movement	(48,377)	46,102
At end of year	**1,736,083**	**1,661,765**

17. Trade and other receivables

	31 December 2021 £000	31 December 2020 £000
Trade receivables	15,430	13,426
Prepayments and accrued income	11,450	15,176
Other receivables	17,670	13,447
Tax receivable	412	2,478
Total	**44,962**	**44,527**

Trade receivables are primarily made up of amounts due from clients for services provided. This figure includes gross receivables of £17.3m (2020: £15.5m), and an allowance for bad debt of £1.8m (2020: £2.1m).

18. Other financial assets

	31 December 2021 £000	31 December 2020 £000
Non-current		
Receivables from affiliated companies	41	44
Other	3,833	5,798
Total non-current	**3,874**	**5,842**
Current		
Securitisation receivables	1,370	1,536
Other	14,160	10,741
Total current	**15,530**	**12,277**
Total other financial assets	**19,404**	**18,119**

Receivables from affiliated companies relate to loans made to Garfunkelux Nominee S.à r.l. and Garfunkelux Holdco 1 S.à r.l. together with accrued interest.

19. Cash and cash equivalents

	31 December 2021 £000	31 December 2020 £000
Cash and bank balances	95,518	47,610
Restricted cash balances	60,371	66,942
Total cash and equivalents	**155,889**	**114,552**

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less, net of outstanding bank overdrafts. The carrying amount of these assets is approximately equal to their fair value.

The Group holds cash on behalf of third parties as part of its collection activities, and in relation to its securitisation facilities. These restricted cash balances are shown within cash.

20. Borrowings

	31 December 2021 £000	31 December 2020 £000
Non-current		
Unsecured borrowings at amortised cost		
Shareholder loan owed to Garfunkelux Holdco 1 S.à r.l.	498,087	454,139
Total unsecured	**498,087**	**454,139**
Secured borrowings at amortised cost		
Senior Secured Notes	1,637,000	1,721,075
Prepaid costs on Senior Secured borrowings	(20,423)	(24,021)
Securitisation loans	353,273	157,892
Total secured	**1,969,850**	**1,854,946**
Total borrowings due for settlement after 12 months	**2,467,937**	**2,309,085**
Current		
Unsecured borrowings at amortised cost		
Other interest payable	892	508
Total unsecured	**892**	**508**
Secured borrowings at amortised cost		
Interest on Senior Secured Notes	18,709	18,642
Prepaid costs on Senior Secured borrowings	(5,808)	(5,005)
Revolving credit facility	14,280	16,001
Securitisation loans	29,207	81,309
Total secured	**56,388**	**110,947**
Total borrowings due for settlement before 12 months	**57,280**	**111,455**

All borrowings are measured at amortised cost using the effective interest rate method. The other principal features of the Group's borrowings are as follows:

On 4 November 2020 the Group issued £1,613m (equivalent) in aggregate principal amount of Senior Secured Notes and received equity contributions from its parent in a total aggregate amount of £600m. The proceeds were used to fully redeem all of the Senior Secured Notes and Senior Notes that were outstanding. The notes redeemed were as follows:

Note type	Principal amount	Interest rate	Originally issued on	Contractual maturity date	Issuing Group entity
Senior Secured	€365m	7.5%	23 July 2015	1 August 2022	GH3
Senior Secured	£565m	8.5%	19 October 2015	1 November 2022	GH3
Senior	£230m*	11.0%	19 October 2015	1 November 2023	GH2
Senior Secured	€415m	3.5% + EURIBOR	20 September 2017	1 September 2023	GH3
Senior Secured	€530m	4.5% + EURIBOR	2 February 2018	1 September 2023	GH3
Senior Secured	SEK 1,280m	4.75% + STIBOR	2 February 2018	1 September 2023	GH3

*The Group repurchased £33.5m of the Senior Unsecured notes in August 2019 and therefore £196.5m in aggregate principal was outstanding at the date of redemption.

20. Borrowings (continued)

On 4 November 2020 the Group issued €600m 6.25% plus three-month EURIBOR (subject to a 0% floor) Senior Secured Notes due 2026, €740m 6.75% Senior Secured Notes due 2025 and £400m 7.75% Senior Secured Notes due 2025 through its subsidiary Garfunkelux Holdco 3 S.A..

On 18 December 2020 the Group issued a further €30m 6.25% plus three-month EURIBOR (subject to a 0% floor) Senior Secured Notes due 2026, €55m 6.75% Senior Secured Notes due 2025 and £40m 7.75% Senior Secured Notes due 2025 through its subsidiary Garfunkelux Holdco 3 S.A..

The interest on the aggregate €630m floating rate notes is payable quarterly on 1 February, 1 May, 1 August and 1 November, commencing on 1 February 2021. The notes will mature on 1 May 2026, though the Group may redeem some or all of the notes at an earlier date as per details set out in the Offering Memorandum issued on 23 October 2020.

The interest on the aggregate €795m and £440m fixed rate notes is payable semi-annually on 1 May, and 1 November, commencing on 1 May 2021. The notes will mature on 1 November 2025, though the Group may redeem some or all of the notes at an earlier date as per details set out in the Offering Memorandum issued on 23 October 2020.

There are two covenant measures under the terms of the Senior Secured Notes; Fixed Charge Coverage Ratio, which must be at least 2:1 and Consolidated Senior Secured Leverage Ratio, which cannot exceed 3.75:1. These are incurrence covenants only, which would only need to be satisfied should the Group intend to raise additional senior secured financing.

The Senior Secured Notes are secured on the assets, share pledges and intra-group receivables of the Group and are listed on The International Stock Exchange (TISE).

Revolving Credit Facility (“RCF”)

The Group has an RCF commitment of €455m which was extended to 4 August 2025 as part of the Group’s refinancing in November 2020. The RCF commitment remains €455m. The RCF has a variable interest rate linked to SONIA/EURIBOR (subject to a 0% floor) and a quarterly commitment fee calculated on the undrawn facility.

Any material company or other member of the Group, which becomes a guarantor of the RCF is required (subject to agreed security principles) to grant security over certain of its material assets and (if wholly owned by another member or members of the Group) to have its shares (or equivalent ownership interests) secured in favour of the Security Agent.

