Company No. B197497

GARFUNKELUX HOLDCO 2 S.A.

Independent Auditor's Report

and Consolidated Financial Statements

Year ended 31 December 2016

GARFUNKELUX HOLDCO 2 S.A.

INDEPENDENT AUDITOR'S REPORT AND CONSOLIDATED FINANCIAL STATEMENTS 2016

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GARFUNKELUX HOLDCO 2 S.A.

INDEPENDENT AUDITOR'S REPORT AND CONSOLIDATED FINANCIAL STATEMENTS 2016

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GARFUNKELUX HOLDCO 2 S.A.

MANAGEMENT REPORT
Year ended 31 December 2016

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 2016.

BUSINESS AND GENERAL CONDITIONS

The Company was incorporated on 1 June 2015. The Group acquired GFKL Financial Services AG and its subsidiaries ("GFKL") on 30 June 2015 and Metis Bidco Limited and its subsidiaries ("Lowell") on 13 October 2015. Consequently, the prior year comparatives presented in these financial statements are not directly comparable.

At the time of the Metis Bidco acquisition the Group owned 75% of Simon Holdco Limited, the indirect owner of Simon Bidco Limited. A legal obligation was created to acquire the remaining shares at a later date, and the results of Simon Holdco Limited and its subsidiaries were consolidated as wholly owned subsidiaries at 31 December 2015. On 17th May 2016, the financial liability to purchase the remaining 25% of the shares in Simon Holdco Limited was settled through a shareholder loan of €27.0m and a capital contribution made into the Group of €51.3m.

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

For further information on these transactions, see note 10.

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 contingent collection services ("3PC").

FINANCIAL PERFORMANCE

The Group has performed strongly in the year ended 31 December 2016 with portfolio acquisitions of £306.5m. The Group successfully acquired portfolios from a large number of vendors during the period and from a variety of originating sectors (including financial services, home retail and telecommunications). The overall carrying value of portfolio investments at 31 December 2016 was £831.7m, an increase of 34.9% over the balance at 31 December 2015 of £616.5m.

The Group defines estimated remaining collections ("ERC") as the expected collections on acquired portfolios using both 84 month and 120 month periods of estimation. As at 31 December 2016 84 month ERC was £1,498.2m, an increase of 29.2% over 31 December 2015 (£1,159.8m), and 120 month ERC was £1,765.1m, an increase of 30.1% on 31 December 2015 (£1,357.0m).

Total revenue for the year was £454.2m (£140.2m in the period 1 June 2015 to 31 December 2015 during which time GFKL and Lowell were acquired).

The Group made an operating profit of £109.8m in the year ended 31 December 2016 (£78k in the period 1 June 2015 to 31 December 2015). After finance costs and tax, the Group made a loss for the year of £31.2m (£68.5m in the period 1 June 2015 to 31 December 2015).

Cash EBITDA, often referred to as cash adjusted EBITDA, is defined as cash collections on acquired portfolios plus other turnover, less collection activity costs and other expenses (which together equal operating costs) and before exceptional items, depreciation and amortisation. The Cash EBITDA in the year ended 31 December 2016 was £254.5m with the cash EBITDA of £68.0m for the period from 1 June 2015 to 31 December 2015 being incomparable as a result of the non-coterminous period.

The Group is funded by four offerings of Senior and Senior Secured Notes (the "Notes"). €365m 7.5% Senior Secured Notes due 1 August 2022 were issued on 23 July 2015 and £565m 8.5% Senior Secured Notes due 1 November 2022 were issued on 19 October 2015 by Garfunkelux Holdco 3 S.A. £230m 11.0% Senior Notes due 1 November 2023 were issued by the Company on 19 October 2015. During 2016 an issuance of €230m 5.5% + EURIBOR Senior Secured Notes was made by Garfunkelux Holdco 3 S.A. with a due date of 1 October 2021.

In addition an RCF commitment is available up to €200m. As at 31 December 2016 the Group had an unutilised facility of €112.4m (31 December 2015: €186.4m).

FINANCIAL PERFORMANCE (continued)

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.

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

KEY PERFORMANCE INDICATORS (KPIs)

	31 December 2016	31 December 2015
Portfolio investments acquired	£306.5m[1]	£46.8m*
Number of owned accounts	25.9m	22.1m
Gross collections (in total)	£679.0m	£216.6m*
Gross collections (3PC)	£279.3m	£113.5m*
Gross collections (DP)	£399.7m	£103.1m*
3PC income	£82.9m	£30.9m*
Cash income	£482.6m	£134.0m*
Cash EBITDA	£254.5m	£68.0m*
84 month ERC	£1,498.2m	£1,159.8m
120 month ERC	£1,765.1m	£1,357.0m
180 month ERC	£2,045.7m	£1,557.0m

*These balances represent the period of 2.5 months for Lowell and 6 months for GFKL and are therefore not comparable to the 2016 full year results.

[1]Includes £18.2m of portfolios acquired through acquisition of subsidiaries.

PRINCIPAL RISKS AND UNCERTAINTIES

As a result of its normal business activities, the Group has exposure to a number of risks. The key risks are as follows:

Regulatory risk

The Group is subject to UK, German, Austrian, Luxembourg and EU regulations, and changes to the regulatory environment or an increasing volume of legislation could limit the Group's activities in the future or could significantly increase the cost of regulatory compliance. A failure to comply with applicable laws, regulations and codes of practice could result in investigations and enforcement actions, licences or permissions being revoked, fines, or the suspension of the Group's ability to trade.

Market risk

A number of market risks exist that may negatively impact the performance of the Group, including competition offering higher prices for debt portfolios, a lack of availability of appropriately priced debt, or a requirement to buy unfavourable debt due to forward flow agreements, a loss of any key clients, and a deterioration of economic conditions in the UK or in our European regions, which include Germany, Austria, Switzerland and Croatia ("DACH").

Financial risk

Key financial risks to the Group include a lack of liquidity sufficient to allow for new investment in portfolio opportunities, failing to achieve forecasted recoveries, increasing costs of compliance with complex tax legislation and practice, fluctuations in currency exchange rates, and rising interest rates.

PRINCIPAL RISKS AND UNCERTAINTIES (continued)

Operational risk

Operational risk is defined by the Group as the potential risk of financial loss or impairment to reputation, as a result of internal process failures, or the inappropriate actions of employees or management. This could include problems in the collection process, incorrect pricing of assets, and telecommunications or technology downtime.

Capital management risk

The Group's objective in managing capital is to maintain a strong capital base to support current operations and planned growth so as to maintain investor, creditor and market confidence. Risks include making or pursuing business combinations that prove unsuccessful, failing to successfully integrate acquired businesses, and failing to fulfil obligations with respect to the Notes due to high leverage and debt obligations.

RESEARCH AND DEVELOPMENT

Development costs capitalised during the period total £1.0m, which includes work on internally generated software (1 June to 31 December 2015: £0.8m).

OUTLOOK

We believe the Group benefits from a strong pipeline of opportunities across both the UK and DACH and is well placed to continue to grow as a result of such competitive advantages as its diversified origination capability, the scale of its data assets and its use of forward flow arrangements.

The Group intends to continue to develop both its UK and DACH businesses and 3PC and DP activities. 3PC activity is regarded by analysts as being capital light and our strength in 3PC has been heightened by the acquisitions of IS Inkasso and Tesch during 2016.

The Group also benefits from excellent cash flow visibility. The Group's ERC forecast has historically been highly accurate, and forecasts future collections of £1,765.1m for the 120 months from 31 December 2016 (£1,357.0m at 31 December 2015).

The debt purchase and debt management industry across Europe is expected to consolidate around a smaller number of trusted partners. Clients continue to reduce their panel sizes as they seek to maintain relationships with those partners who can demonstrate compliance excellence, while economies of scale give competitive advantage in terms of cost of collection and indeed funding. The Group is widely regarded within the industry as one of Europe's leading players in the space, a reputation that is further enhanced by the Group's strong record in compliance and relationships with the majority of key clients in both the UK and DACH.

RISK MANAGEMENT

Risk management in the Group is intended to ensure that:

- The risk situation of the Group is sufficiently transparent at all times and is depicted realistically,
- Risks to the Group's ability to continue as a going concern are recognised sufficiently early in order that suitable measures can be taken to prevent a corporate crisis,
- Sufficient risk diversification is ensured, and
- Risks are only entered into across the Group if they offer acceptable returns.

Against the background of these objectives, a risk management system is in operation which harnesses risk identification and assessment methods, appropriate safeguards and controls and reporting to the decision-makers.

The Group has a clear governance structure, which enables the Group to conduct business in accordance with applicable rules, regulations and guidance. Group oversight and strategy is provided by an Investor Board that comprises our Chairman, Non-Executive Directors and our ultimate equity holders. Beneath this Board sit Group Risk and Audit Committees, Group Remuneration and Nomination Committees and a Group Executive Committee. The Group Executive Committee is responsible for the operationalisation and delivery of strategy as agreed by the Investor Board. The Chief Risk Officer is a member of the Group Executive Committee and has ultimate responsibility for all aspects of regulatory compliance and risk management across the Group.

A risk reporting system is in place to ensure the management in Lowell are provided with a realistic assessment of the risks that are faced. It is expected that this system will be rolled out across the Garfunkelux Group in due course. Regardless, 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 system, the 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. Monitored by the Group Risk Committee, both the Investor Board and the Group Executive Committee receive regular updates as to the risk profile of the Group and emerging risks. A constituent part of the risk management process are also reviews of the business operations of the group companies by Internal Audit, monitored by the Group Audit Committee.

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

Cedric Pedoni
Director

4 April 2017

GARFUNKELUX HOLDCO 2 S.A.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GARFUNKELUX HOLDCO 2 S.A.

To the Sole Shareholder of

Garfunkelux Holdco 2 S.A.
488, route de Longwy
L-1940 Luxembourg

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Garfunkelux Holdco 2 S.A., which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statements of comprehensive income, the consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the consolidated financial statements

The Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards 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.

