Lowell

Company No. B197497

Garfunkelux Holdco 2 S.A.

Consolidated Financial Statements
For The Year Ended 31 December 2019

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GARFUNKELUX HOLDCO 2 S.A.
OFFICERS AND PROFESSIONAL ADVISORS
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C Beglin (resigned 16 September 2019)

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GARFUNKELUX HOLDCO 2 S.A.
MANAGEMENT REPORT
YEAR ENDED 31 DECEMBER 2019

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 2019.

BUSINESS AND GENERAL CONDITIONS

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

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

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

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

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

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

Following the transformational acquisition of the Carve-out Business in 2018 and subsequent integration, the Group has consciously followed a balanced growth strategy throughout 2019. This has involved investing in portfolios at sustainable levels, whilst driving further long term growth with returns increasing on portfolio purchases in 2019. Alongside this the Group has made significant progress with its change agenda across the regions, leveraging the size and scale of its operational platforms which has resulted in increased operating profits and cash flow from operations.

Within the UK, there have been positive trends across 2019 with the flow of debt to the market remaining strong and unsecured consumer credit continuing to grow. Originators continue to increasingly seek debt sale solutions to manage their balance sheets. The UK business is well positioned to continue to take advantage of these trends and clients' desire to work with trusted partners like Lowell who focus on the fair treatment of all its customers. In 2019 the Group deployed a significant amount of capital in the UK at a level broadly consistent with that seen in 2018, reflecting both the Group's disciplined approach to capital deployment and the attractive opportunities which have been available in the UK market.

Within the DACH region we have notably increased our purchasing activity, where the market, whilst remaining competitive, has presented a healthy level of opportunities at attractive returns.

The Nordic market continues to provide an attractive opportunity for debt purchase for the Group. Whilst the capital deployed in 2019 has reduced in this region, this is more reflective of the significant level of capital deployed in the comparative period, which saw the Group invest significantly in this region following the acquisition of a business which had seen a more moderate level of investment during the period prior to disposal.

Growth of the Group's service revenue is attributable to both the organic growth in DACH, and the inclusion of the Nordics for a full 12-month period. Other revenue has reduced in 2019 as a result of the Group's decision to divest the Payments Division in the Nordics.

GARFUNKELUX HOLDCO 2 S.A.
MANAGEMENT REPORT (CONTINUED)
YEAR ENDED 31 DECEMBER 2019

FINANCIAL PERFORMANCE (CONTINUED)

Collectively the Group has delivered strong operating results for the year ended 31 December 2019, deploying some £397.3m of capital across its three regions. These purchases originated from 126 unique vendors during the year and cover a variety of originating sectors, including financial services, home retail, telecommunications and utilities. Our diversified service offering also continues to facilitate the further embedding of strategic client relationships through the management of collection of debt on behalf of over 300 clients through our 3PC offering.

The Group continues to benefit from diversification of revenue, geography, clients and originators. The quantum of purchases in 2019 exceeded management's estimate of the replacement rate, defined as the estimated amount of purchases required to maintain our Group estimated remaining collections as at the reporting date. The Group invested c.£116m of growth capital in the year ending 2019 being the amount of purchases in excess of the average replacement rate of c.£282m.

The overall carrying value of portfolio investments at 31 December 2019 was £1,660.1m, an increase of 6.3% over the balance at 31 December 2018 of £1,561.0m.

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 2019, 84 month ERC was £2,835.1m, an increase of 8.2% over 31 December 2018 (£2,619.2m), and 120 month ERC was £3,396.0m, an increase of 8.9% on 31 December 2018 (£3,118.2m).

Total income for the year was £746.3m (2018: £679.4m).

The Group made an operating profit of £150.5m in the year ended 31 December 2019 (£143.7m in the year ended 31 December 2018) and the loss for the year ended 31 December 2019 was £60.1m (£48.1m in the year ended 31 December 2018).

On a geographical basis, the UK region recorded a reduction in operating profit as it incurred higher collection activity costs. This reflected the Group's conscious decision to invest in collection activity on older backbook vintages, generating additional collections. These additional collection costs, which are incurred up front, led to an immediate softening in gross margin. This trend has already started to reverse and will continue as the collections associated with this activity are liquidated across 2020.

The DACH region continued with its change agenda throughout 2019, rationalising receivable management systems and legal entities. The DACH region reported operating profit of £21.7m, annual growth of £13.2m, at an improved margin.

The Group benefitted from a full year of ownership of the Nordics region which contributed operating profit of £43.9m. Across the course of the year the Group has been exiting many of the shared service agreements which were in place with the vendor and implemented its target operating model. We expect the full benefits of this cost reduction will be visible as we move into 2020.

