a better way forward

Lowell Group

Q2 2014 Results

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Highlights

- Estimated Remaining Collections ("ERC") at £623.1 million as of March 31, 2014, up 33% since March 31, 2013.

- Cash asset return (LTM Adjusted EBITDA / Average ERC) remains strong at 21.8%, for the 12 months to March 31, 2014.

- Collections of £48.8m million in the quarter, up 9% compared to the three months ended March 31, 2013. Collections on portfolios owned at September 30, 2013 for the six months to March 31, 2014 performing at 97% of ERC projections as of March 31, 2013.

- Adjusted EBITDA for the quarter up 0.3% to £31.7 million compared to the quarter ended March 31, 2013.

- Portfolio purchases committed for financial year 2014 reached £113 million after just six months to March 31, 2014 or 92% of total purchases achieved in the full year 2013. These purchases are in sectors Lowell knows well and where it has generated strong returns historically. 91% of committed purchases come from repeat clients and all purchases were in Lowell's core sectors

- Customer account numbers since inception increased to 13.9 million from 13.0 million as at December 31, 2013 and 10.9 million as at March 31, 2013. Aggregate face value of debt purchased since inception totalled £12.0 billion, a 21% increase compared to March 31, 2013.

- Loan to value ratio (net debt/ERC) reduced from 57% at bond issuance to 51% as of March 31, 2014. Net debt to Adjusted EBITDA has increased to 2.7x from 2.3x since bond issuance to March 31, 2014 and fixed charge cover ratio remained at 3.9x since bond issuance.

An introduction to Lowell Group

Lowell Group ("Lowell") is a leading purchaser of non-performing consumer debt portfolios in the United Kingdom. The three main sectors from which the business has primarily purchased debt portfolios are financial services, communications and home retail credit. Lowell typically purchases unsecured, low-balance consumer debt portfolios consisting of a high number of accounts, and is able to purchase these non-performing debt portfolios at a substantial discount to their face value. The business aims to collect the balances owed on these debt portfolios through in-house, technology-driven call centre operations.

Headquartered in Leeds with 1,011 full-time equivalent ("FTE") employees; we benefit from significant scale and experience in debt markets. Since inception in May 2004 to March 31, 2014, we have purchased debt portfolios ("Purchased Assets") with an aggregate face value of approximately £12.0 billion, having invested £681 million at an average price paid of 5.7 pence per pound sterling of the debt's face value. On the total capital invested as of March 31, 2014, we had 13.9 million customer accounts.

We seek to recover outstanding balances by offering customers realistic, affordable and sustainable long-term payment plans with the instalments tailor-made to their individual circumstances. The collection strategy is centred on the ability to assess a customer's ability to pay through data intelligence and analytics. The business places significant importance on the ethical and fair treatment of customers to protect our and the originators' reputations. We aim to collect the balances owed on the debt portfolios purchased through our in-house, technology – driven call centre operations.

Because of the diversification of the debt portfolios on our balance sheet across millions of accounts and our focus on establishing sustainable, long-term payment plans, we believe our purchased assets provide significant, predictable and cash generative asset backing. As of March 31, 2014 and based on our proprietary analytical models, which utilise historical portfolio collection performance data and assumptions about future cash collection rates, the gross cash proceeds which we expect to collect over the subsequent 84 months from our purchased assets (our "Estimated Remaining Collections" or "ERC") amount to £623.1 million. ERC is only a projection and is based on historical and current data, trends and assumptions, and we cannot guarantee that we will achieve such collections.

Presentation of financial and other information

The historical and other financial data presented in this quarterly report is derived from consolidated financial statements for Lowell Finance Holdings Limited (see page 30 for a diagram of the group structure).

The consolidated financial statements for the three months ended March 31, 2013 and March 31, 2014 are presented in accordance with UK GAAP, are unaudited and are derived from internal management reporting. The results of operations for prior years or interim periods are not necessarily indicative of the results to be expected for the full year or any future period.

In addition, certain non-UK GAAP financial measures are included in this report, including Estimated Remaining Collections ("ERC"), Adjusted EBITDA, Cash asset return, Net Debt and certain other financial measures and ratios. Non-UK GAAP financial measures are derived on the basis of methodologies other than UK GAAP.

ERC is presented because it represents the expected gross cash proceeds of the purchased debt portfolios recorded on the balance sheet (the "Purchased Assets") over an 84-month period. ERC is calculated at a point in time assuming no additional purchases are made. The value of Purchased Assets are recorded on the balance sheet as the net present value of ERC, after applying a 25% servicing cost ratio and a 15% annual discount rate, other than for paying portfolios where a 10% servicing cost ratio and a 12% annual discount rate are used. Both such percentages have been determined by management in discussion with the Group's auditors.

ERC is a metric that is often also used by other companies in the industry. We present ERC because it represents the best estimate of the undiscounted cash value of the Purchased Assets at any point in time, which is an important supplemental measure for the board of directors and management to assess performance, and underscores the cash generation capacity of the assets backing the business. ERC is a projection, calculated by the group's proprietary analytical models, which utilise historical portfolio collection performance data and assumptions about future collection rates, and we cannot guarantee that such collections will be achieved. ERC, as computed by us, may not be comparable to similar metrics used by other companies in the industry. The computation of ERC could in the future differ from the collection forecasts used to compute and record Purchased Assets on the balance sheet.

Adjusted EBITDA is presented because management believe it may enhance an investor's understanding of profitability and cash flow generation that could be used to service or pay down debt, pay income taxes, purchase new debt portfolios and for other uses, and because it is frequently used by securities analysts, investors and other interested parties in the evaluation of companies generally. In addition to ERC, the board of directors and management also use Adjusted EBITDA to assess performance. Adjusted EBITDA is not a measure calculated in accordance with UK GAAP and use of the term Adjusted EBITDA may vary from others in the industry.