Responsibility of the "réviseur d'entreprises agréé"

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the Commission de Surveillance du Secteur Financier. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the judgement of the Réviseur d'Entreprises agréé, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the Réviseur d'Entreprises agréé considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of Garfunkelux Holdco 2 S.A. as of 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Other matter

We bring to your attention the fact that the consolidated financial statements of Garfunkelux Holdco 2 S.A. for the period from 1 June 2015 (date of incorporation) to 31 December 2015 have been audited by another auditor, who issued an unqualified opinion dated 25 April 2016.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GARFUNKELUX HOLDCO 2 S.A. (continued)

Other information

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

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

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

Report on other legal and regulatory requirements

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

KPMG Luxembourg
Société coopérative
Cabinet de révision agréé

Jean – Manuel Seris
Luxembourg,

4 April 2017

GARFUNKELUX HOLDCO 2 S.A.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2016

	Note	Year ended 31 December 2016 £000	1 June - 31 December 2015 £000
Continuing operations			
Revenue			
Income from portfolio investments	15	199,327	52,476
Portfolio write up	15	95,414	20,718
Portfolio fair value release	15	(3,429)	(573)
Service revenue		160,028	65,828
Other revenue		2,877	1,747
Total revenue		**454,217**	**140,196**
Other income		4,131	1,922
Operating expenses			
Collection activity costs		(181,410)	(68,511)
Other expenses	5	(167,180)	(73,529)
Total operating expenses		**(348,590)**	**(142,040)**
Operating profit		**109,758**	**78**
Interest income	6	699	3,332
Finance costs	7	(138,692)	(77,367)
Other financial expenses		-	(39)
Loss before tax	4	**(28,235)**	**(73,996)**
Income tax (expense)/credit	8	(2,980)	5,471
Loss for the period		**(31,215)**	**(68,525)**
Loss attributable to:			
Equity holders of the parent	25	(31,096)	(68,575)
Non-controlling interests	26	(119)	50
		(31,215)	**(68,525)**
Other comprehensive income/(expenditure)			
Items that will not be reclassified to profit or loss			
Actuarial gains or losses on pension plans	30	(1,048)	408
Deferred tax on actuarial gains and losses on pension plans	8	338	(126)
		(710)	**282**
Items that will or may be reclassified subsequently to profit or loss			
Foreign operations – foreign currency translation differences		**(5,919)**	**(6,048)**
Other comprehensive income, net of tax		**(6,629)**	**(5,766)**
Total comprehensive expenditure for the period		**(37,844)**	**(74,291)**
Total comprehensive expenditure attributable to:			
Equity holders of the parent		(37,725)	(74,341)
Non-controlling interests	26	(119)	50
		(37,844)	**(74,291)**

The notes on pages 12 to 65 form part of these consolidated financial statements.

GARFUNKELUX HOLDCO 2 S.A.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
31 December 2016

	Note	31 December 2016 £000	31 December 2015 £000
Assets			
Non-current assets			
Goodwill	11	1,005,949	861,382
Intangible assets	12	124,094	76,067
Property, plant and equipment	13	10,086	6,252
Portfolio investments	15	491,446	345,683
Other financial assets	17	2,141	4,961
Deferred tax asset	9	-	817
Total non-current assets		**1,633,716**	**1,295,162**
Current assets			
Portfolio investments	15	340,259	270,778
Inventories		27	41
Trade and other receivables	16	28,945	26,834
Assets for current tax		1,137	4,246
Other financial assets	17	8,314	10,011
Cash and cash equivalents	18	98,053	106,946
Total current assets		**476,735**	**418,856**
Total assets		**2,110,451**	**1,714,018**
Equity			
Share capital	23	3,730	3,730
Share premium and similar premiums		400,396	357,233
Reserves		(20,462)	(14,209)
Retained earnings		(99,671)	(68,575)
Equity attributable to equity holders of the parent		**283,993**	**278,179**
Non-controlling interests	26	-	526
Total equity		**283,993**	**278,705**
Liabilities			
Non-current liabilities			
Borrowings	19	1,531,324	1,221,147
Provisions for pensions	30	5,141	3,522
Provisions	21	1,839	605
Derivatives	29	170	501
Other financial liabilities	22	50	55,588
Deferred tax liabilities	9	47,308	27,405
Total non-current liabilities		**1,585,832**	**1,308,768**
Current Liabilities			
Trade and other payables	20	101,710	60,709
Provisions	21	14,522	10,638
Borrowings	19	100,299	34,014
Derivatives	29	259	315
Other financial liabilities	22	6,517	6,881
Current tax liabilities		17,319	13,988
Total current liabilities		**240,626**	**126,545**
Total equity and liabilities		**2,110,451**	**1,714,018**

The notes on pages 12 to 65 form part of these consolidated financial statements.

GARFUNKELUX HOLDCO 2 S.A.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Year ended 31 December 2016

				Reserves						
	Notes	Share capital £000	Share premium and similar premiums £000	Capital reserve £000	Translation reserve £000	Valuation reserve £000	Retained deficit £000	Total £000	Non-controlling interest £000	Total equity £000
Comprehensive income										
Balance at 1 June 2015		-	-	-	-	-	-	-	-	-
Loss for the period		-	-	-	-	-	(68,575)	(68,575)	50	(68,525)
Actuarial gains on pension		-	-	-	-	408	-	408	-	408
Deferred tax on pensions		-	-	-	-	(126)	-	(126)	-	(126)
Exchange differences		-	-	-	(6,048)	-	-	(6,048)	-	(6,048)
Total comprehensive income/(expenditure) for the year		**-**	**-**	**-**	**(6,048)**	**282**	**(68,575)**	**(74,341)**	**50**	**(74,291)**
Issuance of share capital on incorporation	23	45	-	-	-	-	-	45	-	45
Increase in share capital	23	3,685	357,233	-	-	-	-	360,918	-	360,918
Issuance of beneficial units	24	-	-	19	-	-	-	19	-	19
Non-controlling interest	26	-	-	-	-	-	-	-	476	476
Purchase of shares in subsidiary	24	-	-	(8,462)	-	-	-	(8,462)	-	(8,462)
Balance at 31 December 2015		**3,730**	**357,233**	**(8,443)**	**(6,048)**	**282**	**(68,575)**	**278,179**	**526**	**278,705**
Comprehensive income										
Loss for the year		-	-	-	-	-	(31,096)	(31,096)	(119)	(31,215)
Actuarial losses on pension		-	-	-	-	(1,048)	-	(1,048)	-	(1,048)
Deferred tax on pensions		-	-	-	-	338	-	338	-	338
Exchange differences		-	-	-	(5,919)	-	-	(5,919)	-	(5,919)
Total comprehensive income/(expenditure) for the year		**-**	**-**	**-**	**(5,919)**	**(710)**	**(31,096)**	**(37,725)**	**(119)**	**(37,844)**
Capital contribution	31	-	43,163	-	-	-	-	43,163	-	43,163
Purchase of non-controlling interest	26	-	-	526	(119)	-	-	407	(407)	-
Adjustments in relation to purchase of shares in subsidiary		-	-	20	-	-	-	20	-	20
Other		-	-	(51)	-	-	-	(51)	-	(51)
Balance at 31 December 2016		**3,730**	**400,396**	**(7,948)**	**(12,086)**	**(428)**	**(99,671)**	**283,993**	**-**	**283,993**

The notes on pages 12 to 65 form part of these consolidated financial statements.

GARFUNKELUX HOLDCO 2 S.A.

CONSOLIDATED STATEMENT OF CASH FLOWS
Year ended 31 December 2016

	Note	Year ended 31 December 2016 £000	1 June - 31 December 2015 £000
Loss for the period before tax		**(28,235)**	**(73,996)**
Adjustments for:			
Depreciation of property, plant and equipment	13	1,968	400
Amortisation of intangible assets	12	12,167	3,801
Impairment of assets	12	6,387	39
Gain on disposal of subsidiary		(50)	-
Interest receivable	6	(699)	(3,332)
Loss on sale of property, plant and equipment and intangible assets		407	7
Finance costs	7	138,692	77,367
Unrealised gains from foreign exchange		(14,581)	(11,733)
		116,056	**(7,447)**
Increase in portfolio investments		(178,684)	(12,631)
Decrease/(increase) in trade and other receivables		9,860	(9,186)
Increase in trade and other payables		31,088	55,911
Movement in other net assets		2,736	2,961
Cash (used in)/generated from operating activities		**(18,944)**	**29,608**
Income taxes paid		(2,535)	(1,631)
Net cash (used in)/generated from operating activities		**(21,479)**	**27,977**
Investing activities			
Interest received		201	444
Proceeds from sale of subsidiary		229	-
Purchase of property, plant and equipment	13	(4,818)	(187)
Purchase of intangible assets	12	(4,972)	(1,257)
Proceeds from sale of property, plant and equipment and other intangibles		-	76
Acquisition of subsidiaries, net of cash acquired	10	(133,839)	(910,388)
Net cash used in investing activities		**(143,199)**	**(911,312)**
Financing activities			
Proceeds from issue of share capital		-	360,963
Proceeds from issue of Senior Secured Notes		198,030	1,053,420
Proceeds from loans and borrowings		65,000	208,689
Transactions costs related to loans and borrowings		(10,960)	(41,547)
Acquisition of non-controlling interests		(9)	(8,462)
Repayment of borrowings		(734)	(530,230)
Interest paid		(102,038)	(53,361)
Net cash from financing activities		**149,289**	**989,472**
Net (decrease)/increase in cash and cash equivalents		(15,389)	106,137
Cash and cash equivalents at beginning of period		106,938	-
Effect of movements in exchange rates on cash held		6,504	801
Cash and cash equivalents at end of period	18/19	**98,053**	**106,938**

The notes on pages 12 to 65 form part of these consolidated financial statements.

1. SIGNIFICANT ACCOUNTING POLICIES

Corporate information

The consolidated financial statements of Garfunkelux Holdco 2 S.A. and its subsidiaries (together "The Group") for the year ended 31 December 2016 were authorised for issue in accordance with a resolution of Directors on 4 April 2017. 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, in Luxembourg Ville.

The Group is principally engaged in the provision of credit management services. Information regarding the Group structure is presented in note 14. Information on other related party transactions is presented in note 31.

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. The Group was incorporated on 1 June 2015 and GFKL and Lowell were acquired on 30 June 2015 and 13 October 2015 respectively. Prior period comparatives presented in these financial statements are therefore not comparable to the 2016 full year.

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.

Adoption of new and revised standards

The following Accounting Standard amendments became effective for periods commencing on or after 1 January 2016 and have been adopted in the current year. None had a material impact on the consolidated financial statements.