The Group is funded by six offerings of Senior and Senior Secured Notes (the"Notes")

Issuer	Issue date	Maturity date	Principal	Rate	Senior/Senior Secured
Garfunkelux Holdco 2 S.A.	19/10/15	01/11/23	£196.5m	11.0%	Senior
Garfunkelux Holdco 3 S.A.	23/07/15	01/08/22	€365m	7.5%	Senior Secured
Garfunkelux Holdco 3 S.A.	19/10/15	01/11/22	£565m	8.5%	Senior Secured
Garfunkelux Holdco 3 S.A.	20/09/17	01/09/23	€415m	3.5% +EURIBOR	Senior Secured
Garfunkelux Holdco 3 S.A.	02/02/18	01/09/23	€530m	4.5% +EURIBOR	Senior Secured
Garfunkelux Holdco 3 S.A.	02/02/18	01/09/23	SEK 1,280m	4.75% +STIBOR	Senior Secured

GARFUNKELUX HOLDCO 2 S.A.
MANAGEMENT REPORT (CONTINUED)
YEAR ENDED 31 DECEMBER 2019

FINANCIAL PERFORMANCE (CONTINUED)

During the year the Group took the decision to purchase £33.5m in aggregate principal amount of the Group's 11% Senior Unsecured Notes due 2023 in the open market. The transaction was financed through cash on balance sheet. The price of the notes reflected an attractive return and opportunity for the Group. The transaction was concluded on a standalone basis and in line with the Group's wider financing strategy.

The Group has RCF and securitisation borrowings available. At 31 December 2019 the Group had drawn down £265.7m on the RCF (31 December 2018: £14.0m) and had an unutilised amount of £121.4m (31 December 2018: £371.7m). The Group had drawn down £194.2m on the securitisation (31 December 2018: £262.0m). The Group continues to monitor and manage its liquidity as disclosed in note 1.

The Group benefits from its ability to generate strong cash flows from operating activities before portfolio acquisitions. In the year to 31 December 2019, the Group generated £452.5m of cash from operating activities before portfolio acquisitions and tax, with these cash flows available to use to service or pay down debt, pay income taxes, new debt portfolio investments and for other uses.

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

Cash EBITDA is 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. Cash EBITDA for the year ended 31 December 2019 was £496.0m, compared to £413.5m for the year ended 31 December 2018.

The Group benefits from excellent cash flow visibility. The Group's ERC forecast has historically been highly accurate, and forecasts future collections of £3,396.0m for the 120 months from 31 December 2019 (31 December 2018: £3,118.2m) for the combined portfolio of the UK, DACH and Nordic businesses. Over the past 3 years the Group's forecasting accuracy (measured as actual collections as a percentage of forecast collections for the next 12 months, as at year end) has been between 103% and 107%.

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 2019	31 December 2018
Portfolio investments acquired[(1)]	£397.3m	£383.6m
Gross collections (in total) [(1)]	£1,835.2m	£1,628.7m
Gross collections (DP) [(1)]	£780.4m	£660.5m
Gross collections (3PC) [(1)]	£1,054.8m	£968.2m
3PC income[(1)]	£169.2m	£154.4m
Cash income[(1)]	£949.6m	£820.2m
Cash EBITDA[(1)]	£496.0m	£413.5m
UK	£270.5m	£258.3m
DACH	£99.4m	£72.7m
Nordics[(1)]	£129.2m	£86.3m
Holding companies	£(3.1)m	£(3.8)m
Operating profit	£150.5m	£143.7m
Loss for the year	£(60.1)m	£(48.1)m
84 month ERC	£2,835.1m	£2,619.2m
120 month ERC	£3,396.0m	£3,118.2m

[(1)]The effective date of the Carve-out Business acquisition was 31 March 2018 and as such these measures for the year ended 31 December 2018 exclude the results of the Carve-out Business from 1 January to 31 March 2018.

PRINCIPAL RISKS AND UNCERTAINTIES

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

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

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

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

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

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

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

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

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

Executive management further strengthens the overall oversight through management committees including (i) Regional Risk & Control Committees, (ii) Group Asset & Liability Committee ("ALCO") and (iii) Group New Product and Initiative Committee.

Strategic risk

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

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

There continues to be economic uncertainty across European markets. The Group has chosen to operate within markets that it believes to be more economically stable but there remains the risk that a significant economic shock could impact collection performance.

PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)

Strategic risk (continued)

Group analysis shows no evident correlation between individual economic trends and collections performance. Furthermore, analysis performed with regards to a 'no-deal' Brexit indicated that collection performance should remain materially unaffected and this is further supported by the Group collection performance across the economic cycle.

