Company No. B197497

Garfunkelux Holdco 2 S.A.

Consolidated Financial Statements
For The Year Ended 31 December 2022

Lowell

GARFUNKELUX HOLDCO 2 S.A.
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YEAR ENDED 31 DECEMBER 2022

GARFUNKELUX HOLDCO 2 S.A.
OFFICERS, PROFESSIONAL ADVISORS AND AUDITORS
YEAR ENDED 31 DECEMBER 2022

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GARFUNKELUX HOLDCO 2 S.A.
MANAGEMENT REPORT
YEAR ENDED 31 DECEMBER 2022

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 2022.

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").

On 25 October 2022, the Group acquired a 100% share in Hoist Finance UK Limited and subsidiaries ("Hoist UK") through Metis Bidco Limited, an indirect subsidiary of the Company.

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, by revenue and ERC, and has leading positions across the UK, DACH and Nordic regions; three of the largest consumer credit markets in Europe.

In October 2022 Lowell Group completed the acquisition of Hoist Finance UK. The transaction includes the operations of Hoist Finance UK and its entire unsecured non-performing loan portfolio, comprising of over 2 million consumer accounts, which had approximately £500m 120 month Estimated Remaining Collections as at December 2021. The loan portfolio is almost exclusively in the credit card and personal loan sector. The acquisition provides exposure on a large scale to unsecured banking debt and firmly establishes Lowell as the largest purchaser of unsecured non-performing loans in the UK.

The Group deployed £485.5m of capital on non-performing loans across its regions in 2022, with all three regions growing as a result portfolio purchases in excess of the respective ERC Replacement Rates. Purchasing activity benefitted from Lowell Group's strong, long-standing, and mutually beneficial forward flow agreements, which accounted for 48% of its 2022 purchases.

Collection performance of 93% vs forecast in 2022 reflects known headwinds which have resulted in a deferral of collection expectation, principally driven by operational disruption in DACH as a result of the Cyber incident in March 2022, and capacity constraints in the UK across H1-22. Following an ERC re-forecasting exercise in late Q3 2022, the Group has performed at 100% through Q4-22.

The Group's Cash EBTIDA margin remained consistent vs 2021 at 59%, in line with the Group's guidance. The Cash EBITDA margin reflects the impact of cost reduction activities enacted across 2021 which delivered significant margin improvement, the onboarding of record levels of portfolio acquisitions during 2022 and management's judgement around collection deferral impacts in the UK and DACH regions.

FINANCIAL PERFORMANCE (continued)

Group overview (continued)

To further diversify and strengthen its funding and capital structure, in April 2022 the Group announced that it had entered into a new securitisation agreement, being a Publicly Rated Asset Backed Securitisation ("ABS"). The new securitisation, via Wolf Receivables Financing Plc, comprised 357,000 reperforming customer accounts with c£180m 120m ERC. The securitisation raised proceeds of c£100m via the issuance of Senior Notes at a coupon of SONIA+325bps.

In August 2022 the Group announced that it had sold 51% of the Junior Notes in the Wolf Receivables Financing structure, resulting in the SPV being de-recognised from an accounting perspective, with both the debt and the assets supporting the structure moving 'off balance sheet'. This will be assessed at each balance sheet date to ensure it still meets the off-balance sheet requirements.

This securitisation was 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. Such activity allows Lowell to recycle capital from assets held on the balance sheet at a faster rate, allowing capital generated to by deployed into new assets.

In August 2022 the Group also announced an additional £170m securitisation commitment to support the purchase of the Hoist UK assets. This new facility has a coupon of SONIA+390bps and matures in October 2027.

Regional focus

The Group's collection performance on owned assets against its Dec-21 static pool was 95% for 2022. This reflected varying levels of performance across the three regions:

In the UK, collection performance vs Jun-22 static pool was 101% for H2-22. During H1-22, the implementation of enhanced legal operations led to a temporary impact to litigation capacity and case selections. These selections are a core component of the UK collection strategy and the temporary reduction in capacity impacted collections across H1-22 until BAU levels were re-established in H2-22, resulting in a re-phasing of the collections expectation. The UK has also experienced some marginal softening in the value collected from settlement payments across the year. Encouragingly, payment plan default rates have remained low and performance in the UK has been in line with the reforecast performed at H1-22.

In DACH collection performance vs Jun-22 static pool was 102% for H2-22. As a result of the Cyber incident in March 2022, active collection activity was paused whilst all systems were taken offline to protect data and ensure that the impact was contained. Whilst collection systems were back operating within 4 months, management's judgment assumption is that this resulted in a collection deferral given there was no outbound customer engagement during this period. Recovery post return to BAU collection activity has been encouraging, with performance in Q4-22 in line with the Dec-21 static pool, providing further confidence that the collections are deferred and not lost. The DACH region continues to be focussed on collections performance throughout 2023 as it continues to recover the deferred collections and it focusses on delivery of margin expansion.

In the Nordics, collection performance vs Jun-22 static pool was 100% in H2-22. This performance has remained stable and consistent and 2022 reflected another year with collections in line with forecast.

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 PERFORMANCE (continued)

Financial analysis

Performance in 2022 reflects a year of growth and resilience, with the Group building on the significant work undertaken in 2021 to improve efficiency and margins, capitalising on unique opportunities in the market to deploy capital at attractive returns and delivering collections against known headwinds both internally and externally.

Capital deployment of £485.5m on portfolio purchases represented investment of approximately £200m in excess of the Group's calculated ERC Replacement Rate, driving growth in both ERC and balance sheet carrying value of the Group's assets. The Hoist UK acquisition also reflected a sizeable purchase of UK Non Performing Loans ("NPLs") and added approximately £500m and £297.4m to 120m ERC and portfolio book value respectively.

The Group deployed capital across a variety of sectors during 2022 including home retail, telecommunications, retail and with the majority of spend being on assets originating from the financial services sector.

The Group reassessed the 84 month accounting estimate of the UK portfolio asset life in line with IFRS 9, largely as a result of the impact of the Hoist Finance UK acquisition in the UK. Management concluded that the period over which substantially all the cashflows are recovered from the UK portfolio assets is on average 120 months, bringing it in line with the Group's other regions. The Group reassessed the asset life of the UK portfolio as at 31 December 2022. As a result of the change in accounting estimate the Group recognised net portfolio write up of approximately £73m. The overall carrying value of portfolio investments at 31 December 2022 was £2,196m, an increase of £460m and 26% with the balance at 31 December 2021 of £1,736m. This increase is principally driven by the portfolio purchases made within the year, the completion of the Hoist Finance UK in October 2022, together with the accounting estimate change in the UK region.

As at 31 December 2022, 120-month ERC was £4.5bn, an increase of 24% on 31 December 2021 (120-month ERC: £3.6bn).

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 £626.5m (2021: £651.2m), broadly flat YoY reflecting the reduction in Lawyer Service revenue (down £28m YOY) as a result of the Group transitioning away from this collection model, together with a reduction in DACH 3PC case handovers from clients whilst the business was impacted by the cyber incident.

The Group made an operating profit of £57.8m in the year ended 31 December 2022 (2021: £162.1m) and after interest, related to the Group's funding structure, taxation and impairment in goodwill, the loss for the year ended 31 December 2022 was £108.1m (2021: £3.5m).

The UK region holds the largest proportion of the Group's total portfolio investments. The UK region reported an operating profit of £161.0m (2021: £134.1m) with the increase from 2021 largely attributable to the acquisition of the Hoist UK Portfolio and the change to 120m ERC resulting in higher net portfolio write-up during the period of £57.7m compared to the prior period. This 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 2021: net portfolio write-down of £3.8m).

The DACH region made an operating loss of £102.4m in the year ended 31 December 2022, compared with an operating loss of £8.3m in the prior period. The current period includes an impairment charge to goodwill of £100m. Excluding this, the region made an operating loss of £2.4m.

The Nordics region achieved an operating profit of £48.6 m in the year ended 31 December 2022, in line with the prior period (2021: £50.7m), with net portfolio write-up of £24.9m in the 12 months to December 2022 (12 months to December 2021: £10.3m). This was achieved through having the flexibility to carefully control direct costs.

FINANCIAL PERFORMANCE (continued)

Financial analysis (continued)

At 31 December 2022 the Group had £363.4m drawn on its RCF (31 December 2021: £14.3m) and an unutilised amount of £39.1m (31 December 2021: £367.9m). The Group had £523.8m drawn on its securitisation facilities at 31 December 2022 (31 December 2021: £377.7m). 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 2022, the Group generated £567.2m of cash from operating activities before portfolio acquisitions, with these cash flows available to service or pay down debt, pay income taxes and discretional deployment of capital into new portfolio acquisitions for growth. Largely due to the increase in purchases in 2022 compared to the prior period, the Group's net cash used in operating activities, after portfolio purchases and paying income taxes, fell to £66.2m (2021: £67.8m).

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 79.

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 2022 was £563.3m, compared to £530.9m for the year ended 31 December 2021.

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 £4,474.4m for the 120 months from 31 December 2022 (31 December 2021: £3,616.2m) for the combined UK, DACH and Nordic businesses. Of this, some £749m and £1,369m 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.

OUTLOOK

During 2022 the Group continued to demonstrate its financial and operational resilience, whilst deploying capital to acquire NPLs to support ongoing and future growth of the Group.

During 2023 the Group expects to deploy around £350m of capital on NPL acquisitions which is more closely aligned to its calculated ERC Replacement Rates (~£300m). The Group also expects to initiate further cost saving measures to expand its margin by 300 bps over the next 18months. The Group will continue its focus on balance sheet strength and aims to further reduce its leverage from 4.0x currently, with guidance of sub 3.0x within 18 months.

These actions, alongside the Group's expectations of future collections, strongly position Lowell for sustainable and balanced growth.