There is one covenant measure under the terms of the RCF additional to the covenant measures under the Senior Secured Notes as follows: if the aggregate amount of all loan utilisations exceed an amount equal to 30% of the total commitments, the Group is required to confirm whether or not the Leverage Ratio exceeds 7:1. This is a maintenance covenant and if breached prevents further drawdown on the facility.

20. Borrowings (continued)

Securitisation Loans

On 22 November 2018 the Group entered into a £255m securitisation facility through its subsidiary Lowell Receivables Financing 1 Limited. On 11 April 2019 the facility was re-negotiated with an option to reset in future periods. On 17 June 2021 the facility was again re-negotiated. The amendments to the facility reduced the total commitment to £175m, extended the maturity to July 2025 and revised the margin to 3.28% + 1M SONIA.

On 17 June 2021 the Group entered into a £225m securitisation facility through its subsidiary Lowell Receivables Financing 2 Limited. The facility has a five year legal maturity and a margin of 3.5% + 1M SONIA.

Shareholder Loan

The Group entered into a loan facility in October 2015 for €260.4m with its holding company Garfunkelux Holdco 1 S.à r.l.. The Group increased this facility in May 2016 to €287.4m. A further loan was issued in March 2018 of €28.9m as part of the acquisition of the Carve-out Business from Intrum.

On 5 November 2020 the aggregate amount outstanding on the Shareholder Loans was €490.4m. On this date the Shareholder Loans were re-denominated into £447.3m and continue to accrue interest at a rate of 9.66% (2020: 9.66%), which can be paid or capitalised on an annual basis.

The shareholder loan has a maturity date that falls six months following the maturity of the latest maturing of any outstanding Senior debt of the Company.

The weighted average interest rates during the year were as follows:

	31 December 2021	31 December 2020
Notes	6.86%	6.84%
RCF	3.00%	3.90%
Shareholder loan owed to Garfunkelux Holdco 1 S.à r.l.	9.66%	9.66%
Securitisation loans	3.39%	3.01%

21. Trade and other payables

	31 December 2021 £000	31 December 2020 £000
Trade payables	4,808	9,808
Other taxes and social security	5,141	10,458
Accruals and deferred income	33,957	41,697
Other payables	79,334	43,937
Total	**123,240**	**105,900**

Other payables includes amounts due of £30.6m in respect of portfolios purchased but not yet paid for at 31 December 2021 (31 December 2020: £0.7m) and £34.0m of 3PC collections due to be transferred to clients (31 December 2020: £27.9m).

22. Provisions

	Tax provision £000	Site restoration provision £000	Employee related provision £000	Other provision £000	Client payments provision £000	Total £000
At 1 January 2021	**13,265**	**2,678**	**1,893**	**9,395**	**9,993**	**37,224**
Provisions made during the year	305	1,113	3,035	953	-	5,406
Amounts utilised during the year	(5,462)	-	(1,116)	(3,346)	(4,400)	(14,324)
Provisions reversed during the year	(3,959)	(1,173)	(7)	(7)	(5,553)	(10,699)
Exchange differences	(1,328)	(355)	(1,052)	(1,356)	-	(4,091)
At 31 December 2021	**2,821**	**2,263**	**2,753**	**5,639**	**40**	**13,516**
Non-current	767	1,567	937	1,338	-	4,609
Current	2,054	696	1,816	4,301	40	8,907
Total	**2,821**	**2,263**	**2,753**	**5,639**	**40**	**13,516**

Other provisions contain onerous contract provisions of £1.7m as at 31 December 2021 (31 December 2020: £1.8m).

The remaining amounts provided for relate to a number of individually immaterial provisions.

23. Other financial liabilities

	31 December 2021 £000	31 December 2020 £000
Non-current		
Lease liabilities	26,926	37,580
Other financial liabilities	6,806	6,938
Total non-current other financial liabilities	**33,732**	**44,518**
Current		
Lease liabilities	8,329	11,035
Liabilities from treasury shares	1,556	3,517
Total current other financial liabilities	**9,885**	**14,552**

The liability in respect of treasury shares relate to the merger of ABIT AG (“ABIT”) and GFKL Financial Services AG in 2006. The liability arises from ABIT shareholders outstanding claims which will be fulfilled by a cash settlement. This liability relates to the unsettled amounts together with accrued interest.

During 2020 there was a ruling by the county court which reduced the expected cash settlement. The resulting reduction to the treasury shares liability impacts both operating expenses and equity.

24. Share capital

	£000
In issue at 31 December 2020 and 31 December 2021	**4,385**

	Number
Called up, allotted and fully paid – par value €0.01 each	**500,000,005**

The rights attached to the ordinary shares are as follows:

Voting
Each Shareholder shall have one vote for every share held. Each Shareholder and Beneficiary Unit ("BU") holder (note 26), where applicable, may vote through voting forms in the manner set out in the convening notice in relation to a Shareholders' Meeting. The Shareholders and the BU holders may only use voting forms provided by the Company and which contain at least the place, date and time of the meeting, the agenda of the meeting, the proposal submitted to the decision of the meeting, as well as for each proposal three boxes allowing the Shareholder and the BU holder to vote in favour, against, or abstain from voting on each proposed resolution by ticking the appropriate box.

Return of Capital
In the event of a dissolution and liquidation of the Company, any liquidation surplus shall be distributed in the following order:

- The holders of the BUs shall receive an amount corresponding to: a) the Issue Price of the BUs held by them plus; b) the amount of any accrued but unpaid BU Entitlement; and
- Subject to the terms of any Arrangement, any remaining liquidation surplus shall be distributed to Shareholders pro-rata to the number of shares held by them.

Distributions
From net profits of the Company determined in accordance with Luxembourg Law, 5% shall be deducted and allocated to a legal reserve fund. That deduction will cease to be mandatory when the amount of the legal reserve fund reaches one tenth of the Company's nominal capital.

Subject to the provisions of Luxembourg Law, the Company Articles and any Arrangement, the Company may by Shareholders' Resolution declare distributions to Shareholders pro rata to the number of shares held by them.

Subject to the provisions of Luxembourg Law, the Company Articles and any Arrangement, the Board of Directors may pay interim dividends to Shareholders pro rata to the number of shares held by them.