The Group has chosen to operate in well-regulated markets as it believes this fosters good practices. However, this increases the risk of regulatory changes that may impact overall profitability.

Coronavirus has been an emerging risk since the end of 2019 which we continue to monitor together with any performance impacts. Depending on how the situation develops, there is the potential for on-going impact in 2020. We have put measures in place to help support the business and its stakeholders during this outbreak.

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

Financial risk

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

The Group funding model requires continuing access to the capital markets in order to refinance and issue new debt instruments. There is a risk that the Group may not be able to perform this if it fails to deliver on its strategic objectives or if its financial performance deteriorates materially.

The Group continues to diversify its funding activities through securitisations and other ongoing initiatives. It continually monitors its funding requirements. Alongside this, capital allocation, underwriting discipline and ongoing portfolio reviews have continued to improve returns.

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

Compliance risk

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

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

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

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

PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)

Operational risk

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

As the Group continues to grow and execute on its strategy, then the scale of its operations becomes more significant and to some degree more complex. These operations are in some circumstances supported by specialist third party suppliers. There remains the risk that the Groups processes do not prove resilient or third party processes fail and expose the Group to a failure in business continuity or operational losses.

With the integration of the Nordic region, the Group operates to a consistent risk and compliance framework to improve its visibility of the underlying operational risks and continues to strengthen its operational resilience and business continuity programs.

The Group continues to invest in its operational resilience program and actively monitors performance and conduct of key suppliers through its third party risk policy and associated procedures.

Information and data risk

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

The continued development of data and analytical capabilities remains a key element of the Group strategy. In this regard, there remains the risk of a security or privacy breach as well as a failure to comply with GDPR. The Group has invested significantly in cyber and information security as well as IT infrastructure upgrades to reduce this risk.

Furthermore, the Group is aware of regulatory developments with regards to model and algorithms potentially creating customer detriment as well as financial loss to Group. The existing models do not directly impact customers but provide customer insight for the Group. The model risk management framework operates to monitor model performance and manage any associated risks.

RESEARCH AND DEVELOPMENT

Development costs capitalised during the year total £11.1m, which includes work on internally generated software (31 December 2018: £3.7m).

OUTLOOK

Following a year of execution of business fundamentals, the Group is well placed to continue to deliver upon its balanced growth strategy and making credit work better for all.

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

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

OUTLOOK (CONTINUED)

The Group continues to benefit from a strong pipeline of DP opportunities across its three regions, benefiting from its reputation as a trusted partner to credit originators together with the industry tailwinds of continued growth in consumer credit and the requirement of originators to continue to recycle balance sheet capacity.

The DACH and Nordic regions continue to engage in meaningful capital light servicing operations and modest growth is expected in the next twelve months in what are competitive markets.

The Group expects the actions taken in the year ended 31 December 2019 to bring 2020 benefits across all regions. The UK region's decision to invest in collection activity on older backbook vintages is expected to generate additional collections. The DACH region continued with its change agenda throughout 2019, rationalising receivable management systems and legal entities. The Nordic region exited many of the shared service agreements which were in place with the vendor and implemented its target operating model. The full benefits of these investments and cost reductions are expected to be visible in 2020 as the Group continues its focus on Cash EBITDA margin accretion.

The Group will continue its focus on positive leverage management towards its stated aim of 4.0x – 3.5x by 2021 – 2022.

On 12 February 2020 Lowell entered into a strategic partnership with a global asset manager to jointly acquire consumer unsecured non-performing loan opportunities across Lowell's markets. Lowell will act as the asset manager for all of the acquired assets and it is envisaged that up to €300m of capital will be deployed over the next 3 years; with an inaugural transaction having already been closed in February 2020. The partnership will provide Lowell with an enhanced ability to continue to meet the needs of our clients, whilst at the same time providing for future servicing income growth.

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

- Structural change in the landscape of financial services whereby new offerings for financial products are coming to market from non-traditional financial services providers using digital and innovative distribution channels and who regularly outsource their debt servicing to service providers like Lowell. This structural change already serves as a growth driver for our business and will continue to do so as the new entrants win market share in a growing market.
- Growth in consumer finance as consumers across Europe continue to use financial products as a means to facilitate consumption. This will contribute to an increased supply of Non Performing Loans' to the market and volumes for the debt service industry.
- Regulatory and accounting changes together with credit originators viewing credit management as a non-core activity, will increase pressure to outsource or sell to trusted partners. This will lead to increased use of debt management and debt purchase services.