FINANCIAL PERFORMANCE (continued)

Outlook (continued)

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 in light of wider macro developments, but that these opportunities will be more prominent in 12 to 18 months' time as NPLs flow through the system and originators look to remove from balance sheets owing to regulatory and liquidity pressures. As a trusted CMS partner, Lowell is well placed across Europe's largest credit markets to participate in any anticipated significant market flows.

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

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:

- Macroeconomic impact from sustained high inflation and cost of living pressures on consumers across Europe. This is expected to lead to an increase in consumer defaults, alongside a growing consumer finance should drive an increase in NPLs brough to market from originators.
- 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.
- 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.

On 22 March 2023, the Group announced that it had entered into an agreement to sell a selection of Swedish portfolios to Hoist Finance AB for SEK 1.2bn, comprising of over 100,000 accounts with approximately £155m of 120-month ERC as a December 2022. The divestment further strengthens the relationship with Hoist Finance AB as one of its key servicing partners and demonstrates the Group's ability to recycle capital and crystalise returns earlier in the investment cycle. It has enabled the Group to deliver returns ahead of pricing expectations whilst growing third-party servicing assets under management. Following completion of the sale, Lowell will continue to service the portfolio on behalf of Hoist Finance AB. Proceeds from the sale were used to partially repay drawings under the Group's Revolving Credit Facility and improve its liquidity position by c£100m.

On 25 May 2023, the Group concluded an asset-backed securitisation collateralised by assets from the Group's Danish business. The securitised portfolio contained over 28,000 reperforming accounts with 120-month ERC of £93m. The transaction follows the previous Wolf securitisation in 2022, demonstrating the repeatable nature of funding structure across the Groups platforms, whilst further evidencing the Group's ability to increase the velocity of cash flows on its balance sheet.

The issuance raised c.£60m proceeds from the sale of the Senior Notes and 51% of the Junior Notes. The Group will retain 49% of the Junior Notes and will continue to service the portfolio.

GARFUNKELUX HOLDCO 2 S.A.
MANAGEMENT REPORT
YEAR ENDED 31 DECEMBER 2022

KEY PERFORMANCE INDICATORS (KPIs)

	31 December 2022	31 December 2021
Amortised cost portfolio investments acquired	£473.0m	£402.8m
Fair value portfolio investments acquired	£12.5m	-
Gross collections (in total)	£1,798.7m	£1,750.7m
Gross collections (DP)	£844.6m	£750.9m
Gross collections (3PC)	£954.1m	£999.9m
3PC income	£126.1m	£146.7m
Yield income from portfolio investments	£425.4m	£399.6m
Cash income	£970.7m	£897.5m
Cash EBITDA(1)	£563.3m	£530.9m
UK	£360.8m	£318.4m
DACH	£84.5m	£85.7m
Nordics	£157.1m	£137.9m
Holding companies	£(39.1)m	£(11.1)m
Operating profit	£57.8m	£162.1m
Loss for the year(2)	£(108.2)m	£(3.5)m
84-month ERC	£3,646.2m	£2,981.6m
120-month ERC	£4,345.4m	£3,616.2m

(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.

(2) Excluding the effect of the £100m goodwill impairment charge for the DACH region, the loss for the year is £13.0m

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 underlying processes and overall governance structure in accordance with the three lines of defence model. The Group operates a 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, (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 including 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. In 2023, the Group has established a new Board sub-committee for Sustainability.

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 respectively for the Group Risk Committee on risk exposures, adherence to risk appetite, effectiveness of the risk management framework for the Group Audit Committee on accounting policies, financial reporting and the internal control framework in conjunction with the Group Risk Committee; and for the Group Remuneration Committee on remuneration policies designed to support long term business strategy and promote effective risk management.

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, regulatory and political environment, including changing competitive threats and disruptive innovations.

The Group continues to pursue its growth and change agenda but is also mindful of the existing economic conditions that require an increased focus on maintaining collection performance and financial discipline. There remains a risk that the Group will not be able to execute on these strategies and 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, the global impact of inflation and rising base rates has created volatility in both customer affordability and capital markets.

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 collective economic and societal stresses can impact collection performance. Even though the overall Group collection performance has to date proven broadly resilient to inflationary pressures, UK customers have been more materially impacted, creating a delay in some expected collections.

The Group recognises that whilst the Group hybrid working model is now well established, there remain broader economic and social trends that have led to tight labour markets and some skill shortages. Alongside the impact of high inflation, this 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 is identified for key risks.

Financial risk

There is a risk to earnings arising from the inability to meet contractual or contingent financial obligations or refinance at a 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) 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. Whilst any refinancing risk is not considered material in the near-term, given the nearest debt maturity horizon is 2025, it is recognised that available capital is both more expensive and scarcer.

Consequently, there remains a risk the Group may not be able to access such capital markets in the medium term 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 has established alternative funding initiatives such as securitisations to build wider diversification of options. 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 with regulated clients and consumer protection remains an area where regulation is subject to 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 in a period where affordability and 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 or external events affecting the operation of our business.

The Group pursues a strategy of using reliable third parties to provide specialist services but there remains a residual third party risk should these suppliers fail to provide the relevant services.

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. It is recognised that digital operational resilience will have an increased focus given the forthcoming implementation of the EU DORA and a potential UK equivalent.

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.

The Group remains highly aware of the continuing high cyber risk profile across all businesses and actively seeks to manage its risk exposure on a continuous basis.

Whilst the Group has recovered operations from the cyber-attack in DACH in March 2022, this had a notable impact on the timing of the DACH collections during the period and although the Group continues 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.

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.

Lowell

RESEARCH AND DEVELOPMENT

Development costs capitalised during the year total £38.7m, which includes work on internally generated software (31 December 2021: £13.9m).

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

Cédric Pedoni
Director
1 June 2023

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REPORT OF THE REVISEUR D'ENTREPRISES AGREE

Report on the audit of the consolidated financial statements

Disclaimer of Opinion

We were engaged to audit 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 2022, 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.

We do not express an opinion on the accompanying consolidated financial statements of the Group. Because of the significance of the matters described in the *Basis for Disclaimer of Opinion* section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

Basis for Disclaimer of Opinion

In 2022, the Group has experienced a significant amount of change in terms of both the volume of corporate activity and business change, particularly in the latter half of the financial reporting period. This has increased both the complexity of the accounting in the Group, the volume of transactional activity and financial reporting considerations. Also, 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, which resulted in a temporary pause in the access to accounting and transactional records for approximately four to six months.

These are circumstances which, combined with time constraints related to the financial reporting, prevented management from compiling all required information to support balances and disclosures in the consolidated financial statements. This in turn prevented us from obtaining sufficient appropriate evidence about the multiple balances and related disclosures included in the consolidated financial statements for the year ended 31 December 2022, namely:

- *Trade and other receivables* (DACH region) in amount of GBP42.8 million as at 31 December 2022;
- *Trade and other payables (Restricted 3PC collections client liability)* (DACH) GBP27.2 million as at 31 December 2022;

- *3PC income* (DACH) in amount of GBP55.2 million for the year ended 31 December 2022;
- *Operating expenses* (DACH) in amount of GBP13.0 million for the year ended 31 December 2022;
- *Staff costs* (DACH) in amount of GBP60.7 million for the year ended 31 December 2022;
- *Non-current and current provisions* (DACH) amounting to GBP3.1 million and GBP7.0 million respectively as at 31 December 2022;
- *Intercompany balances* (Group) with unexplained balances amounting to net assets of GBP46.2 million as at 31 December 2022 and net expenses of GBP11.7 million for the year then ended;
- *Translation reserve* (Group) amounting to GBP53.0 million as at 31 December 2022;
- net *Deferred tax liability* (DACH) amounting to GBP10.2 million, and net *Current tax liability* amounting GBP17.1 million as at 31 December 2022 and *Tax credit* of GBP6.9 million for the year then ended.

We have also not obtained a complete support for following disclosures (Group) in these consolidated financial statements:

- *Note 30. Interest rate sensitivity analysis*
- *Note 33. Defined benefit schemes*
- *Note 34. Related parties.*

We were unable to confirm or verify all the above amounts and disclosures by alternative means.

As a result of these matters, we were unable to determine whether any adjustments might have been found necessary on the financial position of the Group as at 31 December 2022 or on its financial performance and its cash flows for the years then ended.

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.

KPMG

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

Our responsibility is to conduct an audit of the consolidated financial statements of the Group in accordance with ISAs as adopted for Luxembourg by the Commission de Surveillance du Secteur Financier (''CSSF'') and to issue a report of the "reviseur d'entreprises agréé". However, because of the matters described in the *Basis for Disclaimer of Opinion* section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

We are independent of the Group in accordance International Ethics Standards Board for Accountants' 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 for conducting our audit of the consolidated financial statements of the Group and have fulfilled our other ethical responsibilities under these ethical requirements.

Report on other legal and regulatory requirements

Because of the significance of the matters described in the *Basis for Disclaimer of Opinion* section of our report, we do not report on whether the management report is consistent with the consolidated financial statements and has been prepared in accordance with applicable legal requirements.

Luxembourg, 1 June 2023

KPMG Audit S.à r.l.
Cabinet de révision agréé

R. Tumanshin
Partner

Lowell

GARFUNKELUX HOLDCO 2 S.A.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
YEAR ENDED 31 DECEMBER 2022

	Note	Year ended 31 December 2022 £000	Year ended 31 December 2021 £000
Profit or (loss)			
Income			
Income from portfolio investments	16	425,421	399,644
Net portfolio write up	16	72,083	72,306
Fair value gain	16	1,161	-
Portfolio fair value release	16	(381)	(1,102)
Service revenue		126,098	174,547
Other revenue		1,736	3,669
Other income		370	2,116
Total income		**626,488**	**651,180**
Operating expenses			
Collection activity costs		(251,109)	(256,576)
Other expenses	5	(217,603)	(232,461)
Goodwill impairment	11	(100,000)	-
Total operating expenses		**(568,712)**	**(489,037)**
Operating profit		**57,776**	**162,143**
Finance income	6	1,824	3,096
Finance costs	7	(187,436)	(181,963)
Loss for the year, before tax		**(127,836)**	**(16,724)**
Tax credit	8	19,678	13,213
Loss for the year		**(108,158)**	**(3,511)**
Other comprehensive income/(expenditure)			
Items that will not be reclassified to profit or loss			
Actuarial gains on pension plans	33	3,036	818
Deferred tax on actuarial (gains)/losses on pension plans	8	-	(172)
		3,036	**646**
Items that will or may be reclassified subsequently to profit or loss			
Foreign operations – foreign currency translation differences		(79,402)	(19,317)
Other comprehensive (expenditure) / income, net of tax		**(76,366)**	**(18,671)**
Total comprehensive expenditure for the year		**(184,524)**	**(22,182)**

The notes on pages 19 to 79 form part of these consolidated financial statements.