Net Debt is presented because it may enhance an investor's understanding of the underlying cash generation of the business when compared to the growth in the asset base. Net Debt should not be considered an alternative to the "creditors: amounts falling due within one year" or "creditors: amounts falling due after more than one year" items on the consolidated balance sheet reported under UK GAAP.

Note that the terms "ERC" and "Adjusted EBITDA" as used in this report may differ to the terms used in our indenture covenants such as "ERC" and "Consolidated EBITDA".

ERC, Adjusted EBITDA, Cash asset return, Net Debt and all the other non-UK GAAP measures presented herein have important limitations as analytical tools and should not be considered in isolation or as substitutes for analysis of the company's results as reported under UK GAAP.

In addition, this quarterly report includes certain unaudited consolidated profit and loss information as well as certain other financial and operating information, for the twelve months ended March 31, 2014. This twelve month data has been prepared solely for the purpose of this quarterly report, is not prepared in the ordinary course of the company's financial reporting and has not been audited or reviewed by our auditors, KPMG.

Financial information prepared in accordance with IFRS or US GAAP is not included in this quarterly report. UK GAAP differs in certain significant respects from IFRS and US GAAP. In making an investment decision, you should rely upon your own examination of the terms of the offering and the financial information contained in this quarterly report. You should consult your own professional advisors for an understanding of the differences between UK GAAP, IFRS and US GAAP, and how those differences could affect the financial information contained in this quarterly report.

Key performance indicators

The following table summarises key financial data and key performance indicators as of the dates and for the periods indicated.

(£ in millions, except for percentages and ratios or unless otherwise noted)	Three months ended or as of March 31 2013	Three months ended or as of March 31 2014	12 months ended or as of March 31 2014
Other financial, operating and pro forma data:			
Cash generative asset backing:			
ERC[1]	468.2	623.1	623.1
Reported portfolio purchases[2]	21.1	53.7	143.8
Number of accounts (in millions)[3]	10.9	13.9	13.9
Number of owned debt portfolios (#)[4]	652	791	791
Net Debt[5]	218.2	316.6	316.6
Cash generation:			
Collections/income on owned portfolios[6]	44.8	48.8	172.6
Other income	-	-	0.3
Servicing costs[7]	(13.2)	(17.1)	(56.9)
Adjusted EBITDA[8]	31.6	31.7	116.0
Cash flow before debt and tax servicing[9]	31.0	21.0	94.9

For definitions please see section "Key Reconciliations and Definitions"

The summary historical consolidated financial data for the three months ended March 31, 2013 and March 31, 2014 have been derived from unaudited condensed consolidated interim financial statements and management information, which have been prepared on a basis consistent with annual audited consolidated financial statements. In the opinion of management, such unaudited financial data reflect all adjustments necessary for a fair presentation of the results for those periods. The interim financial statements have been prepared in accordance with UK GAAP.

These interim financial statements are based on Lowell Finance Holdings Limited.

The results of operations and other financial and operating information for prior years or the interim periods are not necessarily indicative of the results to be expected for the full year or any future period. This financial information should be read in conjunction with the Annual Report 2013 and historic consolidated financial statements of Lowell Finance Holdings Limited.

Operating and financial review

The section below provides a more detailed overview of management's observations of activity in the marketplace, along with an overview of performance in relation to a number of the key metrics that management use when assessing the performance of the business.

Portfolio Purchases

Portfolio purchases for the three months ended March 31, 2014 were £53.7 million, an increase of £32.6 million on the corresponding period in 2013. Lowell is experiencing very strong growth in portfolio purchases. Portfolio purchases committed for financial year 2014 reached £113 million after just six months to March 31, 2014 or 92% of total purchases achieved in the full year 2013. These purchases are in sectors Lowell knows well and where it has generated strong returns historically. 91% of committed purchases come from repeat clients and all purchases were in Lowell's core sectors

Over the three-month period to March 31, 2014, 23% of portfolio purchases value came from the forward flow purchase contracts the company has in place, with the remainder being spot purchases. The financial services credit sector contributed 41% to the quarter's purchases, 13% from communications, 45% from home retail and 1% from other sectors.

Overall, the company has continued focusing on purchases of low balance portfolios across its three core sectors (financial services, communications and home retail credit).

The company continues to see good prospects in the market for further growth of portfolio purchases on the back of a strong pipeline.

Market

As highlighted by the strength of Lowell's portfolio purchases to date the overall market continues to be very active. The company is focusing on market segments it knows well and fit its operational strengths, as well on segments where there is a commercially attractive opportunity to further diversify our asset base.

All of the company's main sectors, namely financial services, communications and home retail credit, continue to show strong activity.

Furthermore, vendors in sectors new to the debt purchasing market, such as utilities, insurance and certain government agencies, have already sold or have shown strong signals indicating their intentions to start to sell debt portfolios. Lowell is active in all three sectors, either in emerging debt sales or in trials.

Collections

Strong quarterly collections of £48.8 million was achieved by the business in the three months ending March 31, 2014, an increase of 9% on the corresponding three months to March 31, 2013. Collection performance remains strong across the portfolio:

- Underlying performance on portfolios owned at the financial year end of September 30, 2013 for the six months to March 31, 2014 remained strong at £80.4 million being 97% of the ERC projections at September 30, 2013 for these portfolios.

- Collections on portfolios purchased after December 31, 2013 was £4.0million, being 107% of the pricing assumptions for these portfolios.

Servicing costs

Servicing costs were £17.1 million for the three months ended March 31, 2014. Costs were £4.0 million higher than the three months ended March 31, 2013. Collection costs continue to be in line with management expectations and reflect the mix, phasing and volume of portfolio purchases during the period and the back book of the business.