Annual improvements 2012 – 2014 cycle	Improvements to IFRS 5, IFRS 7, IAS 9 and IAS 34
IAS 1 (amended)	Disclosure initiative
IAS 16 and IAS 38 (amended)	Clarification of Acceptable Methods of Depreciation and Amortisation

The following new and revised Standards and Interpretations are in issue and have been endorsed by the EU but are not yet effective for these consolidated financial statements.

IFRS 9 – Financial Instruments – effective from 1 January 2018. The current application of the Effective Interest Rate with regards to purchased non-performing assets is thought to be largely in line with IFRS 9 however additional disclosure requirements, over and above those from IFRS 7, will be required (around compliance with applicable regulation and the management of risk). Management will continue to assess the impact of the three main areas of IFRS 9, being classification and measurement, impairment, and hedge accounting during 2017.

IFRS 15 – Revenue from Contracts with Customers – effective from 1 January 2018. IFRS 15 established a five step approach to accounting for revenue from contracts with customers. Management will assess the potential impact of adopting IFRS 15 during 2017.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Adoption of new and revised standards (continued)

The following new and revised Standards and Interpretations are in issue but have not yet been endorsed by the EU and are hence not yet effective for these financial statements.

IAS 7 – Disclosure Initiative – Amendments to IAS 7. The amendments to IAS 7 Statement of Cash Flows are part of the IASB's Disclosure Initiative and require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

IFRS 16 – Leases. IFRS 16 introduces a single, on balance sheet approach to lease accounting for lessees with optional exemptions for short-term leases and leases of low value items.

IFRS 2 – Classifications and Measurement of Share-based Payment Transactions.

Basis of consolidation

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.

Going concern

The Group's business activities are set out in the Consolidated Statement of Comprehensive Income ("SCI") and Consolidated Statement of Financial Position ("SFP") on pages 8 and 9 respectively. In addition, note 29 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 Cash EBITDA of the Group is an industry accepted measure of a business's asset base and cashflow generation. The Group has demonstrated strong performance during the year ended 31 December 2016 with Cash EBITDA of £254.5m.

The business as a whole is cash generative before portfolio acquisitions, receiving £399.7m in gross DP cash collections for the year ended 31 December 2016. The Group continually monitors its cash flow requirements to ensure that enough cash is available to meet its commitments.

The Group has three main sources of funding at 31 December 2016, €365m, £565m and €230m of listed Senior Secured loan notes ("notes"), £230m of listed Senior loan notes, and a €200m RCF. There are covenants on the funding which are detailed in note 19.

There are long term business plans and short term forecasts in place which are reviewed and updated on a regular basis by management. The Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. They consequently adopt the going concern basis of accounting in preparing these consolidated financial statements.

1 SIGNIFICANT ACCOUNTING POLICIES (continued)

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 or non-controlling interest, as the case may be. 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. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments (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 annually. Additionally, 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, and an appropriate discount rate.

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

On disposal of a subsidiary, the goodwill attributable to that subsidiary is included when calculating the profit or loss on disposal.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition and effective interest rate method

Finance revenue on acquired portfolio investments

Income from portfolio investments represents the yield from acquired portfolio investments, net of VAT where applicable. Acquired portfolio investments are financial instruments that are accounted for using IAS 39 (Financial Instruments), and are measured at amortised cost using the effective interest method.

The effective interest rate ("EIR") is the rate that exactly discounts 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 conditions within the markets which the Group operates and range from 84 months to 120 months. An initial EIR is determined at the acquisition of the portfolio investment, following this there is a short period that is required to adjust the EIR due to the complexity of the portfolios acquired. Reassessing and changing the EIR in this way does not have a material impact on the financial statements.

Acquired portfolio investments are acquired at a deep discount and as a result the estimated future cashflows reflect the likely credit losses within each portfolio.

Increases in portfolio carrying values can and do occur should forecasted cashflows 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 portfolio write up line item within revenue, with subsequent reversals also recorded in this line. If these reversals exceed cumulative revenue recognised to date, an impairment is recognised in the SCI.

As part of the acquisition accounting around the purchase of Metis Bidco Limited by Simon Bidco Limited on 13 October 2015 the portfolio investments were uplifted to their fair value at the date of acquisition. The portfolio fair value release represents the unwinding of this fair value uplift (see note 15). This uplift is being unwound in line with the profile of gross ERC over an 84 month period, in keeping with a standard collection curve profile in the UK.

Service revenue

Service income 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. The revenue is recognised when the service is provided (accruals basis).

Impairment of acquired portfolio investments

Acquired portfolio investments are reviewed for indications of impairment at the SFP date in accordance with IAS 39. Where portfolios exhibit objective evidence of impairment, an adjustment is recorded to the carrying value of the portfolio investment. If the forecast portfolio collections exceed initial estimates, a portfolio basis adjustment is recorded as an increase to the carrying value of the portfolio investment and is included in revenue. If the forecast portfolio collections are lower than previous forecasts the revenue from previous upward revaluations are reversed and this reversal is recognised in revenue, up to the point that the reversals equal the previously recognised cumulative revenue. If these reversals exceed the previously recognised cumulative revenue then an impairment is recognised in the SCI.

Financial instruments

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

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 cost, which at this point equates to fair value. They must be measured subsequently at fair value.

The main assets and liabilities in the Group falling into this category are derivative financial instruments that do not fall under the scope of hedge accounting in accordance with IAS 39.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Loans and receivables

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

The 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.

Litigation costs represent upfront fees paid during the litigation process, expected to be recoverable from the customer and added to the customer account balance to be recovered at a later date. Release to the SCI is in line with the collection profile.

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 is recognised by applying the effective interest rate, except for short-term receivables (including Trade receivables) when the recognition of interest would be immaterial.

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.

Impairment of financial assets

Financial assets, other than those held at fair value through profit or loss / SCI (“FVTPL”), are assessed for indicators of impairment at each period end. 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.

Derecognition of financial assets

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

Financial liabilities and equity

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

Financial liabilities

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

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

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 both to hedges taken out to hedge the risk of a change in the fair value of a recognised asset or a recognised liability and 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 29.

Provisions

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

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

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

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Pensions

Defined benefit pensions

The Group provides defined benefit pension plans through some of its German 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. The probabilities used in the inputs may deviate from actual developments due to changes in market and economic conditions. Sensitivity analyses are used to determine the financial effects of the deviations in the significant inputs.

Defined contribution pensions

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

Leases

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

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

Taxation

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

Current tax

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

Deferred tax

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

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

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

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

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

Deferred tax (continued)

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 represents 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 text costs. They are recognised as the costs are incurred (accruals basis).

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.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

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

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

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 28.

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 28 have been classified as equity settled transaction because the Group has no obligation to settle the transaction with the employees for services it receives.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

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:

Fixtures and fittings	5 years
Hardware	5 years
Office equipment	5 to 15 years
Leasehold improvements	Life of lease (0 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	3 to 15 years	Straight line
Other intangible assets	3 to 10 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.

2. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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.

Revenue recognition

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 EIR is determined as at the time of acquisition of the portfolio and then reassessed during a short period following acquisition to reflect refinements made to estimates of future cash flows, based on actual data and analysis considered during that time period. It is not subsequently changed.

The calculation of the EIR for each portfolio is based on the estimation of future cash flows. These cash flows are estimates and are therefore inherently judgemental. These estimates are based upon historical collections data from other portfolios with similar features such as type and quantum of debt, or age.

A change in EIR of +/- 2.5% has the following impact on the income from portfolio investments:

	Year ended 31 December 2016 £000	**1 June - 31 December 2015* £000**
Plus 2.5%		
Income from portfolio investments	7,467	2,366
Portfolio write-up	(16,736)	(5,483)
Decrease of income	**(9,269)**	**(3,117)**
Minus 2.5%		
Income from portfolio investments	(7,653)	(2,368)
Portfolio write-up	17,674	5,497
Increase of income	**10,021**	**3,129**

*The impact on the period from 1 June 2015 to 31 December 2015 above has been calculated over the period of 2.5 months for Lowell and 6 months for GFKL.

If the forecast portfolio collections exceed initial estimates, an adjustment is recorded as an increase to the carrying value of the portfolio and is included in revenue as a portfolio write up.

2. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Impairment of acquired portfolio investments

The portfolio investments are reviewed for indications of impairment at the SFP date in accordance with IAS 39 (Financial Instruments). Where portfolios exhibit objective evidence of impairment, an adjustment is recorded to the carrying value of the portfolio. If the forecast portfolio collections are lower than previous forecasts, the cumulative revenue recognised is considered as described in the revenue recognition accounting policy.

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 an 84 month to 120 month period, based on previous month’s collections and historical portfolio performance information collated within our proprietary valuation model.

The calculation of the ERC for each portfolio investment is inherently judgemental as it involves the estimation of future cash flows based upon historical collections data from the individual debt owed.

Goodwill and valuation of intangible assets

The Group capitalises goodwill on the acquisition of businesses as discussed in the significant accounting policies. 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. Different valuations would result in changes to the goodwill arising and to the post acquisition performance of the acquisition.

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. Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. Calculation of the value in use requires an estimate of future cash flows expected to arise from the 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.

See note 11 for further details regarding goodwill.

Treatment of VAT backpayments

On 27 October 2011, the European Court of Justice ruled that the purchase of non-performing loans (“NPLs”) does not constitute a supply of services for consideration by the acquirer to the seller. This judgment was mirrored by the German Federal Finance Court on 26 January 2012 and in this ruling it was stated that the acquirer could not reclaim input VAT on the purchase of NPLs. As a result the Group may have to refund the input VAT claimed for this line of business for the period from 2004 to 2012 to the German tax authorities.

The final letter from the German Federal Ministry of Finance on 2 December 2015 clarified the treatment in respect of the purchase of NPLs and includes the expected grandfathering rules.

As a result of these rulings, the Group has recognised a provision of £4.6m (31 December 2015: £4.2m) and corresponding interest of £2.3m (31 December 2015: £1.7m) for VAT in relation to purchases of NPLs in the years prior to 2012 (see note 21). This provision is determined but will continue to accrue interest until paid. However the tax authorities have not concluded their review of the historical period and as a result the amount may change to the benefit or detriment of the Group.

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 two main regions within which the Group operates – the UK and DACH 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 GFKL and Lowell.