GARFUNKELUX HOLDCO 2 S.A.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2022

	Note	31 December 2022 £000	31 December 2021 £000
Assets			
Non-current assets			
Goodwill	11	1,154,758	1,178,491
Intangible assets	12	118,519	130,538
Property, plant and equipment	13	57,477	39,063
Portfolio investments – amortised cost	16	1,496,252	1,203,065
Portfolio investments – fair value	16	12,958	-
Other financial assets	20	2,761	3,874
Deferred tax assets	9	81,751	60,403
Total non-current assets		**2,924,476**	**2,615,434**
Current assets			
Portfolio investments – amortised cost	16	676,631	533,018
Inventories		-	44
Trade and other receivables	19	90,804	44,962
Other financial assets	20	9,758	15,530
Derivatives	30	16,177	1,418
Assets for current tax		3,513	241
Cash and cash equivalents	21	133,499	155,889
Total current assets		**930,382**	**751,102**
Total assets		**3,854,858**	**3,366,536**
Equity			
Share capital	26	4,385	4,385
Share premium and similar premiums		1,109,586	1,109,586
Reserves		(180,678)	(122,885)
Retained deficit		(510,133)	(401,975)
Total equity		**423,160**	**589,111**
Liabilities			
Non-current liabilities			
Borrowings	22	2,687,338	2,467,937
Provisions for pension	33	6,547	9,072
Provisions	24	5,838	4,608
Other financial liabilities	25	51,470	33,732
Deferred tax liabilities	9	37,286	40,230
Total non-current liabilities		**2,788,479**	**2,555,579**
Current Liabilities			
Trade and other payables	23	174,227	123,240
Provisions	24	7,208	8,907
Borrowings	22	427,351	57,280
Derivatives	30	-	846
Other financial liabilities	25	15,108	9,885
Current tax liabilities		19,325	21,688
Total current liabilities		**643,219**	**221,846**
Total equity and liabilities		**3,854,858**	**3,366,536**

The notes on pages 19 to 79 form part of these consolidated financial statements.

Lowell

GARFUNKELUX HOLDCO 2 S.A.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
YEAR ENDED 31 DECEMBER 2022

	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 2021	**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**
Loss for the year	-	-	-	-	-	(108,158)	(108,158)
Actuarial gain on pension	-	-	-	-	3,036	-	3,036
Exchange differences	-	-	-	(60,829)	-	-	(60,829)
Deferred tax on pension	-	-	-	-	-	-	-
Total comprehensive income/(expenditure) for the year	**-**	**-**	**-**	**(60,829)**	**3,036**	**(108,158)**	**(165,951)**
Balance at 31 December 2022	**4,385**	**1,109,586**	**(8,291)**	**(174,446)**	**2,068**	**(510,133)**	**423,160**

The notes on pages 19 to 79 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.

Lowell

GARFUNKELUX HOLDCO 2 S.A.
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED 31 DECEMBER 2022

	Note	Year ended 31 December 2022 £000	Year ended 31 December 2021 £000
Net cash generated by operating activities	31	**42,217**	**67,793**
Investing activities			
Purchase of property, plant and equipment	13	(1,263)	(1,227)
Purchase of intangible assets	12	(43,134)	(16,753)
Proceeds from disposal of property, plant and equipment	13	(237)	-
Proceeds from disposal of intangible assets	12	(206)	-
Acquisition of subsidiaries, net of cash acquired	10	(338,840)	-
Net cash used in investing activities		**(383,679)**	**(17,980)**
Financing activities			
Proceeds from loans and borrowings	32	2,477,075	439,438
Transaction costs related to loans and borrowings	32	(5,304)	(3,748)
Repayment of borrowings	32	(1,928,242)	(297,996)
De-recognition of borrowings		(70,217)	-
Payment of lease liabilities	14	(11,549)	(14,601)
Derivative settlement		(4,478)	(2,513)
Interest paid		(143,735)	(122,604)
Net cash from/ (used in) financing activities		**313,550**	**(2,024)**
Net increase / (decrease) in cash and cash equivalents		**(27,912)**	**47,789**
Cash and cash equivalents at beginning of period		155,889	114,552
Effect of movements in exchange rates on cash held		5,522	(6,452)
Cash and cash equivalents at end of period*	21	**133,499**	**155,889**

*Cash and cash equivalents at 31 December 2022 contains £70.9m of restricted cash (31 December 2021: £60.4m). See note 21 for further details.

The notes on pages 19 to 79 form part of these consolidated financial statements.

1. Significant accounting policies

Corporate information

The consolidated financial statements of Garfunkelux Holdco 2 S.A. (“the Company”) and its subsidiaries (together “The Group”) for the year ended 31 December 2022 were authorised for issue in accordance with a resolution of Directors on 31 May 2023. 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 34.

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. and all its subsidiary undertakings for the year ended 31 December 2022.

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 30 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 2022 was an operating profit of £57.8m (year ended 31 December 2021: £162.1m) and a net asset position of £423.2m at 31 December 2022 (31 December 2021: £589.1m). Taking finance income and costs into consideration the Group's loss before tax for the year ended 31 December 2022 was £127.8m (31 December 2021: £16.7m). Removing the goodwill impairment charge for the year, the loss before tax in 2022 was £27.8m.

The business as a whole is cash generative before portfolio acquisitions, interest and tax, generating cash of £561.7m in the year to 31 December 2022 (year ended 31 December 2021: £450.1m), with operating cash flow after portfolio acquisitions and tax being £42.2m (year ended 31 December 2021 £67.8m). The Group continually monitors its cash flow requirements to ensure that enough cash is available to meet its commitments.

Collection performance of 95% vs forecast in 2022 reflects known headwinds which have resulted in a deferral of collection expectation, principally driven by operational disruption in DACH as a result of the Cyber incident in March 2022, and capacity constraints in the UK across H1-22. Following an ERC re-forecasting exercise in H2 2022, the Group has performed at 100% versus the updated ERC through Q4-22.

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 cost of living crisis, 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.£150m 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 19 August 2022 the Group entered into a further £170m UK securitisation facility on similar commercial terms to the two existing facilities, maturing in October 2027. In April 2022, c£100m was raised through the issuance of publicly rated ABS issuance senior notes.

As a result of the new securitisation facilities during the period, the Group now has three main sources of funding at 31 December 2022. €630m, £440m and €795m, of Senior Secured notes ("notes"), a €455m RCF and three securitisation facilities, with options to reset to £225m, £175m and £170m respectively. As detailed in note 22, at 31 December 2022, £364m was drawn on the RCF and there were £521m of outstanding borrowings in total across the two securitisation facilities. Covenants are detailed in note 22. No covenants have been breached, or are expected to be breached, during the going concern forecast period. The earliest debt maturity horizon is July 2025 and the latest is October 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

Income from portfolio investments held at amortised cost

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 of 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.

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.

Fair value gains on acquired portfolio investments at FVTPL

Fair value gains on portfolio investments at FVTPL represents all of the income and expenses relating to the Group's portfolio investments which are classified as FVTPL. The line item includes fair value changes, interest and dividends.

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

Recognition

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.

Classification

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 held at amortised cost 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.

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 portfolio investments held at FVTPL and derivative financial instruments that do not fall under the scope of hedge accounting in accordance with IFRS 9.

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 financial asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the financial asset to another entity. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

If the terms of the financial asset are modified, then the Group evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised, and a new financial asset is recognised at fair value less any eligible transaction costs.

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.

During the year, the Group met the criteria to derecognise a portfolio of financial assets. Refer to Note 18 for further details.

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.

1. Significant accounting policies (continued)

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, 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.

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.

1. Significant accounting policies (continued)

Taxation (continued)

Deferred tax (continued)

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.

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.

1. Significant accounting policies (continued)

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.

Investment in subsidiaries

When an entity is controlled by the Group it is consolidated. The assessment of control requires judgement of factors including having power over the entity, if it is exposed to, or has rights to, variable returns from its involvement with the entity, and has the ability to affect those returns through its power over the entity. The Group consolidates an entity only when all the above three elements of control are present.

Securitisation vehicles

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. Outside the day-to-day servicing of the receivables (which may be carried out by the Group under a servicing contract), key decisions are usually required only when the intent of the participants regarding the design of the economic structure or the strategy for the collection of the underlying assets changes

In assessing whether it has control, the Group considers whether it manages the key decisions that most significantly affect these vehicles' returns, alongside its total variability related to its economic interests in the vehicles. The Group acts as an agent when it is engaged to act on behalf and for the benefit of another party, and as a result does not control an entity. Therefore, in such cases, the Group does not consolidate the entity. In making the above assessment, the Group considers the scope of its decision-making authority over the entity, the rights held by other parties, the remuneration to which the Group is entitled from its involvement, and its exposure to variability of returns from other interests in that entity.

The Group has interests in certain entities which are structured so that voting rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual rights.

1. Significant accounting policies (continued)

Unconsolidated securitisation vehicles

Unconsolidated securitisation 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.

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.

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.

1. Significant accounting policies (continued)

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.

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.

2. Significant accounting estimates and judgements

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.

Management's key judgement is an assumption that an element of 2022 expected collections have been deferred into future periods, rather than lost.