The majority of costs to service a portfolio are incurred at the beginning of the ownership of the portfolio, mainly driven by the cost of printing and postage associated with sending letters to customers and time spent attempting to make contact with customers. The front-loaded nature of the servicing costs combined with the volume of portfolios purchased in a period therefore has an impact on the servicing cost ratio of the business in any particular period.

The proportion of customer payments from preferred payment methods, such as direct debits was 90% for both the three months ended March 31, 2014. Not only does this reduce the level of defaults seen on payments, but it also is a more cost efficient way of managing the customer base.

For the three months end March 31, 2014 the default rate among its customers, which drives collections and operating efficiency, was 15.8%, compared to 20.0% for the same period last year.

The business continues to pursue a number of operating initiatives within its collections operations in order to continue to drive efficiency.

Asset Base

As of March 31, 2014 the ERC that underpins the balance sheet value of all loan portfolios owned by the company was £623.1 million. Over the 12 months from March 31, 2013 the ERC has grown by 33% from £468.2 million, as a result of the combination of strong portfolio purchases and the underlying collections performance. The table below summarises the ERC over the 84 month outlook period, split by the financial year portfolios were purchased.

49% of these collections are likely to be recovered in the next 24 months, with almost 77% of these projected collections expected to be recovered over the next four years.

Collections in the six months to March 31, 2014 on portfolios owned as of September 30, 2013 were 97% of the ERC projections as of September 30, 2013.

ERC on owned portfolios as of March 31, 2014 by year of purchase

	0 – 12 Months	13 – 24 Months	25 – 36 Months	37 – 48 Months	49 – 60 Months	61 – 72 Months	73 – 84 Months	Total
Financial Year of purchase								
2005	0.9	0.8	0.6	0.5	0.5	0.4	0.3	4.0
2006	2.1	1.6	1.3	1.0	0.9	0.7	0.6	8.2
2007	3.5	2.8	2.2	1.7	1.4	1.1	0.9	13.6
2008	6.4	4.9	3.8	3.1	2.4	2.0	1.6	24.2
2009	10.5	8.4	6.7	5.3	4.3	3.5	2.8	41.5
2010	12.3	9.7	7.6	6.1	4.8	3.8	3.1	47.4
2011	17.0	13.0	10.0	7.8	6.1	4.7	3.8	62.4
2012	30.7	22.9	17.5	13.5	10.5	8.3	6.5	109.9
2013	51.8	37.9	29.0	22.7	18.1	14.6	11.8	185.9
2014	41.9	25.4	18.9	14.3	10.9	8.4	6.2	126.0
Total	177.1	127.4	97.6	76.0	59.9	47.5	37.6	623.1
Cumulative Percentage	28.4%	48.9%	64.5%	76.7%	86.3%	94.0%	100.0%	

Operating cash generation

Cash flow conversion in the three months to March 31, 2014 has reduced from prior periods as a result of movements in working capital following investment in appropriate litigation on existing accounts owned. This investment requires up front cash expenditure that is capitalised and released in keeping with the collections to which the cost relates. Management believe that the increase in litigation volumes, leveraging the experience and low cost platform of Interlaken, allows further litigation activity to be achieved in a highly controlled manner. The investment will ultimately allow us to extract further ERC from our existing account base although our litigation volumes will continue to remain extremely small relative to our total number of accounts (1.5% of our account base as at the end of March).

Compliance

From 1st April 2014 the FCA became the regulator for consumer credit related activities, taking over from the OFT. Through our FAIR programme we continue to develop and evolve our customer processes and in turn continue to challenge ourselves to deliver the best customer outcomes. As part of this process we are also focused on meeting the requirements for full authorisation.

The FCA has contacted us to advise us of our application window for each of the eight consumer credit licences held by the group. The dates are March and July 2015. Given the nature of our business we are liaising with the FCA to confirm that we will be able to submit a group application rather than eight separate applications. Our intention is to submit our group application within window advised by the FCA.

Sara De Tute, Chief Risk Officer and Legal Counsel continues to liaise with the FCA and be a leading speaker at industry events on the impact and focus of the FCA.

Returns on portfolios purchased

While returns achieved on an individual portfolio can vary, the company has a track record of generating strong and consistent unlevered returns on its aggregate purchased portfolios. Based on historical collections and expected collections, as of and for March 31, 2014, it is estimated that ERC was £623.1 million.

	As of March 31, 2014		
Segment	Invested (£ millions)	Gross cash-on-cash multiple(i)	Net cash-on-cash multiple(i)
Total..........	681.2	2.01x	1.73x

Recent developments

As of April 30, 2014 management believe the business is continuing to perform very strongly and in line with historical trends.

Collections on owned portfolios (excluding Interlaken) in April 2014 were strong for the business at £18.8 million, being 63% higher than April 13. In the year to date we have committed portfolio purchases, including acquisitions already made and committed purchases under forward flow agreements, in excess of 77% of the full year target of £166.5 million.

ERC as of April 30, 2014 was £618.3 million, slightly lower than the ERC at March 31, 2014 due to the record amount of purchases made in the quarter to March 2014. We have a strong portfolio purchase pipeline in the remainder of the quarter to June 30, 2014.

The business continues to invest in systems development to enhance operational efficiency, including the roll out of speech analytics software to allow on-going monitoring of calls using technology. Further developments to the collections system continue in order to reduce postage costs and increase the use of email.

The company continues to focus on the segments of the market where it believes it has the greatest competitive operational advantage, and to look for transactions exclusive or with limited competition and where it can develop strategic relationships with clients.