Both the UK and DACH 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 2016	**UK**	**DACH**	**Holding companies**	**Total**
Revenue from external customers	216,415	238,470	(668)[1]	454,217
Other income	-	3,083	1,048[2]	4,131
Collection activity costs	(49,899)	(131,511)	-	(181,410)
Depreciation, amortisation and impairment	(3,361)	(5,976)	(11,185)[3]	(20,522)
Other operating expenses	(73,305)	(67,285)	(6,068)[4]	(146,658)
Operating profit	**89,850**	**36,781**	**(16,873)**	**109,758**
Interest income				699
Finance costs				(138,692)
Other financial expenses				-
Loss before tax				**(28,235)**
Income tax				(2,980)
Loss for the period				**(31,215)**

[1] Revenue in holding companies relates to the fair value step up on acquisition of Metis Bidco by Simon Bidco. This differs to the portfolio fair value release shown in the SCI as a fair value adjustment arising from a previous acquisition is being unwound within the UK results.

[2] Other income within holding companies relates to income due from the previous owner of GFKL.

[3] Depreciation, amortisation and impairment in holding companies relates to customer relationship and tradename assets recognised on acquisition of GFKL and Lowell. During the year, £6.2m of tradename assets were impaired.

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

3. SEGMENTAL REPORTING (continued)

Segmentation (continued)

Segmental results (continued)

1 June – 31 December 2015	**UK**	**DACH**	**Holding companies**	**Total**
Revenue from external customers	35,193	104,949	54[1]	140,196
Other income	-	1,922	-	1,922
Collection activity costs	(10,390)	(58,121)	-	(68,511)
Depreciation, amortisation and impairment	(500)	(1,422)	(2,279)[2]	(4,201)
Other operating expenses	(13,602)	(31,808)	(23,918)[3]	(69,328)
Operating profit	**10,701**	**15,520**	**(26,143)**	**78**
Interest income				3,332
Finance costs				(77,367)
Other financial expenses				(39)
Loss before tax				**(73,996)**
Income tax				5,471
Loss for the period				**(68,525)**

Note: Due to the establishment of the Group during 2015 and the differing periods of consolidation for Lowell and GFKL in the statutory accounts of the Group for the period ended 31 December 2015, prior period figures in this note are not comparable to current year disclosures.

[1] Revenue in holding companies relates to the fair value step up on acquisition of Metis Bidco by Simon Bidco. This differs to the portfolio fair value release shown in the SCI as a fair value adjustment arising from a previous acquisition is being unwound within the UK results.

[2] Depreciation and amortisation in holding companies relates to customer relationship and tradename assets recognised on acquisition of GFKL and Lowell.

[3] Other operating expenses in holding companies relate to central costs. These were significant in 2015 as a result of non-recurring acquisition related costs incurred on the acquisitions of GFKL and Lowell.

	31 December 2016 £000	**31 December 2015 £000**
Non-current assets		
UK	570,768	569,250
DACH	569,361	374,451
	1,140,129	**943,701**

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 contingent collection services and other services (Service).

	Year ended 31 December 2016 £000	1 June - 31 December 2015 £000
Revenues		
DP	291,312	72,621
Service (including 3PC)	162,905	67,575
	454,217	**140,196**

4. LOSS BEFORE TAX

	Year ended 31 December 2016 £000	1 June - 31 December 2015 £000
Loss for the period is after charging:		
Impairment of assets (notes 12 and 13)	6,387	38
Impairment of non-performing loans (note 15)	8,887	3,488
Depreciation of property, plant and equipment (note 13)	1,968	400
Amortisation of intangible assets (note 12)	12,167	3,801
Loss on disposal of property, plant and equipment and intangible assets	407	7
Staff costs (note 5c)	91,019	27,887
Rentals under operating leases (note 27)	6,674	3,119
Non-recurring acquisition costs – Tesch	951	-
Non-recurring acquisition costs – Lowell	253	11,969
Non-recurring acquisition costs – GFKL	-	7,670

5. STAFF COSTS AND OTHER OPERATING EXPENSES

a) Other operating expenses

	Year ended 31 December 2016 £000	1 June - 31 December 2015 £000
Staff costs (note 5c)	91,019	27,887
Depreciation of property, plant and equipment (note 13)	1,968	400
Amortisation of intangible assets (note 12)	12,167	3,801
Tradename impairment (note 12)	6,229	-
Non-recurring acquisition costs	1,204	19,639
Rental, licences and maintenance for IT equipment	10,185	3,113
Building rental and facility costs	8,552	2,471
Other operating expenses	35,856	16,218
Total other operating expenses	**167,180**	**73,529**

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

During 2016, tradenames of £6.2m were impaired to nil.

b) Auditor's remuneration

	Year ended 31 December 2016 £000	1 June - 31 December 2015 £000
Audit fees of Parent Company and consolidated financial statements	134	413
Audit related fees of financial statements of subsidiaries	251	1,800
Tax fees	48	708
Other services	131	250
Total auditor's remuneration	**564**	**3,171**

The Group auditor was changed from Ernst & Young to KPMG on 18 October 2016. Ernst and Young continued to audit GFKL for the 2016 year end before a full handover is effected in 2017. Auditor's remuneration in 2016 disclosed above relates only to KPMG and in 2015 relates only to Ernst and Young.

Other services comprise corporate finance consultancy and assurance services provided to the Group.

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.

5. STAFF COSTS AND OTHER OPERATING EXPENSES (continued)

c) Staff costs

The average number of employees during the period was:

	Year ended 31 December 2016 Number	1 June – 31 December 2015 Number
Operational staff	1,660	845
Business support	649	576
Total	**2,309**	**1,421**

Operational staff are those directly or indirectly involved in the operations of the business and business support staff are employed in supporting functions such as IT and Finance. The average number of employees in 2015 was suppressed by the timings of the acquisitions of GFKL and Lowell during the period and in 2016 by the acquisitions of IS Inkasso and Tesch in the year.

The period end number of employees was:

	31 December 2016 Number	31 December 2015 Number
Operational staff	1,984	1,334
Business support	783	772
Total	**2,767**	**2,106**

	Year ended 31 December 2016 £000	1 June - 31 December 2015 £000
Wages and salaries	79,262	24,504
Social security costs	10,689	3,295
Pension costs to defined contribution schemes	651	81
Pension costs to defined benefit schemes	417	7
Total	**91,019**	**27,887**

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 31. These twelve employees are paid by subsidiary undertakings of the Company for their services as Directors to the Group.

6. INTEREST INCOME

	Year ended 31 December 2016 £000	1 June – 31 December 2015 £000
Bank interest receivable	201	218
Net gain on financial instruments designated as FVTPL	498	226
Net foreign exchange gain	-	2,888
Total interest income	**699**	**3,332**

7. FINANCE COSTS

	Year ended 31 December 2016 £000	1 June - 31 December 2015 £000
Financial liabilities measured at amortised costs – interest expense:		
Interest payable on the Senior Secured Notes	73,336	18,460
Interest payable on the Senior Unsecured Notes	25,300	5,060
Fees payable on the Notes	5,135	1,171
Fees payable on the Senior Secured Notes redeemed on acquisition of Lowell	-	31,019
Interest and fees payable on Revolving Credit facility	3,495	6,094
Interest payable on bridge financing facilities	-	2,031
Interest payable on shareholder loan	22,664	3,956
Other interest payable	1,725	612
Net loss on financial instruments designated as FVTPL	398	7,727
Notional interest on financial liabilities relating to NCI	2,386	1,237
Net foreign exchange loss	4,253	-
Total finance costs	**138,692**	**77,367**

8. INCOME TAX

a) Amounts recognised in the Statement of Comprehensive Income

	Year ended 31 December 2016 £000	1 June - 31 December 2015 £000
Current taxation		
Corporation tax	1,468	1,312
Adjustment in respect of previous periods	61	(380)
Total current tax charge	**1,529**	**932**
Deferred tax		
Origination and reversal of temporary differences	2,806	(7,863)
Change in estimate of recoverable deferred tax	(1,398)	142
Impact of change in tax rate	43	1,318
Total deferred tax credit (see note 9)	**1,451**	**(6,403)**
Total tax expense/(credit)	**2,980**	**(5,471)**

8. INCOME TAX (continued)

b) Amounts recognised in the Statement of Comprehensive Income

	Year ended 31 December 2016 £000	1 June - 31 December 2015 £000
Pension Provisions	**(338)**	**126**

c) Reconciliation of effective tax rate

The standard average effective rate of corporation tax in Luxembourg is 29.22%. However, as the Group is located in different countries, the standard average effective rate of corporation tax for the group is 25%. The tax credit assessed for the period is lower than this and the differences are explained below:

	Year ended 31 December 2016 £000	1 June - 31 December 2015 £000
Loss on ordinary activities before tax	**(28,235)**	**(73,996)**
Tax credit on loss on ordinary activities at a combined countries rate of 25%	(7,059)	(18,499)
Effects of:		
Permanent differences	1,469	2,382
Income not taxable for tax purposes	6,452	5,005
Value adjustments	(1,398)	142
Impact of tax losses carried forward	2,461	2,403
Adjustment to tax charge in respect of previous periods	61	(380)
Tax rate differences	958	3,531
Other	36	(55)
Total tax expense	**2,980**	**(5,471)**

9. DEFERRED TAX

Deferred tax assets and liabilities are attributable to the following as at 31 December 2016 and 31 December 2015.

	31 December 2016 £000	31 December 2015 £000
Recognised in profit or loss		
Intangible assets	(35,660)	(19,020)
Portfolio investments	(27,556)	(15,576)
Tax losses carried forward	13,756	10,098
Other	2,152	(2,090)
Net tax liabilities	**(47,308)**	**(26,588)**

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 2016 £000	1 June – 31 December 2015 £000
SCI effect	1,451	(6,403)
Equity effect	(338)	126
Acquisition of subsidiaries	15,529	31,980
Disposal of subsidiaries	(59)	-
Exchange rate differences	4,136	885
Movement in the period	**20,719**	**26,588**

	31 December 2016 £000	31 December 2015 £000
Deferred tax asset	-	817
Deferred tax liability	(47,308)	(27,405)
	(47,308)	**(26,588)**

Deferred tax assets of £3.4m (2015: £1.6m) 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.

10. SIGNIFICANT ACQUISITIONS OF SUBSIDIARIES

a) Acquisition of IS Inkasso

On 31 May 2016, the Group acquired 100% of the ordinary shares in IS Group Management GmbH for £20.1m (€26.4m), satisfied in cash. The acquiring company was GFKL Financial Services GmbH, a wholly owned subsidiary of the Company.