UK

In the first part of 2022 UK collections were impacted by temporarily reduced outbound operational capacity due to the transitioning of legal operations to a new structure. Given the reason behind reduced collections was largely not customer related but instead due to the Group's operating capacity, management has judged that the collections were deferred into later periods and not lost. Collections initiatives in the UK resulted in increased gross ERC.

At 31 December 2022, management has 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 and concluded that the portfolio investments carrying value is appropriate. Management have applied an overlay to the modelled ERC to allow for the deferred and not lost collections together with future positive impacts of the delivery of detailed collections initiatives and operational improvements.

DACH

The cyber-attack suffered by the DACH region in March 2022 resulted in a temporary pause in outbound operational activity and reduced collections for approximately four months before recovering to collection levels in Q4-22 which were back to being at the level of collections seen in Q4-21. Management's significant accounting judgement is that the DACH collections missed due to the cyber incident are deferred and not lost, given the incident did not impact the customer's circumstances in any way, rather it just inhibited management from outbound operational activity. Following a review of portfolios, management reforecast the back-book curves at the end of 2022 to align performance to current recovery trends, with an assumption that the 2022 deferred collections will be recovered during 2023. The cyber related deferred collections assumption resulted in an ERC overlay of £15.9m for 2023 collections. If the deferred collections were to be recovered 6 months later than expected, the time value of money impact on the carrying value of the portfolio investments at 31 December 2022 would be a reduction of £1.0m.

Management continues to monitor collections regularly to ensure this remains appropriate and whether there are any pressures on collections from a rising cost of living or any other external factors.

2. Significant accounting estimates and judgements (continued)

Portfolio investment valuation (continued)

Nordics

Collection performance in the Nordic region has continued to be robust with performance ahead of the ERC forecasts.

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. Management continues to monitor collections performance and customer behaviour in light of cost of living pressures and other macroeconomic factors.

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 2022 by £21.9m (31 December 2021: £17.4m).

A key accounting estimate is the useful economic life of the Group's portfolio investments. Management's analysis shows that 120-months is an appropriate useful economic life for portfolio assets across the Group, see note 16 for further details. In changing the accounting estimate for the UK from 84 to 120 months, the Group recognised a £73.1m revaluation gain.

The estimated life of portfolios in the UK has increased from 84 months to 120 months as at 31 December 2022. The impact to the balance sheet as at 31 December 2022 of this change in accounting estimate is:

	84m estimated life £m	**Revaluation £m**	**120m estimated life £m**
Portfolio investments	2,112.7	73.1	2,185.8

The impact to the profit or loss for the year ended 31 December 2022 of this change in accounting estimate is:

	Year ended 31 December 2022 £m
Portfolio write up	73.1
Income from Portfolio Investments	-

The change in accounting estimate has no impact on prior periods.

Consolidation of subsidiaries

Power is considered to exist when the Group's existing rights give it the current ability to direct the relevant activities of the entity, i.e. the activities that significantly affect the entity's returns, and the Group has the practical ability to exercise those rights. Power over the entity may arise from voting rights granted by equity instruments such as shares or, in other cases, may result from contractual arrangements.

Where voting rights are relevant, the Group is deemed to have control where it holds, directly or indirectly, more than half of the voting rights over an entity, unless there is evidence that another investor has the practical ability to unilaterally direct the relevant activities.

2. Significant accounting estimates and judgements (continued)

Consolidation of subsidiaries (continued)
The Group may have power, even when it holds less than a majority of the voting rights of the entity, through a contractual arrangement with other vote holders, rights arising from other contractual arrangements, substantive potential voting rights, ownership of the largest block of voting rights in a situation where the remaining rights are widely dispersed ('de facto power'), or a combination of the above. In assessing whether the Group has de facto power, it considers all relevant facts and circumstances including the relative size of the Group's holding of voting rights and dispersions of holdings of other vote holders to determine whether the Group has the practical ability to direct the relevant activities.

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. Outside the day-to-day servicing of the receivables (which may be carried out by the Group under a servicing contract), key decisions are usually required only when the intent of the participants regarding the design of the economic structure or the strategy for the collection of the underlying assets changes.

In assessing whether the Group has the ability to use its power to affect the amount of returns from its involvement with an entity, the Group determines whether in exercising its decision-making rights, it is acting as an agent or as a principal. The Group acts as an agent when it is engaged to act on behalf and for the benefit of another party, and as a result does not control an entity. Therefore, in such cases, the Group does not consolidate the entity. In making the above assessment, the Group considers the scope of its decision-making authority over the entity, the rights held by other parties, the remuneration to which the Group is entitled from its involvement, and its exposure to variability of returns from other interests in that entity.

Information about the Group's structured entities is set out in note 15.

The Group reassesses whether it controls an entity if facts and circumstances indicate that there are changes to one or more elements of control. When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

Derecognition – Financial Assets

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

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in OCI is recognised in profit or loss.

If the terms of the financial asset are modified, then then Group evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised, and a new financial asset is recognised at fair value plus any eligible transaction costs.

During the year, the Group's investment in Wolf Receivables Financing Plc was derecognised following the Group determining it was no longer substantially exposed to the risks and rewards of the financial assets following the transfer of the contractual cashflows to a third party.

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. Debt purchase cashflows 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. Additional sensitivities of key metrics is presented in Note 11.

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.

Based on the CGU's value in use, a consistent increase in the forecast portfolio acquisitions across the entire forecast period of 14% would result in an impairment at 31 December 2022 in the UK region, and no reduction in purchases in the Nordic region would result in an impairment. Management believes it is highly unlikely that the Group would observe a sustained reduction in portfolio acquisitions of this level considering the resilience shown by the business during the COVID-19 pandemic, and the cost of living crisis. During the year, as a result of the impairment tests applied to the DACH region, goodwill in that region was impaired by £100m. See note 11 for further details.

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 £253m of forward flow commitments for FY23 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.

Goodwill on acquisitions is not tested separately for impairment but is assessed as part of the carrying amount of the investment.

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 2022

	UK	DACH	Nordics	Holding companies	Total
	£000	£000	£000	£000	£000
Total income	321,372	137,861	167,636	(381)[1]	626,488
Collection activity costs	(106,259)	(80,191)	(64,659)	-	(251,109)
Other operating expenses	(49,345)	(40,489)	(37,613)	(42,593)[2]	(170,040)
Operating profit before depreciation, amortisation and impairment	**165,769**	**17,180**	**65,364**	**(42,974)**	**205,339**
Depreciation and amortisation	(4,744)	(19,537)	(16,738)	(6,545)[3]	(47,563)
Goodwill impairment	-	(100,000)	-	-	(100,000)
Operating profit / (loss)	**161,025**	**(102,356)**	**48,626**	**(49,519)**	**57,776**
Finance income					1,824
Finance costs					(187,436)
Loss before tax					**(127,836)**
Income tax					19,678
Loss for the year					**(108,158)**

[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.

3. Segmental reporting (continued)

Segmental results (continued)

Year ended 31 December 2021

	UK £000	DACH £000	Nordics £000	Holding companies £000	Total £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.

	At 31 December 2022 £000	At 31 December 2021 £000
Non-current assets		
UK	640,122	573,904
DACH	434,347	528,714
Nordics	255,462	245,473
Total non-current assets	**1,329,931**	**1,348,091**

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 2022 £000	Year ended 31 December 2021 £000
Income		
DP	498,284	470,848
3PC income	126,027	146,742
Lawyer service revenue	72	27,805
Other	2,105	5,785
Total income	**626,488**	**651,180**

4. Loss before tax

	Year ended 31 December 2022 £000	Year ended 31 December 2021 £000
Loss for the period is after charging:		
Depreciation and impairment of property, plant and equipment (note 13 & 14)	11,668	13,072
Amortisation and impairment of intangible assets (note 12)	29,956	35,178
Loss on disposal of property, plant and equipment and intangible assets	-	1,080
Staff costs (note 5c)	194,656	189,255

5. Staff costs and other operating expenses

a) Other operating expenses

	Year ended 31 December 2022 £000	Year ended 31 December 2021 £000
Staff costs (note 5c)	88,011	90,540
Depreciation of property, plant and equipment (note 13 & 14)	11,668	13,072
Amortisation of intangible assets (note 12)	29,956	35,178
Impairment of assets	-	197
Loss on disposal of property, plant and equipment and intangible assets	30,039	1,080
Non recurring acquisition costs	5,167	-
Licences and maintenance for IT equipment	24,485	22,420
Building and facility costs	6,285	4,899
Other operating expenses	21,992	65,075
Total other operating expenses	**217,603**	**232,461**

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 2022 £000	Year ended 31 December 2021 £000
Audit fees of Parent Company and consolidated financial statements	290	220
Audit fees of financial statements of subsidiaries	1,743	1,213
Services relating to tax		44
Other services	82	152
Total auditor's remuneration	**2,115**	**1,629**

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 2022 £000	Year ended 31 December 2021 £000
Collection activity costs	106,645	98,715
Other expenses	88,011	90,540
Total staff costs	**194,656**	**189,255**

	Year ended 31 December 2022 £000	Year ended 31 December 2021 £000
Wages and salaries	167,118	159,834
Social security costs	19,273	21,237
Pension costs to defined contribution schemes	8,193	8,045
Pension costs to defined benefit schemes	73	139
Total staff costs	**194,656**	**189,255**

The average number of employees during the period was:

	Year ended 31 December 2022 Number	Year ended 31 December 2021 Number
Operational staff	2,533	2,404
Business support	1,057	1,028
Total average number of employees	**3,590**	**3,432**

The period end number of employees was:

	31 December 2022 Number	31 December 2021 Number
Operational staff	2,582	2,338
Business support	1,099	952
Total number of employees at period end	**3,681**	**3,290**

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 34. 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 2022 £000	Year ended 31 December 2021 £000
Bank interest receivable	1,632	983
Net foreign exchange gain	192	2,113
Total finance income	**1,824**	**3,096**