Significant factors affecting quarterly results of operations

Certain items in the consolidated profit and loss account, such as turnover, gross profits, operating profits and profit/loss on ordinary activities can be impacted, positively or negatively, by short term, non-cash movements in the fair value of portfolios that reach their six-month purchase anniversary during the period. Movements in these items may not be reflective of their long-term trends. This is due to the fact that, under the company's accounting policies, a portfolio will not be re-valued above its purchase price during the six-month period after purchase, even if it outperforms its original collection expectations. Portfolios can be re-valued downwards during this period based on performance beginning in the third month after purchase. After six months, all portfolios are re-valued using the company's portfolio valuation models. Positive revaluation of portfolios which outperform collection forecasts in the first six months after purchase can impact the items in the consolidated profit and loss account to a different degree in each quarter. This can affect comparability between short measurement periods disproportionately because fair value movements on the Purchased Assets are deducted from a smaller collection base in shorter periods. Management monitors Adjusted EBITDA as a measure of profitability because it is not impacted by such short-term non-cash movements.

The uneven phasing of portfolio purchases can drive movements in the Purchased Assets shown on the balance sheet, as well as ERC, which are not reflective of their long-term trends. This can affect the comparability of balance sheet items over short periods.

Unaudited consolidated interim financial statements

The unaudited consolidated interim financial statements below show the financial performance for the three month period to March 31, 2014.

Comparatives for these financial results included in the interim statements are as follows:

*Consolidated profit & loss Account**
- Three months to March 31, 2014 compared to three months to March 31, 2013

*Consolidated balance sheet**
- March 31, 2014 compared to December 31, 2013 and March 31, 2013

*Consolidated cash flow statement**
- Three months to March 31, 2014 compared to three months to March 31, 2013

* During 2013, the financial year-end of the group was changed from 31 August to 30 September. Due to the year-end, change the comparative numbers (3 months to March 31, 2013 and balances as at March 31, 2013) were not included in the Quarter 2 2013 interim report.

Lowell Finance Holdings Limited

Consolidated profit and loss account
3 months ended 31st March 2014

	Note	3 months to 31st March 2014 £000	3 months to 31st March 2013 £000
Collections on owned portfolios		48,784	44,750
Amount of purchase cost recovered		(23,070)	(23,998)
Fair value movement in loan portfolios		14,396	324
Turnover from loan portfolios		40,110	21,076
Other turnover		4	14
Turnover		40,114	21,090
Cost of sales		(7,616)	(6,891)
Gross profit		32,498	14,199
Administrative expenses		(9,521)	(6,277)
Depreciation	*6*	(599)	(554)
Interlaken loss		(897)	–
Operating profit		21,481	7,368
Interest receivable		39	66
Interest payable	*3*	(8,510)	(7,089)
Amortisation of Intangible asset	*5*	(2,303)	(1,991)
Profit / (loss) on ordinary activities before taxation		10,707	(1,646)
Tax charge on profit on ordinary activities	*4*	(2,072)	(155)
Profit / (loss) on ordinary activities after taxation for the period		8,635	(1,801)

All amounts relate to continuing operations.

There were no recognised gains and losses for the period other than those included in the profit and loss account and accordingly, a statement of recognised gains and losses has not been prepared.

The notes on pages 17 to 25 form part of the interim financial statements.

Lowell Finance Holdings Limited

Consolidated balance sheet
31st March 2014

	Note	31st March 2014 £000	31st December 2013 £000	31st March 2013 £000
Fixed assets				
Intangible assets	*5*	169,826	172,129	148,037
Tangible assets	*6*	6,050	4,035	4,589
		175,876	176,164	152,626
Current assets				
Loan portfolios		352,833	307,761	262,048
Debtors	*7*	34,401	23,682	17,309
Cash		88,360	3,475	56,763
		475,594	334,918	336,120
Creditors: amounts falling due within one year	*8*	(55,922)	(39,216)	(17,700)
Net current assets		419,672	295,702	318,420
Total assets less current liabilities		595,548	471,866	471,046
Creditors: amounts falling due after more than one year	*9*	(390,000)	(275,000)	(275,000)
		205,548	196,866	196,046
Interlaken net assets		3,426	3,473	–
Net assets		208,974	200,339	196,046
Called up share capital	*10*	182,913	182,913	182,913
Profit and loss account		26,061	17,426	13,133
Total equity shareholders' funds surplus		208,974	200,339	196,046

The notes on pages 17 to 25 form part of the interim financial statements.

Lowell Finance Holdings Limited

Consolidated cash flow statement
3 months ended 31st March 2014

	Note	3 months to 31st March 2014 £000	3 months to 31st March 2013 £000
Cash flow from operating activities	11	(14,504)	6,971
Returns on investments and servicing of finance	12	(17,663)	(17,064)
Taxation	12	(223)	(1,000)
Capital expenditure and financial investment	12	(2,725)	(585)
Cash outflow before financing		(35,115)	(11,678)
Financing	12	120,000	62,036
Increase in cash in the period		84,885	50,358

Reconciliation of net cash flow to movement in net debt

	3 months to 31st March 2014 £000	3 months to 31st March 2013 £000
Increase in cash in the period	84,885	50,358
Cash inflow from increase in debt financing	(120,000)	(62,036)
Non cash movements	7,283	8,482
Movement in net debt in the period	(27,832)	(3,196)
Net debt at start of the period	(295,011)	(222,010)
Net debt at end of the period	(322,843)	(225,206)

March 31, 2014: The net debt balance of £ 322,843 includes £ 394 of accrued interest and £5,808 of deferred income on the Bond Note.

March 31, 2013: The net debt balance of £ 225,206 includes £ 6,969 of deferred income on the Bond Note.