The Shareholders and the BU holders, where applicable, are entitled to participate in a Shareholders' Meeting by videoconference or by telecommunications means allowing their identification, and are deemed to be present for the calculation of quorum and majority conditions and voting.

25. Reserves

Capital reserve

The changes in capital reserves can be seen in the consolidated statement of changes in equity.

	31 December 2021 £000	31 December 2020 £000
At start of year	**(8,291)**	**(8,291)**
At end of year	**(8,291)**	**(8,291)**

Beneficiary Units

The issue price of any Beneficiary Unit shall be allocated to a special reserve (the "BU reserve") within the capital reserve. The BU and the BU reserve shall not form part of the share capital of the Company and shall carry those rights set out below.

The BU reserve shall be distributable only upon repurchase or redemption of the BUs or upon liquidation of the Company.

At 31 December 2021 and 31 December 2020, there were 333m beneficiary units in issue and the BU reserve totalled €25,000 (£21,250).

Rights

The BUs shall not carry voting rights except that each BU carries one vote at any shareholders' meeting called upon to resolve upon the appointment or removal of Director(s) of the Company.

Each holder of BUs shall be entitled to receive an annual distribution corresponding to 0.1% of the Issue Price of the BUs held (the "BU Entitlement") payable annually upon decision of the Shareholders' Meeting, at repurchase or redemption of the BUs or upon liquidation of the Company. Any BU Entitlement not paid in a year, shall continue to accrue until it is paid.

Subject to the terms of any arrangement, the Company, through its Board of Directors, shall have the right to redeem the BUs by providing written notice to the holder(s) of the BUs that within one business day (or such time as the notice may specify, including, without limitation, immediately), all of the BUs shall be fully redeemed by the Company for a price equal to the Issue Price of the BUs plus any accrued but unpaid BU Entitlement.

Translation Reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

Valuation reserve

The valuation reserve comprises the actuarial gains/losses and deferred tax movements on the Group's defined benefit pension schemes.

26. Retained deficit

	31 December 2021 £000	31 December 2020 £000
Loss attributable to equity holders of the parent	**(3,511)**	**(127,839)**

27. Share-based payments

On 13 October 2015 and 4 November 2020, the main shareholder of the Company – Garfunkelux Holdco 1 S.à r.l. entered into share-based payment arrangements with certain managers of the Group (the "Garfunkelux Group managers").

Under these agreements, the Garfunkelux Group managers entered into nominee agreements with Garfunkelux Nominee S.à r.l. ("Nominee"), pursuant to which the Nominee is the registered shareholder of the shareholder instruments as nominee for the Garfunkelux Group managers and these managers are the beneficial owners of the shareholder instruments held by Nominee. The Garfunkelux Group managers subscribed for shares in Garfunkelux Holdco 1 S.à r.l. at prices that approximated the market price of the underlying shares at the dates of grant.

The Garfunkelux Group managers further agreed, in the same agreement, to sell back to Garfunkelux Invest S.à r.l., the main shareholder of Garfunkelux Holdco 1 S.à r.l., the shares owned in Garfunkelux Holdco 1 S.à r.l. in the event they cease to be an employee and/or a corporate officer of the Group. The selling price of the shares is determined on the basis of a number of conditions including the service period and whether the Garfunkelux Group manager qualifies as a good leaver or a bad leaver. The sale price of the shares in Garfunkelux Holdco 1 S.à r.l. owned by the Garfunkelux Group managers will be settled in cash.

In the consolidated financial statements of the Group, this arrangement has been classified as equity settled transaction because the Group has no obligation to settle the transaction with the Garfunkelux Group managers. However, since amounts paid by the Garfunkelux Group managers for the subscription of the shares in Garfunkelux Holdco 1 S.à r.l. are at fair value, the awards have no material fair value at grant date and therefore there is no expense recognised in the SCI for the year or previous year.

28. Financial instruments

Categories of financial instruments

	31 December 2021 £000	31 December 2020 £000
Financial assets		
Cash and cash equivalents	155,889	114,552
Loans and receivables (portfolio investments)	1,736,084	1,661,765
Other	64,607	63,363
Derivatives (FVTPL)	1,418	956
Financial liabilities		
Borrowings - Notes	1,655,709	1,739,717
Borrowings – RCF	14,280	16,001
Borrowings – Shareholder loan	498,087	454,139
Borrowings – Securitisation loan	382,480	239,202
Borrowings – other	892	508
Trade and other payables	123,240	105,900
Other financial liabilities	43,618	59,070
Derivatives (FVTPL)	846	2,710

28. Financial instruments (continued)

Significant accounting policies

Details of the significant accounting policies and methods adopted (including the criteria for recognition, the basis of measurement and the bases for recognition of income and expenses) for each class of financial asset, financial liability and equity instrument are disclosed in note 1.

Financial risk management objectives

As a result of its normal business activities, the Group has exposure to the following risks:

- **Strategic risk** (including Major Initiatives risk, Strategic Planning risk, Investor Relations risk, Market Dynamics risk, Mergers & Acquisitions risk and Pricing & Modelling risk);

- **Financial risk** (including Credit & Counterparty risk, Liquidity & Capital risk, Market risk (including Interest Rate risk and Foreign Exchange risk), Insurance risk, Tax risk and Reporting & Forecasting risk);

- **Operational risk** (including IT risk, People risk, Conduct risk, Third Party risk, Business Operations & Processes risk, Business Continuity risk and Physical security risk);

- **Compliance risk** (including Regulatory risk, Financial Crime risk, Legal risk and ESG & Ethics risk); and

- **Information & Data risk** (including Information Security & Cyber Crime risk, Data Management risk and Data Privacy risk).

This note presents information about the exposure of the Group to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk. Further quantitative disclosures are included throughout these financial statements. The Group manages these risks through the Group Executive Committee, Regional & Group Risk Committees and the Investor Board.

The Group has no exposure to equity markets and does not hold any speculative equity positions.

Strategic risk management

Strategic risk is the risk to earnings resulting from poor or lack of clear strategy and execution, adverse business decisions, and inadequate anticipation of emerging changes in the broader business, economic and political environment, including changing competitive threats and disruptive innovations, internal or external. This includes the risk of changes caused by market variables such as prices, type and timing of debt coming to the market, i.e. the cost of consumer debt portfolios.