7. Finance costs

	Year ended 31 December 2022 £000	Year ended 31 December 2021 £000
Interest payable on the Senior Secured Notes	104,218	114,613
Fees payable on borrowings	5,853	7,541
Interest and fees payable on Revolving Credit Facility	7,004	5,445
Interest payable on shareholder loan	43,123	43,948
Interest payable on securitisation	21,612	6,760
Fees payable on other finance structures	768	664
Other interest payable	3,326	249
Interest expense from lease liabilities	1,390	1,626
Net loss on financial instruments designated as FVTPL	144	1,117
Total finance costs	**187,436**	**181,963**

8. Income tax

a) Amounts recognised in the Statement of Comprehensive Income

	Year ended 31 December 2022 £000	Year ended 31 December 2021 £000
Current taxation		
Corporation tax	4,631	5,913
Adjustment in respect of previous periods	(17)	(7,609)
Total current tax charge	**4,613**	**(1,696)**
Deferred tax		
Origination and reversal of temporary differences	(27,927)	(3,282)
Change in estimate of recoverable deferred tax	(1,443)	1,425
Impact of change in tax rate	5,079	(9,660)
Total deferred tax credit (note 9)	**(24,292)**	**(11,517)**
Total tax credit	**(19,678)**	**(13,213)**

	Year ended 31 December 2022 £000	Year ended 31 December 2021 £000
Pension Provisions	**-**	**172**

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% (2022: 22%). The tax credit assessed for the period is lower than this and the differences are explained below:

	Year ended 31 December 2022 £000	Year ended 31 December 2021 £000
Loss on ordinary activities before tax	**(127,836)**	**(16,724)**
Tax credit on loss on ordinary activities at a combined countries rate of 22% (2021: 22%)	(28,124)	(3,679)
Effects of:		
Permanent differences	31,333	3,455
Net of expenses not deductible and income not taxable	(6,021)	4,650
Adjustment in respect of prior years deferred taxes	5,079	1,426
Impact of tax losses carried forward	(5,751)	92
Adjustment in respect of prior years current taxes	(17)	(7,609)
Tax rate differences	(16,807)	(11,459)
Other	630	(89)
Total tax credit	**(19,678)**	**(13,213)**

9. Deferred tax

Deferred tax assets and liabilities are attributable to the following as at 31 December 2022 and 31 December 2021.

	31 December 2022 £000	31 December 2021 £000
Recognised in profit or loss		
Intangible assets	(23,469)	(34,484)
Portfolio investments	(24,663)	(34,695)
Tax losses carried forward	83,530	78,695
Other	9,068	10,657
Net tax assets	**44,465**	**20,173**

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 2022 £000	Year ended 31 December 2021 £000
SCI effect	27,928	11,517
Equity effect	(5,079)	(172)
Exchange rate differences	1,443	1,173
Movement in the period	**24,292**	**12,518**

	31 December 2022 £000	31 December 2021 £000
Deferred tax asset	81,751	60,403
Deferred tax liability	(37,286)	(40,230)
Net deferred tax asset	**44,465**	**20,173**

At 31 December 2022 deferred tax assets of £13.0m (31 December 2021: £13.0m) 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 Hoist UK

On 25 October 2022, the Group acquired 100% of the ordinary share capital of the Hoist UK business (comprising of 7 entities) from the Hoist Group. This qualifies as a business as defined in IFRS 3 Business Combinations.

The amounts recognised in respect of the identifiable assets acquired and liabilities assumed are as set out in the table below.

	£000
Portfolio Investment	290,292
Financial assets	11,793
Property, plant and equipment	1,006
Identifiable intangible assets	244
Financial liabilities	(8,750)
Total identifiable assets acquired and liabilities assumed	294,585
Goodwill	47,256
Total consideration	341,841
Satisfied by:	
Cash	**341,841**
Total consideration transferred	**341,841**
Net cash outflow arising on acquisition:	
Cash consideration	**341,841**
Less: cash and cash equivalent balances acquired	**(9,285)**
	(332,556)

The fair value of the financial assets includes receivables with a fair value of £4.7m and a gross contractual value of £4.7m.

The goodwill of £47.3m arising from the acquisition consists of factors including the value associated with data assets and portfolio origination capabilities. None of the goodwill is expected to be deductible for income tax purposes.

Acquisition related costs amount to £5.2m.

Hoist UK contributed £1.5m profit to the Group’s profit for the period between the date of acquisition and the reporting date.

If the acquisition of Hoist UK has been completed on the first day of the financial year, Group revenues for the year would have been £36m and Group profit would have been £4m.

11. Goodwill

	Year ended 31 December 2022 £000	Year ended 31 December 2021 £000
Cost		
Opening balance	1,178,491	1,221,265
Addition on acquisition of subsidiary	47,256	-
Effect of currency translation	29,011	(42,774)
At period end	**1,254,758**	**1,178,491**
Accumulated impairment		
Opening balance	-	-
Impairment charge	(100,000)	-
Effect of currency translation	-	-
At end of year	**(100,000)**	**-**
Net book value		
At period end	**1,154,758**	**1,178,491**

The impairment loss on goodwill related to the DACH CGU and is booked into Goodwill impairment on the Income Statement. Further sensitivity analysis is provided below.

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.

Impairment testing

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 2022 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 2022	31 December 2021
UK CGU	1.5%	1.5%
DACH CGU	1.5%	1.5%
Nordics CGU	1.5%	1.5%

11. Goodwill (continued)

Impairment testing (continued)

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 2022	31 December 2021
UK CGU	9.6%	8.9%
DACH CGU	11.7%	7.6%
Nordics CGU	8.4%	7.6%

The Group prepares cash flow forecasts derived from the latest budget, as approved by the Board of Directors in December 2022. 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, keeping other parameters constant. Each sensitivity has assessed execution risk of collections performance and cost initiatives.

UK CGU

The CGU has a carrying value of £1,846m. The CGU's recoverable amount exceeds its carrying amount by £41m. Based on the value in use a fall in the forecast cash flows to 97%, an increase in WACC of 0.2 percentage points to 9.8%, or a sustained increase in portfolio acquisitions of 14% would result in an impairment as at 31 December 2022

DACH CGU

The CGU has a carrying value of £712m. The CGU's carrying amount exceeded its recoverable amount resulting in an impairment loss of £100m during 2022 (2021: nil). This impairment charge was fully allocated to goodwill and included in 'Goodwill impairment'. The goodwill impairment was driven by the ongoing impacts of the Cyber incident deferring collections to future periods. An 10% increase in WACC of 117bps, a decrease in cash flows of 10% or a sustained increase in portfolio acquisitions of 10% would result in further impairment charges of £75m, £27m and £18m respectively

Nordics CGU

The CGU has a carrying value of £849m. The CGU's recoverable amount exceeds its carrying amount by £735m. Based on the value in use a fall in the forecast cash flows to 30%, or an increase in WACC of 5.3 percentage points to 13.8% or a sustained increase in portfolio acquisitions of 247% would result in an impairment at 31 December 2022.

12. Intangible assets

	Software and licences	Development costs	Customer relationships	Trademarks	Total
	£000	**£000**	**£000**	**£000**	**£000**
Cost					
At 1 January 2022	71,640	18,528	176,019	17,507	283,694
Acquisition of subsidiary	205	-	-	-	205
Additions	4,404	38,729	-	-	43,134
Reclassification	-	-	-	-	-
Currency exchange differences	2,683	739	7,430	277	11,128
Disposals	(23,602)	(16,258)	-	-	(39,859)
At 31 December 2022	**55,330**	**41,738**	**183,449**	**17,784**	**298,301**
Accumulated amortisation					
At 1 January 2022	(48,500)	4,569	(97,373)	(11,852)	(153,156)
Charge for the year	(6,232)	(16,643)	(6,455)	(625)	(29,955)
Disposals	9,826	-	-	-	9,826
Currency exchange differences	(1,595)	246	(4,716)	(431)	(6,497)
At 31 December 2022	**(46,501)**	**(11,828)**	**(108,544)**	**(12,909)**	**(179,782)**
Net book value					
At 31 December 2022	**8,829**	**29,910**	**74,905**	**4,875**	**118,519**
At 31 December 2021	**23,140**	**23,097**	**78,646**	**5,655**	**130,538**

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 2022 £000	31 December 2021 £000
Assets owned by the Group	6,097	7,696
Right-of-use assets (note 14a)	51,380	31,367
Total	**57,477**	**39,063**

Assets owned by the Group

	Leasehold improvements £000	Hardware £000	Office Equipment £000	Total £000
Cost				
At 1 January 2022	2,513	4,862	11,460	18,835
Additions	49	450	1,326	1,825
Currency exchange differences	-	-	438	438
Disposals	-	-	(6)	(6)
At 31 December 2022	**2,562**	**5,312**	**13,218**	**21,092**
Accumulated depreciation				
At 1 January 2022	(1,487)	(3,003)	(6,649)	(11,139)
Charge for the year	(546)	(718)	(1,750)	(3,014)
Disposals	-	-	-	-
Currency exchange differences	(16)	(249)	(577)	(842)
At 31 December 2022	**(2,049)**	**(3,970)**	**(8,976)**	**(14,995)**
Net book value				
At 31 December 2022	**513**	**1,342**	**4,242**	**6,097**
At 31 December 2021	**1,026**	**1,859**	**4,811**	**7,696**

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 2022 £000	31 December 2021 £000
Leasehold Property	45,822	25,641
Cars	296	753
Office equipment	5,262	4,973
Total	**51,380**	**31,367**

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

Additions to right-of-use assets during the 2022 financial year were £24.9m (2021: £1.0m).