In the seven months to 31 December 2016 the subsidiary group contributed a net loss of £276k to the consolidated net loss for the period. If the acquisition had occurred on 1 January 2016, Group revenue would have been £4.3m (€5.5m) higher and net loss would have been c£0.4m (€0.5m) higher.

Identifiable assets acquired and liabilities assumed

The following table summarises the provisional recognised amounts of assets acquired and liabilities assumed at the date of acquisition.

	Recognised values on acquisition £000
Acquiree's net assets at the acquisition date:	
Property, plant and equipment	88
Intangible assets	8,562
Trade and other receivables	274
Other financial assets	3
Cash and cash equivalents	3,055
Provisions	(925)
Trade and other payables	(454)
Other financial liabilities	(963)
Income tax provisions	(94)
Deferred tax liabilities	(2,081)
	7,465

Consideration transferred

The following table summarises the acquisition date fair value of each major class of consideration transferred from the date of acquisition.

	Recognised values on acquisition £000
Cash	**20,121**

10. SIGNIFICANT ACQUISITIONS OF SUBSIDIARIES (continued)

a) Acquisition of IS Inkasso (continued)

Measurement of fair value

The valuation techniques used for measuring the fair value of material assets acquired were as follows:

Assets acquired	**Valuation technique**
Customer relationships	Income approach

Goodwill

Goodwill arising from the acquisition has been recognised as follows:

	Recognised values on acquisition £000
Consideration transferred	20,121
Fair value of identifiable net assets	(7,465)
	12,656

Goodwill comprises the value of expected synergies arising from the acquisition which is not separately recognised.

None of the Goodwill recognised is expected to be deductible for income tax purposes.

10. SIGNIFICANT ACQUISITIONS OF SUBSIDIARIES (continued)

b) Acquisition of Tesch

On 30 September 2016, GFKL Financial Services GmbH acquired 100% of the ordinary shares in DC Holding GmbH for €142.0m.

DC Holdings GmbH and its 8 wholly owned subsidiaries (See note 14 for group structure) make up the Tesch Group.

In the three months to 31 December 2016 the Tesch Group contributed net profit of £1,207k to the consolidated net loss for the year.

Identifiable assets acquired and liabilities assumed

The following table summarises the provisional recognised amounts of assets acquired and liabilities assumed at the date of acquisition.

	Recognised values on acquisition £000
Acquiree's net assets at the acquisition date:	
Property, plant and equipment	535
Intangible assets	40,942
Portfolio investments	18,164
Other financial assets	77
Trade and other receivables	3,323
Income tax receivables	311
Cash and cash equivalents	5,466
Trade and other payables	(11,358)
Provisions	(1,241)
Income tax liabilities	(1,511)
Deferred tax liabilities	(13,497)
Total identifiable net assets acquired	**41,211**

No increase or impairment of value was recognised for trade receivables at the acquisition date.

Consideration transferred

The following table summarises the acquisition date fair value of each major class of consideration transferred.

	Recognised values on acquisition £000
Total consideration transferred in cash	**122,239**

10. SIGNIFICANT ACQUISITIONS OF SUBSIDIARIES (continued)

b) Acquisition of Tesch (continued)

Measurement of fair value

The valuation techniques used for measuring the fair value of material assets acquired were as follows:

Assets acquired	**Valuation technique**
Customer relationships	Income approach
Non-performing loans	Income approach

No contingent consideration or contingent liabilities remain in respect of the acquisition as at 31 December 2016.

Goodwill

Goodwill arising from the acquisition has been recognised as follows:

	Recognised values on acquisition £000
Consideration transferred	122,239
Fair value of identifiable net assets	(41,211)
Goodwill	**81,028**

Goodwill comprises the value of expected synergies arising from the acquisition which is not separately recognised.

None of the Goodwill recognised is expected to be deductible for income tax purposes.

11. GOODWILL

	Year ended 31 December 2016	**1 June – 31 December 2015**
	£000	**£000**
Cost		
Opening Balance	861,382	-
Addition on acquisition of GFKL	-	297,339
Addition on acquisition of Lowell	-	553,334
Addition on acquisition of IS Inkasso (note 10a)	12,656	-
Addition on acquisition of Tesch (note 10b)	81,028	-
Effect of currency translation	50,883	10,709
At period end	**1,005,949**	**861,382**
Net book value		
At period end	**1,005,949**	**861,382**

11. GOODWILL (continued)

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units (CGUs) that are expected to benefit from that business combination. The carrying amount of goodwill has been allocated to two aggregated CGUs on the basis that these represent the lowest level at which goodwill is monitored for internal management purposes. The two CGUs identified are Lowell, comprising of all subsidiary companies operated in the UK owned by Metis Bidco Limited, and GFKL, consisting of all subsidiary companies operated in DACH owned by Garfunkel Holding GmbH. The Goodwill recognised on acquisition of Tesch and IS Inkasso is measured on a provisional basis and may be subject to change.

Euro denominated goodwill is retranslated at each balance sheet date and give rise to the Euro translation effect shown above.

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

The recoverable amount of the CGUs is determined as the higher of fair value less cost to sell and value in use. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to collections and direct costs during the forecast period.

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 rate used to discount the forecast cash flows for the CGU's are based upon the subsidiary group's weighted average cost of capital ("WACC") and are as follows:

	31 December 2016 £000	**31 December 2015 £000**
Lowell CGU	7.35%	9.39%
GFKL CGU	5.81%	6.33%

The Group prepares cash flow forecasts derived from the most recent detailed financial budgets approved by management for the next four years. 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.

Lowell CGU
Based on the value in use a fall in the forecast cashflows of 12% would result in an impairment at 31 December 2016 (36% at 31 December 2015). An increase in WACC of 3.3 percentage points to 10.6% would result in an impairment at 31 December 2016.

GFKL CGU
Based on the value in use a fall in the forecast cashflows of 48% would result in an impairment at 31 December 2016 (60% at 31 December 2015). An increase in WACC of 6.8 percentage points to 12.6% would result in an impairment at 31 December 2016.

12. INTANGIBLE ASSETS

	Software and licences	Development costs	Customer relationships	Trademarks	Total
	£000	£000	£000	£000	£000
Cost					
At 1 January 2016	8,505	3,815	52,294	15,343	79,957
Acquisition of subsidiaries	2,020	-	48,979	-	50,999
Additions	3,961	1,011	-	-	4,972
Reclassification	4,191	(4,191)	-	-	-
Disposals	(1,435)	(70)	-	-	(1,505)
Currency exchange differences	1,099	606	9,195	984	11,884
At 31 December 2016	**18,341**	**1,171**	**110,468**	**16,327**	**146,307**
Accumulated amortisation					
At 1 January 2016	(951)	(15)	(2,619)	(305)	(3,890)
Charge for the year	(3,616)	-	(7,490)	(1,061)	(12,167)
Asset impairment	(158)	-	-	(6,229)	(6,387)
Amortisation on disposals	1,198	-	-	-	1,198
Currency exchange differences	(13)	(3)	(795)	(156)	(967)
At 31 December 2016	**(3,540)**	**(18)**	**(10,904)**	**(7,751)**	**(22,213)**
Net book value					
At 31 December 2016	**14,801**	**1,153**	**99,564**	**8,576**	**124,094**
At 31 December 2015	**7,554**	**3,800**	**49,675**	**15,038**	**76,067**

Reclassifications: Development costs can be a combination of “Software and licences” and “Property, plant and equipment”. When projects go live and development costs are reclassified they are transferred to “Software and licences” or “Property, plant and equipment” (note 13).

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

During 2016, trademark intangibles of £6.2m were impaired to nil.

13. PROPERTY, PLANT AND EQUIPMENT

	Fixtures and fittings £000	Leasehold improvements £000	Hardware £000	Office Equipment £000	Total £000
Cost					
At 1 January 2016	119	2,370	1,296	2,902	6,687
Acquisition of subsidiaries	-	-	-	655	655
Additions	387	1,870	703	1,858	4,818
Disposals	(1)	(96)	(233)	(450)	(780)
Disposals of subsidiaries	-	-	-	(10)	(10)
Currency exchange differences	-	-	-	492	492
At 31 December 2016	**505**	**4,144**	**1,766**	**5,447**	**11,862**
Accumulated depreciation					
At 1 January 2016	(11)	(52)	(95)	(277)	(435)
Charge for the year	(63)	(414)	(518)	(973)	(1,968)
Disposals	-	94	219	368	681
Disposals of subsidiaries	-	-	-	9	9
Currency exchange differences	-	-	-	(63)	(63)
At 31 December 2016	**(74)**	**(372)**	**(394)**	**(936)**	**(1,776)**
Net book value					
At 31 December 2016	**431**	**3,772**	**1,372**	**4,511**	**10,086**
At 31 December 2015	**108**	**2,318**	**1,201**	**2,625**	**6,252**

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

14. GROUP STRUCTURE

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

Name	Country of incorporation	Ordinary share holding % as at 31 December 2016	Ordinary share holding % as at 31 December 2015
Garfunkelux Holdco 3 S.A.	Luxembourg	100	100
Garfunkel Holding GmbH	Germany	100	100
GFKL Financial Services GmbH	Germany	100	100
Zyklop Deutschland GmbH	Germany	100	100
GFKL Pay Protect GmbH	Germany	100	100
Proceed Portfolio Services GmbH[1]	Germany	-	100
GFKL Collections GmbH	Germany	100	100
Deutsche Multilauskunftel GmbH	Germany	100	100
GFKL 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 Beteilligungs GmbH	Germany	100	100
Intratech GmbH[2]	Germany	100	51
debifact Factoring GmbH & Co. KG	Germany	100	100
debifact Verwaltungs GmbH	Germany	100	100
Simon Holdco Limited[3]	Jersey	100	75
Simon Midco Limited[3]	UK	100	75
Simon Bidco Limited[3]	UK	100	75
Metis Bidco Limited[3]	UK	100	75
Lowell Finance Holdings Limited[3]	UK	100	75
Lowell Group Financing Plc[3]	UK	100	75
Lowell Group Limited[3]	UK	100	75
Lowell Funding Limited[3]	UK	100	75
Lowell Acquisitions Limited[3]	UK	100	75
Lowell Holdings Ltd[3]	UK	100	75
Lowell Finance Ltd[3]	UK	100	75
Lowell Financial Ltd[3]	UK	100	75
Lowell Portfolio I Ltd[3]	UK	100	75
Tocatto Ltd[3]	UK	100	75
Lowell Portfolio III Holdings Limited[3]	UK	100	75
Lowell Portfolio III Limited[3]	UK	100	75
Lowell Portfolio IV Holdings Limited[3]	UK	100	75
Lowell Portfolio IV Limited[3]	UK	100	75
Lowell Solicitors Limited[3]	UK	100	75
Interlaken Group Limited[3]	UK	100	75
Fredrickson International Limited[3]	UK	100	75
SRJ Debt Recoveries Limited[3]	UK	100	75
IS Group Management GmbH[4]	Austria	100	-
IS Forderungsmanagement GmbH[4]	Austria	100	-
IS-Inkasso Service GmbH[4]	Austria	100	-
EDV-Hofer GmbH[4]	Austria	100	-
IS Inkasso Service GmbH[4]	Switzerland	100	-
IS Inkasso Servis d.o.o[4]	Croatia	100	-
DC Holding GmbH[5]	Germany	100	-
Tesch Inkasso GmbH[5]	Germany	100	-
DC Forderungsmanagement GmbH[5]	Germany	100	-
Tesch Inkasso Forderungsmanagement GmbH[5]	Germany	100	-
Tesch Service GmbH[5]	Germany	100	-
DC Portfolien GmbH[5]	Germany	100	-
Tesch Mediafinanz GmbH[5]	Germany	100	-
Tesch Inkasso Finance GmbH[5]	Germany	100	-
mediafinanz collection services GmbH[5]	Germany	100	-