In bidding for consumer debt portfolios, the Group seeks to achieve a sufficient yield to cover both the cost of collection and overhead costs, thereby minimising the risk of not recovering the cost of these portfolios. The Group uses sophisticated pricing models along with extensive market data to establish the profitability of portfolios coming to market. The Group monitors its pricing assumptions through Investment Committees (subsets of the Executive Committee).

The Group manages the unpredictability of the market through a number of financing structures. The Group has in place €630m, £440m and €795m of Senior Secured loan Notes, €455m RCF facility and securitisation facilities with an option to reset of £400m. At 31 December 2021 the UK securitisation and RCF facilities were £396.8m drawn (31 December 2020: £245.2m). These facilities allow the Group the flexibility to bid on portfolios as and when they come to market and are not restricted by cash flow constraints. The Group is also able to jointly purchase portfolios with another party through its co-investment strategic partnership.

28. Financial instruments (continued)

Financial risk management

Credit and Counterparty risk management

Credit and counterparty risk is the risk to earnings, financial loss arising from a counterparty default on contractual obligations or risk to earnings, financial loss or capital impact from a customer failure to meet a contractual repayment schedule.

The risk from the concentration of debtor credit risk is limited due to the high number of individual customer balances and the relatively low value of each of the individual's debts.

The Group's principal activity is the acquisition and management of underperforming consumer debt portfolios. All portfolios by their nature are impaired on acquisition and the Group continually monitors cash collections. Carrying values are impaired when and if the underlying performance indicates that future cash flows will not meet initial expectations. The on-going risk is managed through utilising a comprehensive portfolio valuation model and building current expectations of recoverability from information on debt types and customers into pricing assumptions and models. An Investment Committee is in place which is attended by members of the Executive Committee as well as other key individuals from across the business.

This committee is in place to scrutinise all aspects of a portfolio acquisition from reputational and compliance risk through to the financial assumptions and maximum bid price.

The carrying amount of financial assets recorded in the consolidated financial statements, which are net of impairment losses, represents the Group's exposure to credit risk.

The Group's most significant exposure to credit risk is to portfolio investments.

The carrying value by geography is shown below:

	31 December 2021 £000	31 December 2020 £000
UK	949,019	950,430
DACH	210,037	227,889
Nordics	577,028	483,446
Total	**1,736,084**	**1,661,765**

Liquidity and Capital risk management

Liquidity risk refers to the potential inability (or at excessive funding costs) to meet contractual or contingent financial obligations as they arise, and could potentially impact the Group's condition or overall safety and soundness. Capital risk relates to the risk of holding insufficient capital to absorb unexpected loss. The approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group manages liquidity risk by maintaining adequate reserves and banking facilities and by continuously monitoring forecast and actual cash flows. At 31 December 2021, the Group had available undrawn committed borrowing facilities of £390.3m (31 December 2020: £418.8m). See note 20 for further details on borrowings.

28. Financial instruments (continued)

Liquidity and Capital risk management (continued)

The following tables show the Group's gross undiscounted contractual cash flows of financial liabilities including interest payments at the SFP date:

As at 31 December 2021

	Weighted average interest rate	Carrying amount	Contractual cash flows	0-6 months	6-12 months	1-5 years	Over 5 years
	%	£000	£000	£000	£000	£000	£000
Notes[1]	6.86	1,655,709	2,102,544	56,126	56,126	1,990,292	-
RCF	3.00	14,280	14,280	14,280	-	-	-
Shareholder loan[2]	9.66	498,087	498,087	-	-	498,087	-
Securitisation loans	3.39	381,910	398,678	17,209	18,348	363,121	-
Lease liabilities	-	35,255	39,100	4,782	4,621	21,531	8,166
Other liabilities	-	132,494	132,494	125,701	-	6,793	-
Total liabilities		**2,717,735**	**3,185,183**	**218,098**	**79,095**	**2,879,824**	**8,166**

As at 31 December 2020

	Weighted average interest rate	Carrying amount	Contractual cash flows	0-6 months	6-12 months	1-5 years	Over 5 years
	%	£000	£000	£000	£000	£000	£000
Notes[1]	6.84	1,739,717	2,327,477	58,870	58,870	1,625,667	584,069
RCF	3.90	16,001	16,001	16,001	-	-	-
Shareholder loan[2]	9.66	454,139	454,139	-	-	-	454,139
Securitisation loan	3.01	239,201	249,209	37,605	49,310	162,294	-
Lease liabilities	-	48,614	54,844	2,905	9,507	28,787	13,646
Other liabilities	-	190,496	190,496	145,978	-	44,518	-
Total liabilities		**2,688,168**	**3,292,166**	**261,359**	**117,687**	**1,861,266**	**1,051,854**

[1] Includes Loan principal outstanding and accrued interest (note 20).

[2] Interest can either be paid or capitalised on an annual basis.

Other liabilities includes "Trade and other payables", "Derivatives", "Other financial liabilities" and "Other interest payable" (note 20).

Ultimate responsibility for liquidity risk management rests with the Group Executive Committee, which has established an appropriate liquidity risk management approach for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by monitoring the maturity profiles of financial assets and liabilities. Details of additional undrawn facilities that the Group has at its disposal to further reduce liquidity risk are set out overleaf.

28. Financial instruments (continued)

Liquidity and Capital risk management (continued)

Group financing facilities

	31 December 2021 £000	31 December 2020 £000
Securitisations and RCF		
Amount used	396,760	245,281
Amount unused	390,258	418,828
Total	**787,018**	**664,109**

Capital risk management

The Group's objective in managing capital is to maintain a strong capital base to support current operations and planned growth and so to maintain investor, creditor and market confidence. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

The capital structure of the Group consists of net debt, which includes the borrowings disclosed in note 21 after deducting cash and cash equivalents, and equity attributable to equity holders of the Company, comprising issued capital, reserves and retained earnings as disclosed in the Statement of Changes in Equity ("SOCIE").

Interest rate risk management

Interest rate risk is the risk to earnings, income, valuation arising from changes in interest rates. The Group has minimised its risk against changes in interest rates by following a balanced approach to funding by using fixed rate Notes, floating rate Notes and share capital.