There was no evidence of impairment on right-of-use assets at 31 December 2022.

b) Lease liabilities

	31 December 2022 £000	31 December 2021 £000
Non-current	44,758	26,926
Current	8,128	8,329
Total	**52,886**	**35,255**

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 2022 £000	31 December 2021 £000
Leasehold Property	5,989	6,679
Cars	926	713
Other office equipment	1,740	2,107
Total	**8,655**	**9,499**

	31 December 2022 £000	31 December 2021 £000
Finance costs		
Interest expense	1,390	1,626
Other expenses		
Expense relating to short-term leases (included in other expenses)	229	316
Expense relating to leases of low-value assets that are not short-term leases (included in other expenses)	5	25
Expense relating to variable lease payments not included in lease liabilities (included in other expenses)	1	485

The total cash outflow for leases in 2022 was £12.6m (2021: £14.6m) of which £1.4m (2021: £1.6m) relates to interest expense and £11.2m (2021: £13.0m) 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 2022 (31 December 2021: none).

15. Group structure

The Group includes the following subsidiary undertakings. All subsidiaries, except for Wolf Receivables Financing Plc, are included in the consolidation:

Name	Country of incorporation	Ordinary share holding % as at 31 December 2022	Ordinary share holding % as at 31 December 2021
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
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[1]	UK	100	100
Lowell Group Financing Plc[1]	UK	100	100
Lowell Group Limited	UK	100	100
Lowell Funding Limited[1]	UK	100	100
Lowell Acquisitions Limited[1]	UK	100	100
Lowell Holdings Limited[1]	UK	100	100
Lowell Finance Limited[1]	UK	100	100
Lowell Financial Limited	UK	100	100
Lowell Portfolio I Limited	UK	100	100
Tocatto Limited[1]	UK	100	100
Lowell UK Shared Services	UK	100	100
Lowell Portfolio III Limited[1]	UK	100	100
Lowell Group Shared Services Limited	UK	100	100
Lowell Portfolio IV Limited	UK	100	100
Lowell Solicitors Limited	UK	100	100
Interlaken Group Limited[1]	UK	100	100
Fredrickson International Limited	UK	100	100
SRJ Debt Recoveries Limited[1]	UK	100	100
Lowell Receivables Financing 1 Limited	UK	100	100
Overdales Legal Limited	UK	100	100
Wolf Receivables Financing Plc[4]	UK	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 2022	Ordinary share holding % as at 31 December 2021
DC Portfolien GmbH	Germany	100	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
Lowell Treasury Co. Limited	UK	100	100
Lowell Receivables Financing 2 Limited	UK	100	100
Lowell Receivables Financing 3 Limited[2]	UK	100	-
Hoist Finance UK Limited[3]	UK	100	-
Hoist Finance UK Holdings 1 Limited[3]	UK	100	-
Hoist Finance UK Holdings 2 Limited[3]	UK	100	-
Hoist Finance UK Holdings 3 Limited[3]	UK	100	-
CL Finance Limited[3]	UK	100	-
Robinson Way Limited[3]	UK	100	-
MKDP Limited[3]	UK	100	-

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

[2]Lowell Receivables Financing 3 Limited was incorporated on 14 January 2022.

[3]The Hoist UK business was acquired on 25 October 2022

[4]Wolf Receivables Financing Plc was incorporated on 2 March 2022.

16. Portfolio investments

	31 December 2022 £000	31 December 2021 £000
Non-current		
Portfolio investments – amortised cost	1,496,253	1,203,065
Portfolio investments – fair value	12,958	-
Current		
Portfolio investments – amortised cost	676,631	533,018
Total	**2,185,841**	**1,736,083**

The amortised cost value includes the £73m impact of the change in ERC in the UK from 84 months to 120 months.

The movements in amortised cost acquired portfolio investments were as follows:

	31 December 2022 £000	31 December 2021 £000
At start of year	**1,736,083**	**1,661,765**
Acquisition of subsidiary	290,292	-
Portfolios acquired during the year	473,037	402,751
Collections in the year(1)	(844,031)	(750,904)
Income from portfolio investments	425,421	399,644
Net portfolio write up(2)	72,083	72,306
Portfolio fair value release	(381)	(1,102)
Net foreign exchange movement	20,377	(48,377)
At end of year	**2,172,883**	**1,736,083**

(1) Includes £90.9m gross accelerated debt purchase cashflows relating to the deconsolidation of public rated ABS transaction
(2) Includes £12.6m revaluation gain on carrying value of portfolio assets disposed of as part of public rated ABS transaction

The movements in fair value acquired portfolio investments were as follows:

	31 December 2022 £000	31 December 2021 £000
At start of year	**-**	**-**
Portfolios acquired during the year	12,497	-
Collections in the year	(590)	-
Fair value gain	1,051	-
At end of year	**12,958**	**-**

17. Involvement with Unconsolidated securitisation vehicles

Unconsolidated securitisation vehicles are all structured entities that the Group has an interest in, but does not control. The Group uses structured entities 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. Servicing activities are charged at a market rates, on terms normal for the industry, and are considered to be a typical customer/supplier relationship per the meaning of this term set out in 'IFRS 12 – Disclosure of Interests in Other Entities'.

Nature and risks associated with Group interests in unconsolidated structured entities:

Underlying asset type	UK
Loan receivables	
Number of entities at 31 December 2022	1
Portfolio investments	
Fair value through the profit or loss	£12.5m
Amortised cost	£0m
Total assets at 31 December 2022	£12.5m

The maximum exposure to loss is the carrying value of the instruments summarised above, due to the nature of the Group's holdings at the fact that no additional support has been provided or committed to the vehicles. Unconsolidated structured entities in which the Group holds an interest are typically financed by a form of junior profit participation note, and in some instances also have senior secured or senior unsecured liabilities to which the junior positions are subordinated.

18. Transfer of financial assets

In the ordinary course of business, the Group enters transactions that result in the transfer of financial assets, primarily loan receivables. In accordance with the accounting policy set out in Note 2, the transferred financial assets continue to be recognised in their entirety or to the extent of the Groups continuing involvement or are derecognised in their entirety.

The Group transfers financial assets that are not derecognised in their entirety or for which the Group has continuing involvement primarily through securitisation activities in which loan receivables are transferred to unconsolidated securitisation vehicles. As at 31 December 2022 only Wolf Receivables Financing Plc was unconsolidated and the remaining three SPVs were consolidated.

Transferred financial assets that are derecognised in their entirety

Sales to unconsolidated structured entities

Certain securitisation transactions undertaken by the Group result in the Group derecognizing transferred assets in their entirety. This is the case when the Group transfers the ownership of the financial assets to the unconsolidated securitisation vehicle which the Group does not control. Where the financial assets are derecognised in their entirety, then the interest in the unconsolidated securitisation vehicles that the group receives as part of the transfer and the servicing arrangement represent continuing involvement with those assets.

In April 2022, the Group sold certain loan receivables to a securitisation vehicle and, as part of the consideration, received 100% of the junior notes issued by the securitisation vehicle. The notes received represent 100% of the total issuance. In August 2022, the Group sold 51% of the Junior Notes to a third party, and this transaction was the trigger for the deconsolidation of the SPV and derecognition of the sold reperforming portfolio. The Group classified the Junior Notes as measured at FVTPL.

18. Transfer of financial assets (continued)

During the year ended 31 December 2022, the group realized a gain of £13m on the sale of the loan receivables to the unconsolidated securitisation vehicle. During the year ended 31 December 2022, it recognised income of £1.2m in profit and loss on the 51% junior note holding. The cumulative income on the notes held on 31 December 2022 was £1.2m. Servicing contracts are discussed below.

The following table sets out the details of the assets that represent the Group's continuing involvement with the transferred assets that are derecognised in their entirety:

Type of continuing involvement	**Fair value assets**
Notes issued by unconsolidated securitisation vehicles	£12.5m
31 December 2022	£12.5m

The amount that best represents the Group's maximum exposure to loss from its continuing involvement in the form of notes issued by unconsolidated securitisation vehicles is their carrying amount.

As part of certain securitisation transactions that result in the Group derecognizing the transferred financial assets in their entirety, the Group retains servicing rights in respect of the transferred financial assets. Under the servicing arrangements, the Group collects the cash flows on the transferred loan receivables on behalf of the unconsolidated securitisation vehicle. In return, the Group receives a fee that is expected to compensate the Group adequately for servicing the related assets. Consequently, the Group accounts for servicing arrangements as executory and has not recognised an asset/liability. The servicing fee is based on a fixed percentage of the cash flows that the Group collects as an agent on the transferred loan receivables. Potentially, a loss from servicing activities could occur if the costs that the Group incurs in performing the servicing activities exceed the fees receivable or if the Group does not perform in accordance with the servicing arrangements. The servicing arrangement do not give rise to the Group having control over the securitisation vehicle and the Group therefore acts as an agent.

In 2022 the Group transferred loan receivables (whilst retaining servicing rights) to an unconsolidated securitisation vehicle. The loans sold were classified as loan receivables and measured at amortised cost. The total carrying amount of these loans at the time of transfer was £76.4m in April 2022.

A gain of £13m was recognized on the transfer as the loan receivables were measured at amortized cost.

The Group recognised income of £1.0m during the year ended 31 December 2022 in respect of servicing the loan receivables. The cumulative amount of such recognised income as at 31 December 2022 is £1.0m. On 31 December 2022, the fair value of the loan receivables that the Group still services amounted to £78.0m.

19. Trade and other receivables

	31 December 2022 £000	**31 December 2021 £000**
Trade receivables	24,410	15,430
Prepayments and accrued income	7,907	11,450
Other receivables	57,196	17,670
Tax receivable	1,291	412
Total	**90,804**	**44,962**

Trade receivables are primarily made up of amounts due from clients for services provided. This figure includes gross receivables of £26.1m (2021: £17.3m), and an allowance for bad debt of £1.9m (2021: £1.8m).

20. Other financial assets

	31 December 2022 £000	31 December 2021 £000
Non-current		
Receivables from affiliated companies	41	41
Other	2,720	3,833
Total non-current	**2,761**	**3,874**
Current		
Securitisation receivables	-	1,370
Other	9,758	14,160
Total current	**9,758**	**15,530**
Total other financial assets	**12,519**	**19,404**

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.