14. GROUP STRUCTURE (continued)

Name	Country of incorporation	Ordinary share holding % as at 31 December 2016	Ordinary share holding % as at 31 December 2015
Apontas GmbH & Co KG[6]	Germany	100	-
Apontas Verwaltungs GmbH[6]	Germany	100	-
Apontas Inkasso GmbH[6]	Germany	100	-
Apontas Invest GmbH[6]	Germany	100	-

[1]In January 2016, the Group disposed of its entire shareholding in Proceed Portfolio Services GmbH.

[2]On 30 November 2016, the Group acquired the non-controlling interest in Intratech GmbH.

[3]In May 2016, the Group acquired the remaining 25% investment in Simon Holdco and its subsidiaries through settlement of the financial liability detailed in note 22.

[4]On 31 May 2016, the Group acquired the IS Inkasso group of companies, see note 10a.

[5]On 30 September 2016, the Group acquired the Tesch group of companies, see note 10b.

[6]On 10 October 2016, the Group acquired the Apontas group of companies, no goodwill was generated on acquisition.

15. PORTFOLIO INVESTMENTS

	31 December 2016 £000	31 December 2015 £000
Non-current		
Portfolio investments	491,446	345,683
Current		
Portfolio investments	340,259	270,778
Total	**831,705**	**616,461**

The movements in acquired portfolio investments were as follows:

	31 December 2016 £000	31 December 2015 £000
At start of period	**616,461**	**-**
On acquisition of subsidiaries	18,164	600,474
Portfolios acquired during the period	288,324	46,820
Collections in the period	(399,722)	(103,052)
Income from portfolio investments	199,327	52,476
Portfolio fair value release	(3,429)	(573)
Portfolio write-up	95,414	20,718
Impairment of non-performing loans	(8,887)	(3,488)
Other	26,053	3,086
At end of period	**831,705**	**616,461**

16. TRADE AND OTHER RECEIVABLES

	31 December 2016 £000	31 December 2015 £000
Trade receivables	8,430	9,199
Prepayments and accrued income	6,592	3,191
Other receivables	12,633	14,367
Tax receivable	1,290	77
	28,945	**26,834**

Trade receivables are primarily made up of amounts due from clients for services provided. This figure includes gross receivables of £9.1m, and an allowance for bad debt of £0.7m.

17. OTHER FINANCIAL ASSETS

	31 December 2016 £000	31 December 2015 £000
Non-current		
Receivables from affiliated companies	2,020	4,903
Other financial assets	121	58
	2,141	**4,961**
Current		
Securitisation receivables	1,592	2,094
Other financial assets	6,722	7,917
	8,314	**10,011**
	10,455	**14,972**

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

18. CASH AND CASH EQUIVALENTS

	31 December 2016 £000	31 December 2015 £000
Cash and bank balances	76,719	90,804
Restricted cash balances	21,334	16,142
	98,053	**106,946**

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. These restricted cash balances are shown within cash.

19. BORROWINGS

	31 December 2016 £000	31 December 2015 £000
Non-current		
Unsecured borrowings at amortised cost		
Senior Notes	230,000	230,000
Prepaid costs on Senior Notes	(8,289)	(9,197)
Shareholder loan owed to Garfunkelux Holdco 1 S.à.r.l.	274,376	198,689
Total unsecured	**496,087**	**419,492**
Secured borrowings at amortised cost		
Senior Secured Notes	1,074,320	834,005
Prepaid costs on Senior Secured Notes	(39,083)	(32,350)
Total secured	**1,035,237**	**801,655**
Total borrowings due for settlement after 12 months	**1,531,324**	**1,221,147**
Current		
Unsecured borrowings at amortised cost		
Bank overdraft	-	8
Interest on Senior Notes	4,218	5,060
Other interest payable	454	486
Total unsecured	**4,672**	**5,554**
Secured borrowings at amortised cost		
Interest on Senior Secured Notes	20,627	18,460
Revolving credit facility	75,000	10,000
Total secured	**95,627**	**28,460**
Total borrowings due for settlement before 12 months	**100,299**	**34,014**

19. BORROWINGS (continued)

During the period financing transaction costs of £11.0m were incurred in respect of Senior Secured Notes.

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:

Senior Secured Notes ("Notes")

On 23 July 2015 the Group issued €365m 7.5% Senior Secured Notes due 2022, through its subsidiary Garfunkelux Holdco 3 S.A. The interest on the Notes is payable semi-annually on 1 February and 1 August, commencing 1 February 2016. The Notes will mature on 1 August 2022, though the Group may redeem the Notes at an earlier date as per the details set out in the Offering Memorandum issued on 20 July 2015.

On 19 October 2015 the Group issued £565m 8.5% Senior Secured Notes due 2022, through its subsidiary Garfunkelux Holdco 3 S.A. The interest on the Notes is payable semi-annually on 1 May and 1 November, commencing 1 May 2016. The Notes will mature on 1 November 2022, though the Group may redeem the Notes at an earlier date as per the details set out in the Offering Memorandum issued on 14 October 2015.

On 28 September 2016 the Group issued €230m 5.5% plus EURIBOR (subject to a 0% floor) Senior Secured Notes due 2021 through its subsidiary Garfunkelux Holdco 3 S.A. The interest on the Notes is payable quarterly on 1 October, 1 January, 1 April and 1 July, commencing on 1 January 2017. The Notes will mature on 1 October 2021, though the Group may redeem some or all of the Notes at an earlier date as per the details set out in the Offering Memorandum issued on 14 September 2016.

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 4.5:1. Both covenants are incurrence covenants.

The Senior Secured Notes are secured on the assets, share pledges and intra-group receivables of the Group and are listed on the Official List of the Luxembourg Stock Exchange.

Senior Unsecured Notes ("Notes")

On 19 October 2015 the Company issued £230m 11.0% Senior Notes due 2023. The interest on the Notes is payable semi-annually on 1 May and 1 November, commencing 1 May 2016. The Notes will mature on 1 November 2023, though the Group may redeem the Notes at an earlier date as per the details set out in the Offering Memorandum issued on 14 October 2015. The Notes are listed on the Official List of the Luxembourg Stock Exchange.

There is one covenant measure under the terms of the Notes, the Fixed Charge Coverage Ratio, which must be at least 2:1. Again, this is an incurrence covenant only.

Revolving Credit Facility ("RCF")

The Group has an RCF commitment of €200m. The RCF has a variable interest rate linked to LIBOR/EURIBOR and a quarterly commitment fee calculated on the undrawn facility.

Any Material Company or other member of the Group, which becomes a guarantor of the Amended and Restated 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.

No incurrence or maintenance covenants in the Notes and RCF instruments have been breached during the year to 31 December 2016 or the period from 1 June 2015 to 31 December 2015.

19. BORROWINGS (continued)

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. The loan has an interest rate of 9.72%.

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

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

	31 December 2016 £000	31 December 2015 £000
Notes	8.25%	8.79%
Bridge financing	-	7.83%
RCF	3.63%	4.00%
Shareholder loan owed to Garfunkelux Holdco 1 S.à.r.l.	9.72%	9.72%

20. TRADE AND OTHER PAYABLES

	31 December 2016 £000	31 December 2015 £000
Trade payables	7,199	8,200
Anticipated losses from onerous contracts	24	103
Other taxes and social security	2,831	3,907
Accruals and deferred income	17,491	16,052
Other payables	74,165	32,447
	101,710	**60,709**

Other payables includes amounts due of £49.0m in respect of portfolios purchased but not yet paid for at 31 December 2016 (31 December 2015: £10.7m).

21. PROVISIONS

	Tax provisions £000	Restructuring £000	Other £000	Total £000
At 1 January 2016	**8,176**	**1,131**	**1,936**	**11,243**
Acquisition/disposal of subsidiaries	45	-	2,698	2,743
Provisions made during the year	2,151	10	2,024	4,185
Amounts utilised during the year	(152)	(1,210)	(1,846)	(3,208)
Provisions reversed during the year	-	(46)	(573)	(619)
Discount unwind	-	-	26	26
Exchange differences	1,415	125	451	1,991
At 31 December 2016	**11,635**	**10**	**4,716**	**16,361**
Current	11,635	10	2,877	14,522
Non-Current	-	-	1,839	1,839
Total	**11,635**	**10**	**4,716**	**16,361**

Tax related provisions largely comprise amounts owed due to VAT backpayments (£6.9m, note 2) as well as other tax related provisions of £4.7m. Other provisions include provisions for onerous contracts totalling £1.8m and employee related provisions of £1.5m.

In 2016 a former service provider to the GFKL Group asserted a claim against GFKL totalling c€0.7m. Based on the views of our external legal advisors the claim is not valid and hence no provision has been created.

22. OTHER FINANCIAL LIABILTIES

	31 December 2016 £000	31 December 2015 £000
Non-current		
Liability to purchase Simon Holdco Limited shares	-	55,471
Other financial liabilities	50	117
	50	**55,588**
Current		
Liability from potential treasury shares	6,517	5,522
Liability from portfolio financing	-	1,359
	6,517	**6,881**

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.