The Group's RCF has a variable interest rate and as at 31 December 2021 this was £14.3m drawn down (31 December 2020: £16.0m). Interest is payable on the RCF at a maximum of 3.5% + SONIA/EURIBOR. The Group also had one floating rate note issuance in place as at 31 December 2021 with principal of €630m and an interest rate of 6.25% + EURIBOR (subject to a 0% floor).

Interest rate sensitivity analysis

The sensitivity analysis has been determined based on the exposure to interest rates for non-derivative instruments at the SFP date. A 2.5 percentage point increase or decrease represents Management's assessment of the reasonably possible change in interest rates. If interest rates had been 2.5 percentage points higher for the full year and all other variables were held constant, the Group's losses would increase for the year ended 31 December 2021 by £23.1m (2020: £36.1m). This is attributable to the Group's exposure to interest rates on its variable rate borrowings.

Foreign exchange derivative contracts

The derivatives recognised at 31 December 2021 and 31 December 2020 relate to OTC ("Over the Counter") foreign exchange derivatives that the Group transacts with its banking partners. In order to recognise the fair value of these derivatives, the fair value calculation performed by the Group as of the balance sheet date is used, which is based on the customary market method and is regularly compared with fair value calculations provided by the counter parties. The fair value of foreign exchange forwards is determined by discounting expected future cash flows over the residual term of the contract based on current market rates and the term structure of interest rates.

28. Financial instruments (continued)

Foreign exchange risk management

The Group has exposure to foreign exchange risk through its investments in overseas operations which have functional currencies other than Sterling and foreign currency denominated assets/liabilities and transactions. The Group is principally exposed to Euro (EUR), Swedish krona (SEK), Norwegian krone (NOK) and Danish krone (DKK) and minimises its foreign currency risk by having both assets and liabilities in functional currencies other than Sterling. As the assets and liabilities are matched where practical, the Group monitors and manages its exposure. The carrying values of the Group's principle foreign currency denominated net assets are as follows:

	31 December 2021 £000	31 December 2020 £000
Net assets		
EUR	(813,782)	(778,762)
SEK	261,545	257,932
NOK	122,563	148,324
DKK	166,456	116,790
Total	**(263,218)**	**(255,716)**

Foreign Currency Sensitivity Analysis

The following table details the Group's sensitivity to a 10% increase against Sterling exchange rates. This represents Management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated financial instruments and adjusts their translation at the year end only for a change in foreign currency rates, holding all other variables constant.

	2021 £000	2020 £000
(Increase) / decrease in loss before tax		
EUR	(13,405)	(8,139)
SEK	719	324
NOK	92	742
DKK	456	809
(Decrease) / increase in Shareholders' equity		
EUR	(72,934)	(70,310)
SEK	26,155	25,793
NOK	12,256	14,832
DKK	16,646	11,679

Insurance risk management

The Group has a full program of insurance coverage in place, this includes polices for Directors and Officers, Professional Indemnity and Cyber. Coverage is assessed and updated as required on an annual basis.

28. Financial instruments (continued)

Compliance risk

Compliance risk is defined as the risk of legal or regulatory sanctions, financial loss or reputation damages resulting from failure to comply with laws, regulations, ethical standards, prescribed practices, internal policies and procedures and from fraud, corruption or bribery. The Group faces a number of regulations which are subject to ongoing change. The Group has an active compliance programme in place with dedicated compliance teams in each region. Compliance risk is overseen by the Group Executive Committee, regional and Group Risk Committees and the Investor Board.

In the UK, a number of entities are regulated by the Financial Conduct Authority ("FCA"). If the FCA deems the Group's conduct and customer interaction to be poor or non-compliant it can impose a financial penalty and/or financial redress for customers. The ultimate penalty would be the withdrawal of that company's authorisation to provide financial services. The Directors are not aware of any indication that this is a possibility and seek to minimise the risk through initiatives such as the Lowell FAIR programme which enshrines the FCA's six Treating Customers Fairly principles around fair customer treatment in the Group's day-to-day activity. Specifically, the FAIR programme helps shape processes to achieve fair outcomes for customers, assessment of affordability and monitoring and oversight to minimise conduct risk.

Separately, in the Nordic region, one entity is regulated by the Financial Supervisory Authority ("FSA"), promoting solid financial institutions with good risk awareness, management and control. In particular, the FSA supervises debt collection agencies with reference to treatment of client funds and debt collection practices. The FSA also has powers to impose financial penalities on the Group or remove the Group's licence to provide specific services.

Operational risk

Operational risk is defined as the risk arising from inadequate or failed internal systems, processes, controls, people or resulting from internal/external events affecting the operation of our business. The Group has an active programme in place to identify, assess and manage operational risks in line with the defined risk management framework. Day to day operational risk management resides with management whilst risk teams in each region oversee risk management activities. Operational risk is overseen by management, Executive Committee, regional and Group Risk Committees and the Investor Board.

Information and data risk

Information and data risk is defined as the risk of financial loss, litigation, reputation damage or regulatory sanctions resulting from poor data management, inappropriate data privacy, inadequate management of records and information lifecycle and inability to protect data, system and information from unauthorized access management, threats, cyber-attacks and security vulnerabilities.

The introduction of General Data Protection Regulation ("GDPR") across the EU in May 2018 has led to significant changes in compliance requirements for all firms that process data. The Group has enhanced its data privacy controls to achieve compliance via a Group wide GDPR programme. Information and data risk is overseen by the Executive Committee, regional and Group Risk Committees and the Investor Board.

28. Financial instruments (continued)

Financial assets and liabilities

Financial assets and liabilities are classified into the following categories:

	31 December 2021 £000	31 December 2020 £000
Financial assets		
Investments and receivables	1,800,691	1,725,128
Cash and cash equivalents	155,889	114,552
Derivative financial instruments	1,418	956
Total financial assets	**1,957,998**	**1,840,636**
Financial liabilities		
Derivative financial instruments	846	2,710
Financial liabilities measured at amortised cost	2,718,306	2,688,170
Total financial liabilities	**2,719,152**	**2,690,880**

Derivatives with positive and negative fair values

As of 31 December 2021, foreign exchange forwards with a total negative fair value of £0.8m were held (31 December 2020: £2.7m). As of 31 December 2021, foreign exchange forwards with a total positive fair value of £1.4m were held (31 December 2020: £1.0m). They were not designated as hedges for hedge accounting purposes (IFRS 9).