Lowell Finance Holdings Limited

Notes to the interim financial statements
3 months ended 31st March 2014

1. Accounting policies

The interim financial statements are prepared in accordance with UK Generally Accepted Accounting Practice. The particular accounting policies adopted are described below.

Basis of accounting

The interim financial statements are prepared under the historical cost convention, except for purchased non-performing loan portfolios which are held at fair value to reflect changes in the expected profile of future cash flows.

Going concern

There are long term business plans and short term forecasts in place which are reviewed and updated on an on-going regular basis by management. The Group is in a net asset position.

The directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they have adopted the going concern basis of accounting in preparing these interim financial statements.

Basis of consolidation

The historical and other financial data presented in this quarterly report is derived from historical consolidated financial statements for Lowell Finance Holdings Limited.

The Group interim financial statements consolidate the interim financial statements of Lowell Finance Holdings Limited and all its subsidiary undertakings drawn up to March 31, 2014. The results of subsidiaries acquired or sold are consolidated for the periods from or to the date on which control passed. Acquisitions are accounted for under the acquisition method.

Financial instruments

In accordance with FRS 26, the financial instruments of the Group have been classified into the following categories:

a) Loan portfolios

Non-performing loan portfolios are purchased from institutions at a substantial discount from their face value. The portfolios are initially recorded at their fair value. These portfolios are classified as a financial asset at "fair value through profit or loss" as the portfolios are managed and evaluated on a fair value basis in accordance with a documented risk management and investment strategy, and internal information is made available to the Board and key management personnel on this basis. The fair value of each portfolio is assessed using valuation techniques taking account of projected future cash flows, an assessment of the discount factor for each portfolio based upon market information modified by appropriate risk assessments or discounts, and recent arm's length transactions.

b) Financial liabilities

All financial liabilities held by the group are measured at amortised cost using the effective interest method, except for those financial liabilities measured at fair value through profit or loss, e.g. derivative liabilities.

c) Derivatives

The Group enters into interest rate caps and interest rate swaps to commercially hedge its exposure to interest rate risk from financing activities. The Group does not hold derivative instruments for trading purposes.

If material, 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 Profit and Loss Account immediately. All derivatives are carried as assets when fair value is positive, and as liabilities when fair value is negative. As at March 31, 2013, December 31, 2013 and March 31, 2014 the Group did not hold any derivative contracts.

Turnover

Turnover represents the yield percentage calculated by reference to total expected collections on each portfolio.

The turnover and pre-tax profit, all of which arises in the United Kingdom, is attributable to the purchase and servicing of non-performing loan portfolios.

Fair value movement in loan portfolios

For portfolios purchased during the three months to March 31, 2014 the fair value movement is the difference in net collection projections at March 31, 2014 between the original curves based on the price paid for the portfolio and the current collection projections plus any change in discount rates.

For portfolios owned at September 30, 2013 the fair value movement is the difference in net collection projections from March 31, 2014 as forecasted at September 30, 2014, plus any change in discount rates.

Intangible assets – goodwill

Goodwill arising on the acquisition of subsidiary undertakings and business assets, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight line basis over its useful economic life as follows:

Acquisition of subsidiary undertaking	20 years
Acquisition of business assets	4 years

Provision is made for any impairment.

Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost less estimated residual value on each asset on a straight line basis over their estimated useful lives as follows:

Office equipment	20%
Fixtures & Fittings	20%
Computer Hardware	20%
Computer Software	33%
Leasehold Improvements	Over the life of the lease

Fixed asset investments

Fixed asset investments are shown at cost less provision for impairment.

Taxation

Current tax, including UK corporation tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the interim financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the interim financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Amounts collected on behalf of third parties

Amounts collected on behalf of third parties are reported within both Cash in Bank and in Hand and Other Creditors.

Leases

Operating lease rentals are charged to income on a straight line basis over the lease term. Any lease incentives are spread over the life of the lease.

2. Critical accounting policies, judgements and estimates

Certain assets and liabilities are reported in these interim financial statements based upon managements' estimates and assumptions, introducing a risk of changes to the carrying amounts of these items within the next accounting period.

Purchased loan portfolios

Non-performing loan portfolios are purchased from institutions at a substantial discount from their face value. The portfolios are classified as a financial asset at "fair value through profit or loss". The fair value of each portfolio is assessed on the measurement date using valuation techniques taking account of projected future cash flows, an assessment of the discount factor for each portfolio based upon market information modified by appropriate risk assessments or discounts, and recent arm's length transactions.

The Directors are of the opinion that the discount rate applied in determining the fair value of the loan portfolios represents an unobservable market rate. That rate has been determined by management to be 15% for non-paying portfolios and 12% for paying portfolios. Changes in this assumption to a reasonably possible alternative would lead to the following financial impact:

	31st March 2014 Movement in profit and loss £000	31st December 2013 Movement in profit and loss £000	31st March 2013 Movement in profit and loss £000
- 250 basis points	15,938	13,616	11,664
+250 basis points	(14,903)	(12,589)	(10,692)

The Group has forward flow agreements in place in relation to the future purchase of loan portfolios. The fair value of portfolios purchased under these agreements is determined on the same basis as the Group's other purchased loan portfolios.