As at 31 December 2015 the Company indirectly owned 75% of Simon Holdco Limited and all of its subsidiaries, both direct and indirect. The results of Simon Holdco Limited and all of its direct and indirect subsidiaries were consolidated at an effective 100% ownership as a legal obligation was created at the point of acquisition on 13 October 2015 that all the remaining shares would be acquired at a later date. This transaction resulted in a financial liability of £55.5m at 31 December 2015.

On 17th May 2016, the financial liability to purchase the remaining 25% of the shares in Simon Holdco Limited was settled through a shareholder loan of €27.0m (£21.1m) and a capital contribution made into the Group of €51.3m (£40.1m). The new shareholder loan of €27.0m is an extension of the existing loan with the Group holding company, Garfunkelux Holdco 1 S.à.r.l. and bears the interest rate of 9.72%. The loan has a maturity date that falls six months following the maturity of the Senior notes or the date of the last maturing of any outstanding Senior debt of the Company.

23. SHARE CAPITAL

	£000
Called up, allotted and fully paid:	
Share capital on incorporation (6,200,000 ordinary shares of €0.01 each)	45
Increase in share capital (493,800,005 ordinary shares of €0.01 each)	3,685
At 31 December 2016 and 31 December 2015	**3,730**

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 24), 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.
- 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, five per cent 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.

24. RESERVES

Capital reserve

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

	31 December 2016 £000	31 December 2015 £000
At start of period	**(8,443)**	**-**
Issuance of beneficiary units ("BU")	-	19
Repurchase of NCI shares	526	(8,462)
Other	(31)	-
At end of period	**(7,948)**	**(8,443)**

The issue price of any Beneficiary Unit shall be allocated to a special reserve (the "BU 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.

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 scheme.

25. RETAINED DEFICIT

	31 December 2016 £000	31 December 2015 £000
Loss for the period	(31,215)	(68,525)
Non-controlling interest	119	(50)
Loss attributable to equity holders of the parent	**(31,096)**	**(68,575)**

26. NON-CONTROLLING INTEREST

	31 December 2016 £000	31 December 2015 £000
At start of period	**526**	**-**
Non-controlling interest on the acquisition of subsidiary	-	476
(Loss)/profit for the period	(119)	50
Purchase of non-controlling interest	(407)	-
At end of period	**-**	**526**

During the year, the Group purchased the non-controlling interest of 49% in Intratech GmbH.

27. COMMITMENTS

Operating Lease arrangements

The Group as lessee

	Year ended 31 December 2016 £000	1 June - 31 December 2015 £000
Lease payments under operating leases recognised as an expense in the period	**6,674**	**3,119**

Non-cancellable operating lease rentals are payable as follows:

	31 December 2016 £000	31 December 2015 £000
Less than one year	8,604	6,535
More than one year and less than five years	20,421	13,680
More than five years	10,376	8,608
	39,401	**28,823**

Operating lease payments represent rentals payable by the Group for certain of its office properties and car leases.

The main property lease in the UK has been negotiated for a lease term of 15 years, commenced on 9 December 2013, with the option to break, free of charge, after 10 years.

During the year ended December 2016, an additional property lease was negotiated in the UK. This lease commenced on 1 July 2016, for a lease term of 12 years, with the option to break free of charge, after 7 years.

The main property lease in Germany has been negotiated for a lease term of 10 years, commenced on 3 February 2014.

The other property leases are for periods of one to three years with various options for breaks. Car leases run for three years with the option to extend.

Other than the information noted above for Operating Leases, the Group has no other outstanding commitments at 31 December 2016 (31 December 2015: none).

28. SHARE BASED PAYMENTS

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

Under this agreement, the Garfunkelux Group managers entered into a nominee agreement 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 a price that approximates the market price of the underlying shares at the date 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 good leaver or 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 statement 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.

29. FINANCIAL INSTRUMENTS

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.

Categories of financial instruments

	31 December 2016 £000	31 December 2015 £000
Financial assets		
Cash and cash equivalents	98,053	106,946
Loans and receivables	831,705	616,461
Other financial assets	40,537	46,052
Financial liabilities		
Borrowings - Notes	1,329,165	1,087,525
Borrowings – (RCF)	75,000	10,000
Borrowings – Shareholder loan	274,376	198,689
Borrowings – other	454	494
Trade and other payables	101,710	60,709
Other financial liabilities	6,567	62,468
Tax liability	17,319	13,988
Provisions	16,361	11,243
Derivatives (FVTPL)	429	816

Financial risk management objectives

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

- Credit risk
- Liquidity risk
- Operational risk
- Market risk
- Conduct risk
- Interest rate risk
- Foreign currency risk
- Capital management risk
- Fair value estimation 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.

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

29. FINANCIAL INSTRUMENTS (continued)

Credit risk management

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual payment obligations.

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. At 31 December 2016 the Group had 25.9m (31 December 2015: 22.1m) individual customer accounts.

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 does not meet initial expectations. The on-going risk is managed through utilising a comprehensive portfolio valuation model and building current expectations of recoverability from historical information on debt types and customers into pricing assumptions and models. A pricing committee is in place which is attended by at least two members of the Executive Committee as well as other key members from across areas of the business.

This committee is in place to scrutinise all aspects of a portfolio acquisition from reputational and regulatory 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 Groups maximum exposure to credit risk.

Liquidity risk management

Liquidity risk is the risk of the Group being unable to meet its financial obligations as they fall due, due to insufficient cash, cash equivalents and available drawings. 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 2016, the Group had available undrawn committed borrowing facilities of €112.4m (31 December 2015: €186.4m). See note 19 for further details on banking facilities.

29. FINANCIAL INSTRUMENTS (continued)

Liquidity 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 2016

	Weighted average interest rate %	Carrying amount £000	Contractual cash flows £000	0-6 months £000	6-12 months £000	1-5 years £000	Over 5 years £000
Notes*	8.25	1,329,165	1,964,310	53,793	53,793	627,226	1,229,498
RCF	3.63	75,000	75,000	75,000	-	-	-
Shareholder loan	9.72	274,376	274,376	-	-	-	274,376
Other liabilities	-	142,840	142,840	140,781	-	2,059	-
Total liabilities		**1,821,381**	**2,456,526**	**269,574**	**53,793**	**629,285**	**1,503,874**

As at 31 December 2015

	Weighted average interest rate %	Carrying amount £000	Contractual cash flows £000	0-6 months £000	6-12 months £000	1-5 years £000	Over 5 years £000
Notes*	8.79	1,087,525	1,746,806	49,749	46,750	467,502	1,182,805
RCF	4.00	10,000	10,000	10,000	-	-	-
Shareholder loan	9.72	198,689	198,689	-	-	-	198,689
Other liabilities	-	149,718	149,718	93,024	-	56,694	-
Total liabilities		**1,445,932**	**2,105,213**	**152,773**	**46,750**	**524,196**	**1,381,494**

* Includes Loan principal outstanding and accrued interest (note 19).

Other liabilities includes "Trade and other payables", "Provisions", "Derivatives", "Current tax liabilities", "Other financial liabilities", "Other accrued interest" (note 19) and "Overdraft" (note 19).

Ultimate responsibility for liquidity risk management rests with the Group Executive Committee, which has established an appropriate liquidity risk management framework 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 matching 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 below.

Undrawn Group financing facilities

	31 December 2016 £000	31 December 2015 £000
RCF		
Amount used	75,000	10,000
Amount unused	96,200	137,400
	171,200	**147,400**

The total RCF available of €200m has been translated at the year end at a rate of 0.856 at 31 December 2016 and 0.737 at 31 December 2015.

29. FINANCIAL INSTRUMENTS (continued)

Operational risk
Operational risk is defined by the Group as the potential risk of financial loss, or impairment to reputation, as a result of internal process failures, or from the inappropriate actions of employees or management. The Board of Directors has ultimate responsibility for establishing the framework in which operational risk is managed, while the day to day management of operational risk rests with line managers.

Market risk
Market risk is 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.

By bidding for consumer debt portfolios up to a price that enables the Group to achieve a yield high enough to cover all costs of collection and make a contribution to overhead costs, the Group minimises its risk against the cost of these portfolios. The Group uses sophisticated pricing models along with extensive customer and market data to establish the profitability of portfolios coming to market. The Group monitors its pricing assumptions through a Pricing Committee (a subset of the Executive Committee) which is attended by at least two members of the Executive Committee.

The Group manages the unpredictability of the market through a number of financing structures. The Group has in place €365m, £565m and €230m of Senior Secured loan Notes, £230m of Senior loan Notes, and a €200m RCF facility. At 31 December 2016 the RCF facility was £75m drawn down (31 December 2015: £10m). This facility allows the Group the flexibility to bid on portfolios as and when they come to market and are not restricted by cash flow constraints.

Conduct risk
Conduct risk is the risk to Customers that the controls and operations of the Group fail. In the UK, a number of entities are regulated by the Financial Conduct Authority ("FCA"). If the FCA deemed 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.

Interest rate risk
Interest rate risk is the risk of changing interest rates. The Group has minimised its risk against changes in interest rates by being predominantly funded by fixed rate Notes and share capital.

The Group's RCF has a variable interest rate and at 31 December 2016 this was £75m drawn down (31 December 2015: £10m). Interest is payable on the RCF at a maximum of 3.5% + LIBOR/EURIBOR. The Group's latest bond issuance in September 2016 was a floating rate note with a principal of €230m and an interest rate of 5.5% + EURIBOR (with a floor of 0%).

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% per cent increase or decrease represents management's assessment of the reasonably possible change in interest rates. If interest rates had been 2.5% per cent higher and all other variables were held constant, the Group's profit for the year ended 31 December 2016 would be c£2.2m lower (2015: c£0.1m). This is attributable to the Group's exposure to interest rates on its variable rate borrowings.

29. FINANCIAL INSTRUMENTS (continued)

Interest rate swap contracts
The derivatives recognised relate exclusively to interest rate swaps that the Group concludes with its banking partners in OTC ("Over the Counter") trade. 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 calculation provided by the counter parties. The fair value of interest rate swaps 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.