Fair value of financial instruments carried at amortised cost

Except as detailed in the following table, the Directors consider that the carrying amounts of the financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values, with portfolio investments and Notes being the only exceptions.

	Carrying amount		Fair Value	
	31 December 2021 £000	31 December 2020 £000	31 December 2021 £000	31 December 2020 £000
Financial assets				
Cash and cash equivalents	155,889	114,552	155,889	114,552
Investments and receivables:				
Portfolio investments	1,736,084	1,661,765	1,749,389	1,691,018
Other financial assets	64,607	63,362	64,607	63,362
Total financial assets	**1,957,998**	**1,839,679**	**1,969,885**	**1,868,932**
Financial liabilities				
Financial liabilities measured at amortised cost:				
Senior Secured Notes[1]	1,655,709	1,739,717	1,688,137	1,758,742
RCF	14,280	16,001	14,280	16,001
Shareholder loan	498,087	454,139	498,087	454,139
Securitisation loan	382,480	239,202	382,480	239,202
Other financial liabilities	167,750	239,111	167,750	239,111
Total financial liabilities	**2,718,306**	**2,688,170**	**2,750,734**	**2,707,195**

[1]Includes loan principal outstanding and accrued interest (note 20).

28. Financial instruments (continued)

Fair value of financial instruments carried at amortised cost (continued)

For the Group, the fair value of the acquired portfolios is determined using a discounted cash flow model with unobservable inputs which are classified as level 3 measurements. The Senior Secured Notes are publicly traded instruments whose value can be obtained from public sources; as a result these are classified as level 1.

The fair value of non-financial instruments has been considered and it was determined that the fair value is materially equal to their carrying value therefore no additional disclosure has been made.

Valuation techniques and assumptions applied for the purposes of measuring fair value

The fair values of financial assets and financial liabilities are determined as follows:

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes listed redeemable notes, bills of exchange, debentures and perpetual notes).
- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.
- The fair value of the portfolios is calculated by discounting the net forecast cash flows. The unobservable inputs in determining the fair value are the discount rate and service cost percentage which differ for portfolios that are not deemed as "paying" at the point of acquisition and those that are deemed as "paying". A "paying" portfolio is determined at the point of acquisition based on the proportion of accounts within that portfolio that are set up on a payment plan. The discount rates have been determined from benchmarking. The service cost percentage is the percentage used to discount the gross cash flows to net and is based on historical information on costs to collect.
- The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts. Foreign exchange swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

28. Financial instruments (continued)

Fair value measurements recognised in the Statement of Financial Position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	31 December 2021 £000	31 December 2020 £000
Level 2		
Financial assets at fair value:		
Derivatives not designated as part of a hedge relationship	1,418	956
Financial liabilities at fair value:		
Derivatives not designated as part of a hedge relationship	(846)	(2,710)
Total	**572**	**(1,754)**

There were no financial assets or financial liabilities measured under Level 1 or Level 3.

29. Note to the statement of cash flows

	Note	Year ended 31 December 2021 £000	Year ended 31 December 2020 £000
Loss for the year		**(3,511)**	**(127,839)**
Tax credit	8	13,213	29,874
Loss for the year, before tax		**(16,724)**	**(157,713)**
Adjustments for:			
Income on portfolio investments	16	(399,644)	(395,568)
Net portfolio write up	16	(72,306)	(20,596)
Portfolio fair value release	16	1,102	1,289
Collections on owned portfolios	16	750,911	740,756
Depreciation and amortisation	5	48,250	44,017
Impairment of assets	5	197	5,338
Loss on disposal of PPE and intangible assets	5	1,080	178
Finance income	6	(3,096)	(6,022)
Finance costs	7	181,963	243,534
Unrealised losses from foreign exchange		167	42,916
(Increase) / Decrease in trade and other receivables		(2,302)	184
Decrease in trade and other payables		(13,189)	(29,611)
Movement in other net assets		(26,357)	34,434
Cash generated by operating activities before portfolio acquisitions		**450,052**	**503,137**
Portfolios acquired[1]		(371,194)	(287,776)
Income taxes paid		(11,065)	(922)
Net cash generated by operating activities		**67,793**	**214,439**

[1] Portfolios acquired represents the amount paid for portfolio purchases in the year, taking into account timing differences.

30. Reconciliation of movements in borrowings to financing cash flows

	Senior Notes £000	Shareholder loan £000	Prepaid costs on borrowings £000	RCF £000	Securitisation loans £000	Other £000	Total £000
Balance at 1 January 2021	**1,739,717**	**454,139**	**(29,026)**	**16,001**	**239,201**	**508**	**2,420,540**
Changes from financing cash flows							
Proceeds from loans and borrowings	-	-	-	224,938	214,500	-	439,438
Repayment of borrowings	-	-	-	(226,362)	(71,634)	-	(297,996)
Interest paid	(112,658)	-	-	(3,225)	(6,498)	(1,378)	(123,759)
Transaction costs on borrowings	-	-	(3,748)	-	-	-	(3,748)
Total changes from financing cash flows	**(112,658)**	**-**	**(3,748)**	**(4,649)**	**136,368**	**(1,378)**	**13,935**
The effect of changes in foreign exchange rates	**(85,963)**	**-**	**(998)**	**(1,475)**	**412**	**(181)**	**(88,205)**
Changes from liabilities							
Interest expense	114,613	43,948	-	4,403	6,497	1,944	171,405
Prepaid cost release	-	-	7,541	-	-	-	7,541
Total liability related changes	**114,613**	**43,948**	**7,541**	**4,403**	**6,497**	**1,944**	**178,946**
Balance at 31 December 2021	**1,655,709**	**498,087**	**(26,231)**	**14,280**	**382,478**	**893**	**2,525,216**

31. Employee benefits

a) Defined benefit schemes

The Group has defined benefit pension obligations through its DACH and Nordic businesses.

	31 December 2021 £000	31 December 2020 £000
Defined benefit pension net liabilities		
DACH	6,618	7,727
Nordics	2,454	2,375
Total	**9,072**	**10,102**

DACH

The German defined benefit pension obligations in relation to the DACH business are provided through the Group's German subsidiary, Lowell Financial Services GmbH. Pension obligations were calculated in accordance with the requirements set out in IAS 19.