3. Interest payable

	3 months to 31st March 2014 £000	3 months to 31st March 2013 £000
Bond interest & fees	7,878	6,654
RCF interest & fees	632	435
	8,510	7,089

4. Tax on profit on ordinary activities

	3 months to 31st March 2014 £000	3 months to 31st March 2013 £000
UK Current taxation:		
UK Corporation tax	(2,072)	(155)
Total charge on profit on ordinary activities	(2,072)	(155)

The difference between the total current tax and the amount calculated by applying the standard rate of UK corporation tax to the profit on ordinary activities before tax is as follows:

	3 months to 31st March 2014 £000	3 months to 31st March 2013 £000
Profit on ordinary activities before tax	10,707	(1,646)
Tax charge on profit on ordinary activities at standard UK corporation tax rate of 22.0% (2013: 23.5%)	(2,356)	387
Effects of:		
Expenses not deductible for tax purposes	(625)	(514)
Group relief claimed	935	–
Origination and reversal of timing differences	(26)	(28)
Current tax charge for the period	(2,072)	(155)

5. Intangible fixed assets

	2014 £000	2013 £000
Cost		
At 31st December	187,148	156,148
At 31st March	187,148	156,148
Accumulated amortisation		
At 31st December	(15,019)	(6,120)
Charge for the 3 months	(2,303)	(1,991)
At 31st March	(17,322)	(8,111)
Net book value		
At 31st December	172,129	150,028
At 31st March	169,826	148,037

Goodwill is being amortised over twenty years.

6. Tangible fixed assets

	Total Fixed Assets £000
Cost	
At 31st December 2013	13,769
Additions	2,725
Disposals	(432)
At 31st March 2014	16,062
Accumulated depreciation	
At 31st December 2013	(9,734)
Charge for the 3 months	(599)
Disposals	321
At 31st March 2014	(10,012)
Net book value	
At 31st December 2013	4,035
At 31st March 2014	6,050

Disposals during the period relate to the fixed assets held within Tocatto Limited at the Preston based office. The office was closed during December 2013 and all assets were disposed of in January 2014.

7. Debtors

	31st March 2014 £000	31st December 2013 £000	31st March 2013 £000
Trade debtors	27	104	3
Other debtors	16,439	9,890	4,270
Deferred taxation	422	422	399
Prepayments and accrued income	17,137	13,266	12,637
Amounts owing from Company's immediate parent	376	-	-
	34,401	23,682	17,309

Deferred taxation assets recognised in the interim financial statements are as follows:

	31st March 2014 £000	31st December 2013 £000	31st March 2013 £000
Accelerated capital allowances	477	477	382
Short term timing differences	(55)	(55)	17
	422	422	399

8. Creditors: amounts falling due within one year

	31st March 2014 £000	31st December 2013 £000	31st March 2013 £000
Trade creditors	2,925	1,141	1,720
Other taxes and social security	619	613	521
Corporation tax	1,806	(46)	2,087
Other creditors	22,220	6,811	2,730
Accruals and deferred income	8,179	8,546	9,553
Interest due on Bond Loan	394	7,391	-
Bank loan (RCF)	15,000	10,000	-
Amounts owing to Company's immediate parent	-	14	6
Amounts owing to a parent company for group relief	4,779	4,746	1,083
	55,922	39,216	17,700

9. Creditors: amounts falling due after more than one year

	31st March 2014 £000	31st December 2013 £000	31st March 2013 £000
Bond Loan (10.75%) %)	275,000	275,000	200,000
Bond Loan (5.875%)	115,000	-	-
	390,000	275,000	275,000

On 30 March 2012, the subsidiary, Lowell Group Financing Plc issued £200.0m 10.75% Senior Secured Notes due 2019, with the interest rate fixed at 10.75% for the entirety of its term. Commencing on 1 October 2012, the interest on the Notes is paid by the subsidiary semi-annually on each 1 April and 1 October. The Notes will mature on 1 April 2019, though the subsidiary may redeem some or all of the Notes at an earlier date as per the details set out in the Offering Memorandum issued on 23 March 2012.

A further £75.0m Notes were issued on 11 February 2013 under the same terms. The £75.0m Notes were issued at a premium raising cash of £82.1m. The loan premium of £7.1m is recorded within Accruals and deferred income and is being released to the profit and loss account over the remaining term of the Notes. As at 31 March 2014 the outstanding loan premium is £5.8m (Dec 2013: £6.1m).

On 11 March 2014 £115m 5.875% Senior Secured Notes were issued to Lowell Group Financing Plc. As with the £275m Notes, the £115m Notes will mature on 1 April 2019 and interest is paid semi-annually on 1 April and 1 October each year. This was a new issue attracting a fixed rate of 5.875% for the duration.

10. Called up share capital

Group and Company

	31st March 2014 £000	31st December 2013 £000	31st March 2013 £000
Authorised, called up, allotted and fully paid			
182,913,396 ordinary shares of £1.00 each	182,913	182,913	182,913
	182,913	182,913	182,913

11. Reconciliation of operating profit to operating cash flows

	3 months to 31st March 2014 £000	3 months to 31st March 2013 £000
Operating profit for the 3 months	21,481	7,368
Depreciation, amortisation and impairment charges	599	554
Loss on disposal of fixed asset	111	-
(Increase) / decrease in loan portfolios	(45,072)	2,472
Increase in debtors	(8,323)	(949)
Increase / (decrease) in creditors	16,700	(2,474)
Net cash (out)/in flow from operating activities	(14,504)	6,971

Increase in loan portfolios includes amortisation, discretionary loan portfolio acquisitions and portfolio amortisation.

12. Analysis of cash flows

	3 months to 31st March 2014 £000	3 months to 31st March 2013 £000
Returns on investment and servicing of finance		
RCF interest & fees paid	(452)	(1,051)
Bond interest & fees paid	(17,250)	(16,079)
Bank Interest received	39	66
	(17,663)	(17,064)
Taxation		
UK Corporation tax paid	(223)	(1,000)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(2,725)	(585)
Financing		
	120,000	62,036

Key reconciliations and definitions

Definitions

(1) ERC means the estimated remaining collections, which represent the expected collections of the Purchased Assets over an 84-month period, based on the company's proprietary valuation model and methodology. Please see "Presentation of financial and other information" for a description of how ERC is calculated.