Foreign currency risk
The Group has exposure to foreign currency risk through its investments in overseas operations which have functional currencies other than Sterling and foreign currency denominated assets/liabilities and transactions. The Group minimises its foreign currency risk by having both assets and liabilities in functional currencies other than Sterling. The carrying values of the Groups principle foreign currency denominated assets and liabilities are as follows:

	31 December 2016 £000	31 December 2015 £000
Assets	848,601	541,668
Liabilities	938,076	566,961

Foreign Currency Sensitivity
The following table details the Group's sensitivity to a 10% decrease in Euro against Sterling exchange rates. This represents the Directors' 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.

	2016 £000	2015 £000
Loss before tax	2,647	3,219
Shareholders' equity	8,342	3,052

Capital management risk
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 19 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 ("SoCE").

The risk management committee reviews the capital structure on a semi-annual basis. As part of this review, the committee considers the cost of capital and the risks associated with each class of capital.

29. FINANCIAL INSTRUMENTS (continued)

Financial assets and liabilities

Financial assets and liabilities are classified into the following categories:

	31 December 2016 £000	31 December 2015 £000
Financial assets		
Investments and receivables	872,242	662,513
Cash and cash equivalents	98,053	106,946
Total financial assets	**970,295**	**769,459**
Financial liabilities		
Fair value through SCI	429	816
Financial liabilities measured at amortised cost	1,820,952	1,445,116
Total financial liabilities	**1,821,381**	**1,445,932**

Derivatives with positive and negative fair values

As of 31 December 2016, interest rate swaps with a total negative fair value of £0.4m were held (31 December 2015 £0.8m). There were no interest rate swaps with positive fair values. They were not designated as hedges for hedge accounting purposes (IAS 39). The residual maturity was determined on the basis of the residual maturities of the derivatives.

29. FINANCIAL INSTRUMENTS (continued)

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 2016 £000	**31 December 2015 £000**	**31 December 2016 £000**	**31 December 2015 £000**
Financial assets				
Cash and cash equivalents	98,053	106,946	98,053	106,946
Investments and receivables:				
Portfolio investments	831,705	616,461	835,841	616,559
Other financial assets	40,537	46,052	40,537	46,052
Total financial assets	**970,295**	**769,459**	**974,431**	**769,557**
Financial liabilities				
Fair value through SCI:				
Derivatives	429	816	429	816
Financial liabilities measured at amortised cost:				
Senior Secured Notes*	1,094,947	852,465	1,119,869	852,465
Senior Notes*	234,218	235,060	236,997	235,060
RCF	75,000	10,000	75,000	10,000
Shareholder loan	274,376	198,689	274,376	198,689
Other financial liabilities	142,411	148,902	142,411	148,902
Total financial liabilities	**1,821,381**	**1,445,932**	**1,849,082**	**1,445,932**

*Includes loan principal outstanding and accrued interest (note 19).

29. 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 cashflow model with unobservable inputs and are classified as level 3 measurements. The Senior and 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 remaining financial assets and liabilities carried have a fair value equal to their carrying value.

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

The fair value of the portfolios is calculated by discounting the net forecast cashflows. 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 market information and benchmarking. The service cost percentage is the percentage used to discount the gross cashflows to net and is based on historical information on costs to collect.

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 acquired portfolio investments fair value is calculated using discounted net 84 month to 120 month forecast cashflows.

• 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. Interest rate 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.

29. 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 2016		
	Level 1	**Level 2**	**Level 3**
	£000	**£000**	**£000**
Financial liabilities at fair value			
Derivatives	-	429	-

	31 December 2015		
	Level 1	**Level 2**	**Level 3**
	£000	**£000**	**£000**
Financial liabilities at fair value			
Derivatives	-	816	-

The following table shows the fair values of derivative financial instruments. A distinction is made between the derivatives depending on whether they form part of an effective hedge in accordance with IAS 39.

	31 December 2016	**31 December 2015**
	£000	**£000**
Derivative financial instruments with negative fair values		
Not designated as part of a hedge relationship	**429**	**816**

There were no derivative financial instruments to hedge fair value risks in accordance with IAS 39 as of the balance sheet date. It was not possible to apply the rules of hedge accounting to the derivatives as of 31 December 2016 and 31 December 2015.

30. EMPLOYEE BENEFITS

a) Defined benefit schemes

The Group has defined benefit pension obligations through its German subsidiary GFKL. Pension obligations were calculated in accordance with the requirements set out in IAS 19. An interest rate of between 1.5% and 1.9% (2015: 2.31% and 2.53%), 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% (2015: 1.5%), salary increases in a range from 0.0% to 2.0% (2015: 0.0% to 2.0%), and the employee turnover rate in a range from 0.0% to 2.0% (2015: 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 2005 G Heubeck mortality tables.

The pension plan for one of the former members of the Executive Board of GFKL 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 Domnowski Inkasso 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 2016 £000	31 December 2015 £000
Present value of unfunded defined benefit obligation	8,168	6,002
Plan assets	(3,027)	(2,480)
Net liability	**5,141**	**3,522**

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

	31 December 2016 £000	31 December 2015 £000
Opening balance of defined benefit obligation	**6,002**	**-**
Balance of defined benefit obligation on acquisition of subsidiary	-	6,105
Interest expense	164	60
Pension payments	(96)	(30)
Current service cost	75	40
Actuarial losses/(gains)	1,053	(393)
Currency translation adjustments	970	220
Closing balance of defined benefit obligation	**8,168**	**6,002**

30. EMPLOYEE BENEFITS (continued)

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

	31 December 2016 £000	31 December 2015 £000
Opening balance of plan assets	**2,480**	**-**
Balance of plan assets on acquisition of subsidiary	-	2,341
Net interest income	69	20
Actuarial gains	5	15
Contributions	78	20
Payments	(6)	(1)
Currency translation adjustments	401	85
Closing balance of plan assets	**3,027**	**2,480**

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 €91k (€91k at 31 December 2015).

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

	Year ended 31 December 2016 £000	1 June - 31 December 2015 £000
Opening balance	**3,522**	**-**
Balance on acquisition of subsidiary	-	3,764
Payments arising from pension obligations	(90)	(29)
Allocation to defined benefit obligation	170	100
Allocation to plan assets	(78)	(40)
Actuarial losses/(gains)	1,048	(408)
Currency translation adjustments	569	135
Closing balance	**5,141**	**3,522**

30. EMPLOYEE BENEFITS (continued)

A quantitative sensitivity analysis of the key assumptions as of 31 December 2016 is as shown below:

	31 December 2016 £000
Interest rate	
Increase 0.5%	(754)
Decrease 0.5%	871
Salary trend	
Increase 0.5%	128
Decrease 0.5%	(119)
Benefits trend	
Increase 0.5%	690
Decrease 0.5%	(615)

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

	31 December 2016 £000	31 December 2015 £000
Within the next 12 months	202	66
Between 2 and 5 years	853	720
Between 5 and 10 years	1,217	1,017
More than 10 years	12,047	10,474
Total expected payments	**14,319**	**12,277**

The average duration of the defined benefit obligation at the end of the reporting period is 20 years (31 December 2015: 20 years).

b) Defined contribution schemes

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

The total cost charged to income of £651k (1 June – 31 December 2015: £81k) represents contributions payable to these schemes by the Group at rates specified in the rules of the schemes.

As at 31 December 2016, contributions of £115k (31 December 2015: £140k) due in respect of the current reporting period had not been paid over to the schemes.

31. 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.

Period end balances with related parties

	31 December 2016 £000	31 December 2015 £000
Balances with immediate parent undertaking		
Shareholder loan with Garfunkelux Holdco 1 S.à.r.l. (note 19)	274,376	198,689
Balances owed to other related parties		
Loan owed from Garfunkelux Nominee S.à.r.l. (note 17)	2,020	4,903
Permira Beteiligungsberatung GmbH (trading)	5	-
Teamviewer GmbH (trading)	29	-

Transactions with related parties

	31 December 2016 £000	31 December 2015 £000
Transactions with immediate parent		
Shareholder loan interest with Garfunkelux Holdco 1 S.à.r.l.	(22,664)	(3,956)
Transactions with other related parties		
Loan interest owed from Garfunkelux Nominee S.à.r.l.	254	87
Loan to Garfunkelux Nominee S.à.r.l.	(3,137)	4,903
Permira Beteiligungsberatung GmbH (trading)	114	82
Teamviewer GmbH (trading)	29	-

Capital contributions totalling £43.2m were made into the Group by Garfunkelux Holdco 1 S.à.r.l. during 2016, including £40.1m resulting from the settlement of the financial liability to purchase Simon Holdco shares (note 22).

31. 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 for each of the categories specified in IAS 24 (Related Party Disclosures):

	Year ended 31 December 2016 £000	1 June - 31 December 2015 £000
Short-term employee benefits	**4,351**	**1,165**

The above details relate to twelve key management personnel (2015: seven) 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 and GFKL Financial Services GmbH) 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.

32. SUBSEQUENT EVENTS

There were no subsequent events between the balance sheet date and the date of signing.

GARFUNKELUX HOLDCO 2 S.A.

CASH EBITDA WALKS (UNAUDITED)

Operating profit to Cash EBITDA	**Year ended 31 December 2016 £000**
Profit for the period	(31,215)
Net finance costs	137,993
Taxation charge	2,980
Operating profit	**109,758**
Portfolio amortisation	200,395
Portfolio write up	(95,414)
Portfolio fair value adjustment	3,429
Impairment of non-performing loans	8,887
Non-recurring costs/exceptional costs	6,886
Depreciation, amortisation and impairment	20,522
Cash EBITDA	**254,463**

Cash collections to Cash EBITDA	**Year ended 31 December 2016 £000**
Cash collections (DP)	399,722
Other income	167,036
Operating expenses	(348,590)
Non-recurring costs/exceptional costs	6,886
Impairment of non-performing loans	8,887
Depreciation, amortisation and impairment	20,522
Cash EBITDA	**254,463**

Net cashflow to Cash EBITDA	**Year ended 31 December 2016 £000**
Increase in cash in the period	(15,389)
Movement in debt	(262,296)
Purchases of loan portfolios	288,324
Interest paid net of interest received	101,836
Income taxes paid	2,535
Transaction costs relating to loans and borrowings	10,960
Capital expenditure and financial investment	143,410
Cash flow before interest, portfolio purchases, tax expenses and capital expenditure	**269,380**
Working capital adjustments	(21,803)
Non-recurring costs/exceptional costs	6,886
Cash EBITDA	**254,463**