An interest rate of between 0.9% and 1.5% (2020: 0.5% and 0.8%), depending on the group of beneficiaries, was used for this purpose. The defined benefit obligation arising from the defined benefit plans was determined in accordance with IAS 19. The calculations took into account estimated increases in pensions and salaries as well as an employee turnover rate. Pension increases were estimated at 1.0% to 1.5% (2020: 1.0 to 1.5%), salary increases at 2.0% (2020: 2.0%), and the employee turnover rate in a range from 0.0% to 2.0% (2020: 0.0% to 2.0%). The employee turnover rate, in particular, depends on the age of the pension beneficiaries. Mortality and invalidity rates were measured for the German companies using the 2018 G Heubeck mortality tables.

The pension plan for one of the former members of the Executive Board of Lowell Financial Services GmbH includes a retirement pension entitlement when the beneficiary reaches the age of 60. This retirement pension is equivalent to up to 75% of the average fixed salary over the five years immediately prior to retirement. The pension entitlement for two former employees of GFKL PayProtect GmbH comprises a retirement pension to be paid when the beneficiary reaches the age of 65. Following the transfer of employees from the ERGO Group, Sirius Inkasso GmbH recognised provisions for pensions for the first time in 2006. The pension entitlement comprises a lifelong retirement pension paid when the beneficiary retires from the service of the entity upon reaching the age of 65. A total of 13 employees at Sirius Inkasso GmbH have the benefit of this pension entitlement. Pension entitlements have also been granted to employees of Proceed Collection Services GmbH as a result of the transfer of 19 employees from Bayerische Hypo- und Vereinsbank AG (now UniCredit Bank AG).

The net liability is calculated as follows:

	31 December 2021 £000	31 December 2020 £000
Present value of unfunded defined benefit obligation	9,442	10,686
Plan assets	(2,824)	(2,959)
Net liability	**6,618**	**7,727**

31. Employee benefits (continued)

a) Defined benefit schemes (continued)

The following table shows the changes in the defined benefit obligation:

	31 December 2021 £000	31 December 2020 £000
Opening balance of defined benefit obligation	**10,686**	**9,189**
Interest expense	68	107
Pension payments	(258)	(227)
Current service cost	152	92
Actuarial (gains)/losses	(475)	986
Currency translation adjustments	(731)	539
Closing balance of defined benefit obligation	**9,442**	**10,686**

The plan assets offset against the defined benefit obligation which are measured at fair value. The change in plan assets were as follows:

	31 December 2021 £000	31 December 2020 £000
Opening balance of plan assets	**2,959**	**2,732**
Net interest income	19	34
Actuarial gains	29	23
Contributions	86	88
Payments	(74)	(76)
Currency translation adjustments	(195)	158
Closing balance of plan assets	**2,824**	**2,959**

Since the plan assets have been pledged as collateral, they are netted against the present value of the unfunded defined benefit obligation. The plan assets are insurance policies entered into by the Group. These assets have been pledged to the beneficiaries, resulting in a netting requirement under IAS 19. Contributions to the plan assets over the next year are expected to amount to £90k (£89k at 31 December 2020).

Movements in the year on provision for pensions were as follows:

	Year ended 31 December 2021 £000	Year ended 31 December 2020 £000
Opening balance	**7,727**	**6,457**
Payments arising from pension obligations	(270)	(238)
Allocation to defined benefit obligation	201	164
Actuarial (gains)/losses	(504)	962
Currency translation adjustments	(536)	382
Closing balance	**6,618**	**7,727**

31. Employee benefits (continued)

a) Defined benefit schemes (continued)

A quantitative sensitivity analysis of the key assumptions as of 31 December 2021 is as shown below:

	31 December 2021 £000
Interest rate	
Increase 0.5%	(820)
Decrease 0.5%	940
Salary trend	
Increase 0.5%	225
Decrease 0.5%	(197)
Benefits trend	
Increase 0.5%	678
Decrease 0.5%	(609)

The sensitivity analyses above were determined based on a method that extrapolates the impact on the defined benefit obligation as a result of realised changes in key assumptions occurring at the end of the reporting period. The sensitivity analyses change key assumptions in isolation. As it is unlikely that changes in assumptions will occur individually, the results above may not be representative of the actual change in defined benefit obligation.

The following payments are expected to be made in the future years out of the defined benefit plan obligation:

	31 December 2021 £000	31 December 2020 £000
Within the next 12 months	223	237
Between 1 and 5 years	975	1,022
Between 5 and 10 years	1,555	1,602
More than 10 years	9,896	11,104
Total expected payments	**12,649**	**13,965**

The average duration of the defined benefit obligation at the end of the reporting period is 20 years (31 December 2020: 20 years).

Nordics

The defined benefit scheme in the Nordics is located in the Norwegian subsidiary Lowell Norge AS.

The net liability is calculated as follows:

	31 December 2021 £000	31 December 2020 £000
Present value of unfunded defined benefit obligation	7,757	7,638
Plan assets	(5,303)	(5,263)
Net liability	**2,454**	**2,375**

31. Employee benefits (continued)

a) Defined benefit schemes (continued)

The following table shows the changes in the defined benefit obligation:

	31 December 2021 £000
Opening balance of defined benefit obligation	**7,638**
Interest expense	79
Pension payments	(109)
Current service cost	250
Payroll tax of employer	(36)
Actuarial gains	256
Currency translation adjustments	(321)
Closing balance of defined benefit obligation	**7,757**

The plan assets offset against the defined benefit obligation are measured at fair value. The change in plan assets were as follows:

	31 December 2021 £000
Opening balance of plan assets	**5,263**
Net interest income	46
Actuarial gains	94
Contributions	293
Payroll tax of employer	(36)
Payments	(109)
Currency translation adjustments	(248)
Closing balance of plan assets	**5,303**

b) Defined contribution schemes

The Group operates a defined contribution retirement benefit scheme for all qualifying employees of its operations in the UK. The assets of the scheme are held separately from those of the Group in funds under the control of trustees.

The total cost charged to income of £6.2m (2020: £5.5m) represents contributions payable to these schemes by the Group at rates specified in the rules of the schemes.

As at 31 December 2021, contributions of £312k (31 December 2020: £303k) due in respect of the current reporting period had not been paid over to the schemes.