21. Cash and cash equivalents

	31 December 2022 £000	31 December 2021 £000
Cash and bank balances	62,588	95,518
Restricted cash balances	70,911	60,371
Total cash and equivalents	**133,499**	**155,889**

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.

22. Borrowings

	31 December 2022 £000	31 December 2021 £000
Non-current		
Unsecured borrowings at amortised cost		
Shareholder loan owed to Garfunkelux Holdco 1 S.à r.l.	541,380	498,087
Total unsecured	**541,380**	**498,087**
Secured borrowings at amortised cost		
Senior Secured Notes	1,700,933	1,637,000
Prepaid costs on Senior Secured borrowings	(18,475)	(20,423)
Securitisation loans	463,500	353,273
Total secured	**2,145,958**	**1,969,850**
Total borrowings due for settlement after 12 months	**2,687,338**	**2,467,937**
Current		
Unsecured borrowings at amortised cost		
Other interest payable	2,051	892
Total unsecured	**2,051**	**892**
Secured borrowings at amortised cost		
Interest on Senior Secured Notes	9,162	18,709
Prepaid costs on Senior Secured borrowings	(7,649)	(5,808)
Revolving credit facility	363,444	14,280
Securitisation loans	60,343	29,207
Total secured	**425,300**	**56,388**
Total borrowings due for settlement before 12 months	**427,351**	**57,280**

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:

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).

22. Borrowings (continued)

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.

Revolving Credit Facility ("RCF") (continued)

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.

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.

In August 2022 the Group entered into a £170m securitisation facility through its subsidiary Lowell Receivables Financing 3 Limited. The facility has a five year legal maturity and a margin of 3.9% + 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% (2021: 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 2022	31 December 2021
Notes	6.97%	6.86%
RCF	3.65%	3.00%
Shareholder loan owed to Garfunkelux Holdco 1 S.à r.l.	9.66%	9.66%
Securitisation loans	4.92%	3.39%

23. Trade and other payables

	31 December 2022 £000	31 December 2021 £000
Trade payables	27,270	4,808
Other taxes and social security	9,389	5,141
Accruals and deferred income	55,859	33,957
Other payables	81,708	79,334
Total	**174,227**	**123,240**

Other payables includes amounts due of £11.2m in respect of portfolios purchased but not yet paid for at 31 December 2022 (31 December 2021: £30.6m) and £45.1m of 3PC collections due to be transferred to clients (31 December 2021: £34.0m).

24. Provisions

	Tax provision £000	Site restoration provision £000	Employee related provision £000	Other provision £000	Client payments provision £000	Total £000
At 1 January 2022	**2,821**	**2,263**	**2,753**	**5,639**	**40**	**13,516**
Provisions made during the year	848	1,935	-	2,129	-	4,912
Amounts utilised during the year	-	-	(1,704)	(3,638)	-	(5,342)
Provisions reversed during the year	-	-	-	-	(40)	(40)
At 31 December 2022	**3,669**	**4,198**	**1,049**	**4,130**	**-**	**13,046**
Non-current	-	4,198	934	706	-	5,838
Current	3,669	-	115	3,424	-	7,208
Total	**3,669**	**4,198**	**1,049**	**4,130**	**-**	**13,046**

Other provisions contain onerous contract provisions of £nil as at 31 December 2022 (31 December 2021: £1.7m).

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

25. Other financial liabilities

	31 December 2022 £000	31 December 2021 £000
Non-current		
Lease liabilities	44,758	26,926
Other financial liabilities	6,712	6,806
Total non-current other financial liabilities	**51,470**	**33,732**
Current		
Lease liabilities	8,129	8,329
Liabilities from treasury shares	6,979	1,556
Total current other financial liabilities	**15,108**	**9,885**

25. Other financial liabilities (continued)

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.

26. Share capital

	£000
In issue at 31 December 2021 and 31 December 2022	**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 27), 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.

27. Reserves

Capital reserve

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

	31 December 2022 £000	31 December 2021 £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 2022 and 31 December 2021, 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.

28. Retained deficit

	31 December 2022 £000	31 December 2021 £000
Loss attributable to equity holders of the parent	**(108,158)**	**(3,511)**

29. 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.

30. Financial instruments

Categories of financial instruments

	31 December 2022 £000	31 December 2021 £000
Financial assets		
Cash and cash equivalents	133,499	155,889
Amortised Cost portfolio investments	2,172,883	1,736,084
Fair value portfolio investments	12,958	-
Other	103,835	64,607
Derivatives (FVTPL)	16,177	1,418
Financial liabilities		
Borrowings - Notes	1,710,095	1,655,709
Borrowings – RCF	363,444	14,280
Borrowings – Shareholder loan	541,380	498,087
Borrowings – Securitisation loan	523,843	382,480
Borrowings – other	2,051	892
Trade and other payables	174,227	123,240
Other financial liabilities	66,577	43,618
Derivatives (FVTPL)	-	846

30. 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.

30. 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 2022 £000	31 December 2021 £000
UK	1,290,218	949,019
DACH	302,485	210,037
Nordics	593,138	577,028
Total	**2,185,841**	**1,736,084**

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 2022, the Group had available undrawn committed borrowing facilities of £153.m (31 December 2021: £390.3m). See note 22 for further details on borrowings.

30. 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 2022

	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	1,701,062	2,054,354	56,126	56,126	1,942,102	-
RCF	3.60	363,444	363,444	363,444	-	-	-
Shareholder loan[2]	9.66	541,380	541,380	-	-	541,380	-
Securitisation loans	3.55	523,845	614,803	2,864	39,934	572,005	-
Lease liabilities	-	52,886	73,167	4,967	4,282	33,166	30,752
Other liabilities	-	2,051	2,051	2,051	-	-	-
Total liabilities		**3,184,668**	**3,649,199**	**429,452**	**100,345**	**3,088,653**	**30,752**

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 loan	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**

[1] Includes Loan principal outstanding and accrued interest (note 22).

[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 22).

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.

30. Financial instruments (continued)

Liquidity and Capital risk management (continued)

Group financing facilities

	31 December 2022 £000	31 December 2021 £000
Securitisations and RCF		
Amount used	363,440	396,760
Amount unused	87,770	390,258
Total	**451,210**	**787,018**

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 2022 this was £364m drawn down (31 December 2021: £14.3m). 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 2022 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 2022 by £28.6m (2021: £23.1m). 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 2022 and 31 December 2021 relate to OTC ("Over the Counter") foreign exchange and interest rate 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.

30. 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 2022 £000	31 December 2021 £000
Net assets		
EUR	(1,444,492)	(813,782)
SEK	279,073	261,545
NOK	103,410	122,563
DKK	200,173	166,456
Total	**(861,836)**	**(263,218)**

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.

	2022 £000	2021 £000
(Increase) / decrease in loss before tax		
EUR	(7,405)	(13,405)
SEK	1,480	719
NOK	(326)	92
DKK	310	456
(Decrease) / increase in Shareholders' equity		
EUR	(136,005)	(72,934)
SEK	27,907	26,155
NOK	10,341	12,256
DKK	20,017	16,646

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.

30. 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 penalties 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.

30. Financial instruments (continued)

Financial assets and liabilities

Financial assets and liabilities are classified into the following categories:

	31 December 2022 £000	31 December 2021 £000
Financial assets		
Investments and receivables	2,292,676	1,800,691
Cash and cash equivalents	133,499	155,889
Derivative financial instruments	16,177	1,418
Total financial assets	**2,442,353**	**1,957,998**
Financial liabilities		
Derivative financial instruments	-	846
Financial liabilities measured at amortised cost	3,380,657	2,718,306
Total financial liabilities	**3,380,657**	**2,719,152**

Derivatives with positive and negative fair values

As of 31 December 2022, foreign exchange forwards with a total negative fair value of £Nil m were held (31 December 2021: £0.8m). As of 31 December 2022, foreign exchange forwards with a total positive fair value of £1.7m were held (31 December 2021: £1.4m). They were not designated as hedges for hedge accounting purposes (IFRS 9).

As of 31 December 2022, interest rate caps with a total positive fair value of £14.5m were held (31 December 2021: £Nil m). 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 2022 £000	31 December 2021 £000	31 December 2022 £000	31 December 2021 £000
Financial assets				
Cash and cash equivalents	133,499	155,889	133,499	155,889
Investments and receivables:				
Portfolio investments	2,172,883	1,736,084	2,172,883	1,749,389
Other financial assets	106,835	64,607	106,385	64,607
Total financial assets	**2,413,217**	**1,956,580**	**2,413,217**	**1,969,885**
Financial liabilities				
Financial liabilities measured at amortised cost:				
Senior Secured Notes[1]	1,710,095	1,655,709	1,398,391	1,688,137
RCF	363,444	14,280	363,444	14,280
Shareholder loan	541,380	498,087	541,380	498,087
Securitisation loan	523,843	382,480	523,843	382,480
Other financial liabilities	54,937	167,750	54,937	167,750
Total financial liabilities	**3,193,699**	**2,718,306**	**2,881,995**	**2,750,734**

[1]Includes loan principal outstanding and accrued interest (note 22).

30. 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.