(2) Reported portfolio purchases represent the cost of all debt portfolios purchased in the period. Purchase activity can vary from one quarter to the next.

(3) Number of accounts represents the total number of individual consumer debts that Lowell own as of the date specified.

(4) Number of owned debt portfolios represents the number of individual portfolios of accounts that Lowell own as of the date specified. Where more than one portfolio has been purchased from a vendor in the same month, such portfolios are grouped together and treated as one portfolio purchase.

(5) Net Debt represents third-party debt less cash and cash equivalents and excludes subordinated shareholder instruments included in the "Creditor" line item of the balance sheet.

(6) Collections/income on owned portfolios represents the sum of "collections on owned portfolio" and "other turnover," as reported in the profit and loss account.

(7) Servicing costs represents the total cost of servicing owned portfolios in a period, comprising of the total of cost of sales and administration expenses (and excluding any depreciation or costs incurred in Interlaken Group). There may be limitations in using servicing costs expressed as a percentage of collections as a measure of the operational efficiency across a limited period of time, because servicing costs are impacted by the phasing, mix and volume of new portfolio purchases in a period. For example, portfolios of different types (e.g., sector or average balance) have different servicing cost ratio characteristics.

(8) Adjusted EBITDA represents collections on owned portfolios plus other turnover, less servicing costs, which is the same as operating profit before depreciation, fair value movement in loan portfolios and amount of purchase cost recovered.

(9) Cash flow before debt and tax servicing represents Adjusted EBITDA less capital expenditure and working capital movement but excluding portfolio purchases in the period. Management monitors cash flow before debt and tax servicing as a measure of the cash available to us to pay down or service debt, pay income taxes, purchase new debt portfolios and for other uses.

Reconciliations

Operating Profit to Adjusted EBITDA

Adjusted EBITDA represents collections on owned portfolios plus other turnover (excluding Interlaken Group turnover), less servicing costs, which is the same as operating profit before exceptional items, depreciation, fair value movement in loan portfolios and amount of purchase cost recovered.

The following table provides a reconciliation of Adjusted EBITDA to operating profit.

(£ in millions)	Three months ended March 31, 2013	2014
Operating profit [a]	7.4	22.4
Depreciation	0.6	0.6
Fair value movement in Loan Portfolios[b]	(0.3)	(14.4)
Amount of purchase cost recovered[c]	24.0	23.1
Adjusted EBITDA[d]	31.6	31.7

(a) Operating profit does not include the profit generated by Interlaken Group for the 3 months to March 31, 2014.
(b) Fair value movement in loan portfolios represents any fair value movement resulting from the revaluation of each portfolio between the beginning and end of the period.
(c) Amount of purchase cost recovered represents the amortization resulting from collections on Purchased Assets between the beginning and the end of the period.
(d) Adjusted EBITDA does not include the profit generated by Interlaken Group for the 3 months to March 31, 2014.

Increase in Cash in the Period to Cash-flow before Debt Service

The following table sets forth the company's record of operating cash generation for the periods indicated. It also shows a reconciliation of Adjusted EBITDA and cash flow before debt and tax servicing to increase in cash in the period.

(£ in millions)	Three months ended March 31 2013	2014
Increase/(decrease) in cash in the period	**50.3**	**84.9**
Movement in debt[1]	(62.0)	(120.0)
Portfolio purchases[2]	24.7	38.2
Debt servicing[3]	17.0	17.7
Tax servicing [4]	1.0	0.2
Other cash flows[5]	-	-
Cash flow before debt and tax servicing	**31.0**	**21.0**
Capital expenditure[6]	(0.6)	(2.7)
Working capital[7]	1.2	13.4
Adjusted EBITDA[8]	**31.6**	**31.7**

(1) Movement in debt relates to the net movement on borrowings during the period.

(2) Portfolio purchases are the investments in new portfolios made during the period. This is the cash amount paid for the portfolio. There can be timing differences between when a portfolio is recorded on the balance sheet and when the actual payment is made for the portfolio. Portfolios of Purchased Assets are recognized on the balance sheet at the point the debt purchase contract is signed and we acquire legal title to the assets. In a number of instances the payment made for the portfolio of Purchased Assets occurs a few days after the contract is signed, and as a result may fall into a later accounting period. The table below shows this reconciliation.

	Three months ended March 31,	
(£ in millions)	2013	2014
Calculation of purchases from consolidated financial statements		
Opening Purchased Asset value	264.5	307.8
Less: Amortisation[a]	(23.6)	(8.7)
Less: Closing Purchased Asset value	(262.0)	(352.8)
Reported portfolio purchases	(21.1)	(53.7)
Reported portfolio purchases (see above)	21.1	53.7
Portfolio purchases (cash flow)	(24.7)	(38.2)
Timing difference[b]	3.6	15.5

(a) Amortisation is the sum of "amount of purchase cost recovered" and "fair value movement in loan portfolios" as reported in the consolidated interim financial statements.

(b) Timing difference means the difference between the amount of portfolio purchases contracted and reported for a period and the amount of cash payments made in relation to portfolio purchases in such period.

(3) Debt servicing includes interest payments and fees in relation to the Senior Facilities Agreement, the RCF and the £390m Bond. The difference between "returns on investment and servicing of finance" in the consolidated cash flow statement and debt servicing in the table comes from the allocation of certain debt servicing costs to working capital in the consolidated cash flow statements, which have been adjusted above to arrive at cash flow before debt and tax servicing.

(4) Tax servicing consists of the corporate tax payments made to HMRC relating to the tax charges that can be seen in the consolidated profit and loss account labelled "tax on profit / (loss) on ordinary activities."