32. Related party transactions

Parent and ultimate controlling party

The Company is a wholly owned subsidiary undertaking of Garfunkelux Holdco 1 S.à r.l., the registered office of which is at 488 route de Longwy, L-1940, Luxembourg.

The ultimate parent company is Garfunkelux S.à r.l., incorporated in Luxembourg, which is itself held by funds advised by Permira, an international private equity fund.

The Company is the largest group in which results are consolidated.

Year end balances with related parties

	31 December 2021 £000	31 December 2020 £000
Balances with immediate parent undertaking		
Shareholder loan with Garfunkelux Holdco 1 S.à r.l. (note 20)	(498,087)	(454,139)
Loan owed from Garfunkelux Holdco 1 S.à r.l.	-	-
Balances with other related parties		
Loan owed from Garfunkelux Nominee S.à r.l.	108	116
Permira Beteiligungsberatung GmbH (trading)	-	(6)
Genesys Telecommunication Laboratories B.V. (trading)	-	1
Klarna Bank AB (trading)	54	-
Klarna (trading)	(20)	-

Transactions with related parties

	31 December 2021 £000	31 December 2020 £000
Transactions with immediate parent		
Shareholder loan interest with Garfunkelux Holdco 1 S.à r.l.	(43,948)	(39,633)
Loan interest owed from Garfunkelux Holdco 1 S.à r.l.	-	241
Transactions with other related parties		
Loan interest owed from Garfunkelux Nominee S.à r.l.	-	343
Loan to Garfunkelux Nominee S.à r.l.	(8)	(5,398)
Permira Beteiligungsberatung GmbH (trading)	(40)	(72)
Teamviewer GmbH (trading)	(2)	5
Duff and Phelps (trading)	-	(21)
Genesys Telecommunication Laboratories B.V. (trading)	(3)	(399)
P&I Personal und Informatik AG (trading)	(5)	(2)
Klarna Bank AB (trading)	2,803	-
Klarna (trading)	281	-

The shareholder loan with Garfunkelux Holdco 1 S.à r.l. is priced on an arm's length basis and is unsecured.

32. Related party transactions (continued)

Remuneration of key management personnel
The remuneration of key management personnel of the Group, who are not Directors of the Company, is set out below in aggregate as specified in IAS 24 (Related Party Disclosures):

	Year ended 31 December 2021 £000	Year ended 31 December 2020 £000
Short-term employee benefits	**3,287**	**3,655**

The above details relate to eight key management personnel (2020: twelve) who are Directors and/or senior executives of subsidiary undertakings of the Company. They are paid emoluments by subsidiary companies (Simon Bidco Limited, Lowell Financial Limited, Lowell Holding GmbH, Lowell Financial Services GmbH and Lowell AS) for their services to the Group. The Directors of the Company are not paid by any company that forms part of the Group, see note 5d.

At 31 December 2021, there were no loans outstanding with key management personnel (31 December 2020: €1.3m with one key management personnel).

33. Subsequent events

In mid-March 2022 the Group was victim of a cyber attack which involved the encryption of data, the deletion of some back up files and the limited exfiltration of data in the DACH region. The incident was immediately contained and isolated from the rest of the Group. Payment and treasury systems were unaffected and the Group continued to receive payments from customers. Key systems have already been restarted and restored from back-up in the majority of the DACH businesses. Management and the Group's IT function are establishing ways to rebuild those systems which were encrypted, principally in the Group's Tesch businesses. Management does not expect the cyber incident to have a long-term impact to operations in the DACH region and is optimistic that business has been temporarily deferred rather than lost.

On 13th April 2022, the Group entered into an agreement to purchase 100% of the share capital of Hoist Finance UK Limited. The transaction includes the operations of Hoist Finance UK and its entire unsecured non-performing loan portfolio, comprising of over 2 million consumer accounts, with approximately £585m 180 month Estimated Remaining Collections as at December 2021. The loan portfolio is almost exclusively in the credit card and personal loan sector. The acquisition continues Lowell's growth trajectory as well as delivering targeted, strategic expansion into the UK financial services sector, specifically banking. Lowell will also benefit from improved data insight from the financial services market, materially speeding up pricing and analysis whilst reducing investment risk. The transaction is valued at £370m on an enterprise value basis as at 31 December 2021 which accounts for £340m of net debt. Completion is subject to the approval of the Financial Conduct Authority and is expected Q3 2022.

On 13th April, Lowell entered into a new securitisation agreement, being a Publicly Rated ABS. The new securitisation, via Wolf Receivables Financing Plc, comprises 357,000 reperforming customer accounts with c£180m 120m ERC. The securitisation will raise proceeds of £100m via the issuance of Senior Notes at a coupon of SONIA +325bps.

GARFUNKELUX HOLDCO 2 S.A.
CASH EBITDA WALKS (UNAUDITED)
YEAR ENDED 31 DECEMBER 2021

	Year ended 31 December 2021
Loss for the year to Cash EBITDA	**£000**
Loss for the year	(3,511)
Net finance costs	178,867
Taxation credit	(13,213)
Operating profit	**162,143**
Portfolio amortisation	351,260
Net portfolio write up	(72,306)
Portfolio fair value release	1,102
Non-recurring costs/exceptional items, net of exceptional income	40,248
Depreciation, amortisation and impairment	48,447
Cash EBITDA	**530,894**

	Year ended 31 December 2021
Cash collections to Cash EBITDA	**£000**
Cash collections (DP)	750,904
Other income	180,332
Operating expenses	(489,037)
Non-recurring costs/exceptional items, net of exceptional income	40,248
Depreciation, amortisation and impairment	48,447
Cash EBITDA	**530,894**

	Year ended 31 December 2021
Net cash flow to Cash EBITDA	**£000**
Increase in cash in the year	47,789
Movement in debt	(141,442)
Purchases of loan portfolios	371,194
Interest paid net of interest received	122,604
Income taxes paid	11,065
Transaction costs relating to loans and borrowings	3,748
Capital expenditure and financial investment	17,973
Derivative settlements	2,513
Payment of lease liabilities	14,601
Cash flow before interest, portfolio purchases, tax expenses and capital expenditure	**450,045**
Working capital adjustments	40,601
Non-recurring costs/exceptional items, net of exceptional income	40,248
Cash EBITDA	**530,894**