30. 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 2022 £000	31 December 2021 £000
Level 2		
Financial assets at fair value:		
Derivatives not designated as part of a hedge relationship	16,177	1,418
Financial liabilities at fair value:		
Derivatives not designated as part of a hedge relationship	-	(846)
Total	**16,177**	**572**

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

31. Note to the statement of cash flows

	Note	Year ended 31 December 2022 £000	Year ended 31 December 2021 £000
Loss for the year		**(108,158)**	**(3,511)**
Tax credit	8	19,678	13,213
Loss for the year, before tax		**(127,836)**	**(16,724)**
Adjustments for:			
Income on portfolio investments	16	(425,421)	(399,644)
Net portfolio write up	16	(72,083)	(72,306)
Portfolio fair value release	16	381	1,102
Fair value gain	16	(1,051)	-
Collections on owned portfolios	16	844,621	750,911
Depreciation and amortisation	5	41,624	48,250
Impairment of assets	5	-	197
Impairment of goodwill	11	100,000	-
Loss on disposal of PPE and intangible assets	5	30,039	1,080
Finance income	6	(1,824)	(3,096)
Finance costs	7	187,436	181,963
Unrealised losses from foreign exchange		(46,314)	167
(Increase) / Decrease in trade and other receivables		(33,003)	(2,302)
Decrease in trade and other payables		67,582	(13,189)
Movement in other net assets		(2,427)	(26,357)
Cash generated by operating activities before portfolio acquisitions		**561,714**	**450,052**
Portfolios acquired[1]		(509,262)	(371,194)
Income taxes paid		(10,245)	(11,065)
Net cash generated by operating activities		**42,217**	**67,793**

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

32. 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 2022	**1,655,709**	**498,087**	**(26,231)**	**14,280**	**382,478**	**893**	**2,525,216**
Changes from financing cash flows							
Proceeds from loans and borrowings	-	-	-	2,162,183	314,892	-	2,477,075
Repayment of borrowings	-	-	-	(1,823,139)	(105,103)	-	(1,928,242)
Interest paid	(114,810)	-	-	(4,145)	(19,728)	(2,167)	(140,850)
De-recognition	-	-	-	-	(70,217)	-	(70,217)
Transaction costs on borrowings	-	-	(5,304)	-	-	-	(5,304)
Total changes from financing cash flows	**(114,810)**	**-**	**(5,304)**	**334,899**	**119,844**	**(2,167)**	**332,462**
The effect of changes in foreign exchange rates	**64,978**	**170**	**2,329**	**8,846**	**3,761**	**-**	**80,084**
Changes from liabilities							
Interest expense	104,218	43,123	-	5,420	17,656	3,326	173,743
Prepaid cost release	-	-	3,082	-	-	-	3,082
Total liability related changes	**104,218**	**43,123**	**3,082**	**5,420**	**17,656**	**3,326**	**176,825**
Balance at 31 December 2022	**1,710,095**	**541,380**	**(26,124)**	**363,444**	**523,740**	**2,052**	**3,114,587**

33. Employee benefits

a) Defined benefit schemes

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

	31 December 2022 £000	31 December 2021 £000
Defined benefit pension net liabilities		
DACH	3,629	6,618
Nordics	2,324	2,454
Total	**5,953**	**9,072**

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 3.6% and 3.7% (2021: 0.9% and 1.5%), 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 1.5% (2021: 1.0 to 1.5%), salary increases at 5.0% (2021: 2.0%), and the employee turnover rate in a range from 0.0% to 2.0% (2021: 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 2022 £000	31 December 2021 £000
Present value of unfunded defined benefit obligation	6,677	9,442
Plan assets	(3,049)	(2,824)
Net liability	**3,629**	**6,618**

33. Employee benefits (continued)

a) Defined benefit schemes (continued)

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

	31 December 2022 £000	31 December 2021 £000
Opening balance of defined benefit obligation	**9,442**	**10,686**
Interest expense	95	68
Pension payments	(233)	(258)
Current service cost	100	152
Actuarial (gains)	(2,974)	(475)
Currency translation adjustments	247	(731)
Closing balance of defined benefit obligation	**6,677**	**9,442**

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 2022 £000	31 December 2021 £000
Opening balance of plan assets	**2,824**	**2,959**
Net interest income	62	19
Actuarial gains	0	29
Contributions	88	86
Payments	(77)	(74)
Currency translation adjustments	152	(195)
Closing balance of plan assets	**3,049**	**2,824**

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 £100k (£90k at 31 December 2021).

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

	Year ended 31 December 2022 £000	Year ended 31 December 2021 £000
Opening balance	**6,618**	**7,727**
Payments arising from pension obligations	(157)	(270)
Allocation to defined benefit obligation	45	201
Actuarial (gains)/losses	(2,974)	(504)
Currency translation adjustments	97	(536)
Closing balance	**3,629**	**6,618**

33. 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 2022 £000
Interest rate	
Increase 0.5%	(481)
Decrease 0.5%	542
Salary trend	
Increase 0.5%	118
Decrease 0.5%	(99)
Benefits trend	
Increase 0.5%	420
Decrease 0.5%	(383)

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 2022 £000	31 December 2021 £000
Within the next 12 months	236	223
Between 1 and 5 years	1,085	975
Between 5 and 10 years	1,726	1,555
More than 10 years	12,077	9,896
Total expected payments	**15,125**	**12,649**

The average duration of the defined benefit obligation at the end of the reporting period is 20 years (31 December 2021: 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 2022 £000	31 December 2021 £000
Present value of unfunded defined benefit obligation	7,945	7,757
Plan assets	(5,621)	(5,303)
Net liability	**2,324**	**2,454**

33. Employee benefits (continued)

a) Defined benefit schemes (continued)

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

	31 December 2022 £000
Opening balance of defined benefit obligation	**7,757**
Interest expense	89
Pension payments	(106)
Current service cost	256
Payroll tax of employer	(55)
Actuarial losses	(113)
Currency translation adjustments	117
Closing balance of defined benefit obligation	**7.945**

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

	31 December 2022 £000
Opening balance of plan assets	**5,303**
Net interest income	50
Actuarial losses	(139)
Contributions	448
Payroll tax of employer	(55)
Payments	(106)
Currency translation adjustments	120
Closing balance of plan assets	**5,621**

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 £5.8m (2021: £6.2m) represents contributions payable to these schemes by the Group at rates specified in the rules of the schemes.

As at 31 December 2022, contributions of £249k (31 December 2021: £312k) due in respect of the current reporting period had not been paid over to the schemes.

34. 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 2022 £000	31 December 2021 £000
Balances with immediate parent undertaking		
Shareholder loan with Garfunkelux Holdco 1 S.à r.l. (note 22)	(541,380)	(498,087)
Balances with other related parties		
Loan owed from Garfunkelux Nominee S.à r.l.	63	108
Klarna Bank AB (trading)	48	54
Klarna (trading)	(12)	(20)

Transactions with related parties

	31 December 2022 £000	31 December 2021 £000
Transactions with immediate parent		
Shareholder loan interest with Garfunkelux Holdco 1 S.à r.l.	(50,282)	(43,948)
Transactions with other related parties		
Loan to Garfunkelux Nominee S.à r.l.	(9)	(8)
Permira Beteiligungsberatung GmbH (trading)	(42)	(40)
Teamviewer GmbH (trading)	(1)	(2)
Genesys Telecommunication Laboratories B.V. (trading)	(4)	(3)
P&I Personal und Informatik AG (trading)	(7)	(5)
Klarna Bank AB (trading)	2,956	2,803
Klarna (trading)	352	281

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

34. 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 2022 £000	Year ended 31 December 2021 £000
Short-term employee benefits	**3,367**	**3,287**

The above details relate to eight key management personnel (2021: eight) 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 2022 and 31 December 2021, there were no loans outstanding with key management personnel.

35. Subsequent events

On 22 March 2023, the Group announced that it had entered into an agreement to sell a selection of Swedish portfolios to Hoist Finance AB for SEK 1.2bn, comprising of over 100,000 accounts with approximately £155m of 120-month ERC as a December 2022. The divestment further strengthens the relationship with Hoist Finance AB as one of its key servicing partners and demonstrates the Group's ability to recycle capital and crystalise returns earlier in the investment cycle. It has enabled the Group to deliver returns ahead of pricing expectations whilst growing third-party servicing assets under management. Following completion of the sale, Lowell will continue to service the portfolio on behalf of Hoist Finance AB. Proceeds from the sale were used to partially repay drawings under the Group's Revolving Credit Facility and improve its liquidity position by c£100m.

On 25 May 2023, the Group concluded an asset-backed securitisation collateralised by assets from the Group's Danish business. The securitised portfolio contained over 28,000 reperforming accounts with 120-month ERC of £93m. The transaction follows the previous Wolf securitisation in 2022, demonstrating the repeatable nature of funding structure across the Groups platforms, whilst further evidencing the Group's ability to increase the velocity of cash flows on its balance sheet.

The issuance raised c.£60m proceeds from the sale of the Senior Notes and 51% of the Junior Notes. The Group will retain 49% of the Junior Notes and will continue to service the portfolio.

Lowell

GARFUNKELUX HOLDCO 2 S.A.
CASH EBITDA WALKS (UNAUDITED)
YEAR ENDED 31 DECEMBER 2022

	Year ended 31 December 2022
Loss for the year to Cash EBITDA	**£000**
Loss for the year	(108,158)
Net finance costs	185,612
Taxation credit	(19,678)
Operating profit	**57,556**
Portfolio amortisation	419,151
Net portfolio write up	(72,083)
Portfolio fair value release	(1,161)
Fair value gain	381
Non-recurring costs/exceptional items, net of exceptional income	17,615
Depreciation, amortisation and impairment	147,563
Cash EBITDA	**569,241**

	Year ended 31 December 2022
Cash collections to Cash EBITDA	**£000**
Cash collections (DP)	844,572
Other income	128,204
Operating expenses	(568,712)
Non-recurring costs/exceptional items, net of exceptional income	17,615
Depreciation, amortisation and impairment	147,563
Cash EBITDA	**569,241**

	Year ended 31 December 2022
Net cash flow to Cash EBITDA	**£000**
Increase in cash in the year	(27,912)
Movement in debt	(478,616)
Purchases of loan portfolios	509,262
Interest paid net of interest received	143,735
Income taxes paid	10,245
Acquisition of subsidiary	338,840
Other cash flows	5,780
Transaction costs relating to loans and borrowings	5,304
Capital expenditure and financial investment	44,839
Derivative settlements	4,479
Payment of lease liabilities	11,549
Cash flow before interest, portfolio purchases, tax expenses and capital expenditure	**567,504**
Working capital adjustments	(15,877)
Non-recurring costs/exceptional items, net of exceptional income	17,615
Cash EBITDA	**569,241**