(5) No other cash flows were noted during the period.

(6) Capital expenditure represents investment in fixed assets for the business.

(7) Working capital represents differences which arise between collections on owned portfolios and operating expenses (includes cost of sales and administrative expenses) reported in the profit and loss account and the cash collections and payments of operating expenses.

(8) Adjusted EBITDA represents collections on owned portfolios plus other turnover (excluding Interlaken Group turnover), less servicing costs, which is the same as operating profit before depreciation, fair value movement in loan portfolios and amount of purchase cost recovered. In addition to using Adjusted EBITDA as a measure for cash flow generation, management uses Adjusted EBITDA to measure profitability. Adjusted EBITDA does not include the profit generated by Interlaken Group.

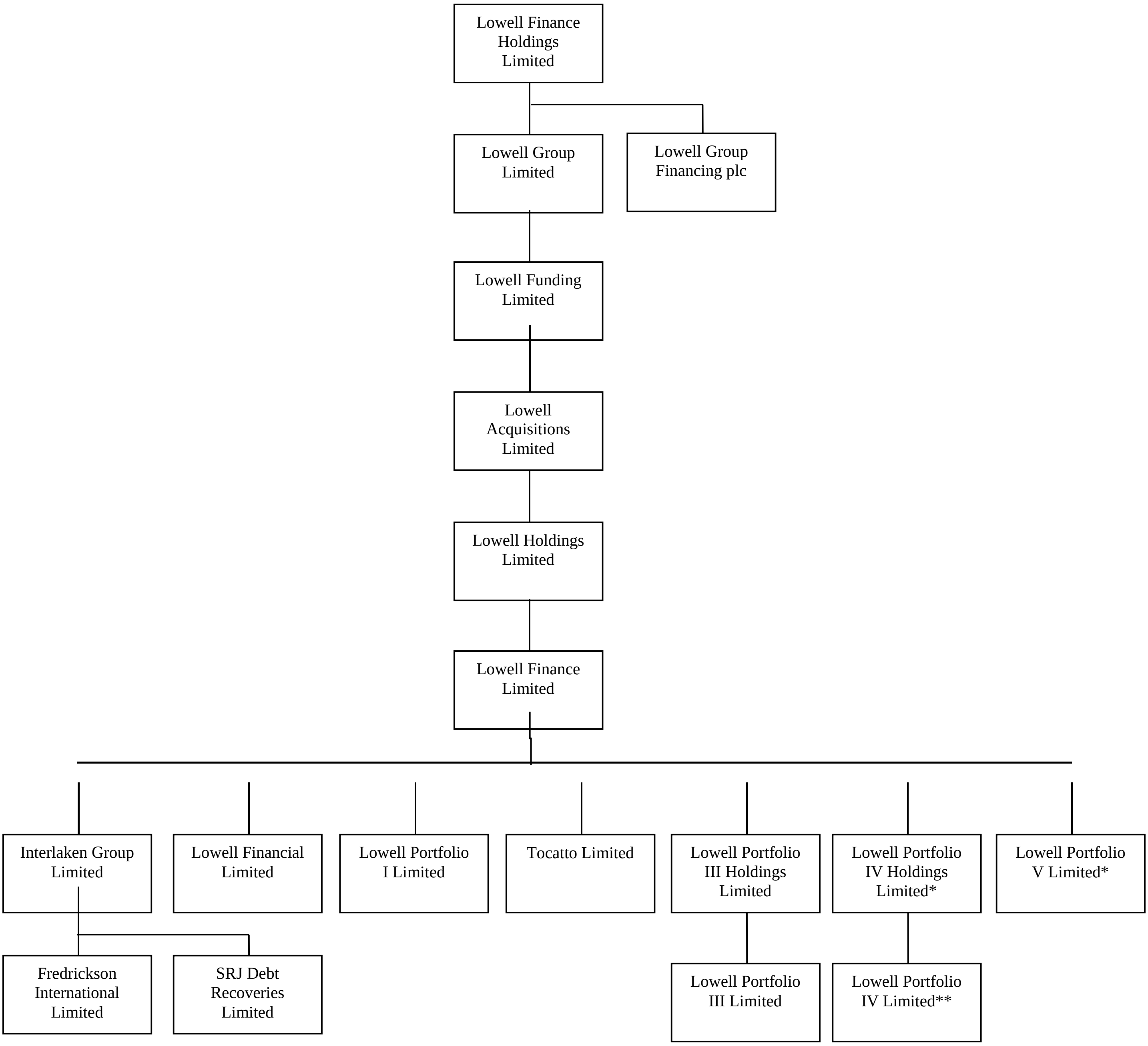
Reconciliation of Servicing Costs to Consolidated Profit & Loss Account

The following table sets out a reconciliation of the Servicing Costs shown in the table on page 7 with the Consolidated profit and loss account in the consolidated financial statements for the three month period to March 31, 2014:

	Three months ended March 31	
(£ in millions)	2013	2014
Servicing costs in adjusted EBITDA table		
Servicing Costs[(a)]	(13.2)	(17.1)
Consolidated interim Financial Statements		
Cost of Sales	(6.9)	(7.6)
Administrative expenses	(6.3)	(9.5)
Total	(13.2)	(17.1)

(a) Servicing costs represents the total cost of servicing owned portfolios in a period, comprising of the total of cost of sales and administration expenses (and excluding any depreciation or costs incurred in Interlaken Group).

Group Structure



* Lowell Portfolio IV Holdings Limited and Lowell Portfolio V Limited were incorporated on 12 August 2013
.** Lowell Portfolio IV Limited was incorporated on 16 August 2013.

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Details of future results releases will be made available on the Lowell Group investor website:

www.lowellgroup.co.uk