We remain mindful of the economic and political environment, noting that the UKs decision to leave the EU may increase uncertainty in the UK economic landscape. However, management reiterates that it does not anticipate any material adverse impact on consumer payment behaviours as a result. This view is supported by the Group's testing on macro-economic factors both in terms of general business risk and in our annual testing for IFRS 9. The Group's operations in the UK are not reliant on continuing membership within the EU as the operational processes in place have no dependency upon any cross-border activities. Furthermore, the Group's material presence and diversification into other geographical markets helps mitigate against any potential specific country level risk.

As a result of the positive industry backdrop and the Group's leading positions across its markets, management believes the Group to be well positioned to further leverage its size and scale as a Pan-European CMS provider. This will see it strengthen its market leading positions and continue to grow the overall business for the long-term and in the best interests of all its stakeholders; making credit work better for all.

GARFUNKELUX HOLDCO 2 S.A.
MANAGEMENT REPORT (CONTINUED)
YEAR ENDED 31 DECEMBER 2019

RISK MANAGEMENT

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

Risk management in the Group is intended to:

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

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

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

Governance & Oversight

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

Investor Board: Group oversight and strategy is provided by an Investor Board that comprises our Chairman, Executive and 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 Investor Board has overall accountability for risk management.

Group Risk Committee: The Group Risk Committee provides oversight and advice to the Investor Board in relation to: (i) current and potential future risk exposures of the Group and future risk strategy, including determination of risk appetite and tolerance; and (ii) the effectiveness of the risk management framework and, in conjunction with the Group Audit Committee, internal controls required to manage risk. Furthermore, the Group Risk Committee assists on such other matters as may be referred to it by the Investor Board and promotes a risk awareness culture across the Group. The Group Risk Committee meets quarterly.

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

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

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

Cédric Pedoni
Director
13 March 2020

To the Shareholder of
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REPORT OF THE REVISEUR D'ENTREPRISES AGREE

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Garfunkelux Holdco 2 S.A. and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with the Law of 23 July 2016 on the audit profession ("Law of 23 July 2016") and with International Standards on Auditing ("ISAs") as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier" ("CSSF"). Our responsibilities under the Law of 23 July 2016 and ISAs are further described in the « Responsibilities of "Réviseur d'Entreprises agréé" for the audit of the consolidated financial statements » section of our report. We are also independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the consolidated financial statements, and have fulfilled our other ethical responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other matter - The impact of uncertainties due to Britain exiting the European Union on our audit.

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the consolidated financial statements. All audits assess and challenge the reasonableness of estimates made by the Board of Directors, such as recoverability of intangible assets, goodwill, receivables and deferred taxes and related disclosures and the appropriateness of the going concern basis of preparation of the consolidated financial statements. All of these depend on assessments of the future economic environment and the Group's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the Group's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

GARFUNKELUX HOLDCO 2 S.A.
INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GARFUNKELUX HOLDCO 2 S.A.
YEAR ENDED 31 DECEMBER 2019

Report on the audit of the consolidated financial statements (continued)

Other information

The Board of Directors is responsible for the other information. The other information comprises the information stated 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.

Responsibilities of the Board of Directors for the consolidated financial statements

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

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

Responsibilities of the Réviseur d'Entreprises agréé for the audit of the consolidated financial statements

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

Report on the audit of the consolidated financial statements (continued)

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report of the "Réviseur d'Entreprises agréé" to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report of the "Réviseur d'Entreprises agréé". However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Report on other legal and regulatory requirements

The consolidated management report, which is the responsibility of the Board of Directors, 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

Ruslan Tumanshin (Associate Partner)
Luxembourg, 13 March 2020

GARFUNKELUX HOLDCO 2 S.A.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
YEAR ENDED 31 DECEMBER 2019

	Note	Year ended 31 December 2019 £000	Year ended 31 December 2018 £000
Continuing operations			
Income			
Income from portfolio investments	16	377,055	339,294
Net portfolio write up	16	144,807	126,067
Portfolio fair value release	16	(1,564)	(1,986)
Service revenue		218,826	204,075
Other revenue		5,024	10,673
Other income		2,122	1,290
Total income		**746,270**	**679,413**
Operating expenses			
Collection activity costs		(342,466)	(299,918)
Other expenses	5	(253,268)	(235,835)
Total operating expenses		**(595,734)**	**(535,753)**
Operating profit		**150,536**	**143,660**
Finance income	6	6,200	1,800
Finance costs	7	(224,009)	(195,909)
Loss for the year, before tax		**(67,273)**	**(50,449)**
Tax credit	8	7,176	2,348
Loss for the year		**(60,097)**	**(48,101)**
Other comprehensive income/(expenditure)			
Items that will not be reclassified to profit or loss			
Actuarial (losses)/gains on pension plans		(1,537)	457
Deferred tax on actuarial losses/(gains) on pension plans	8	710	(149)
		(827)	**308**
Items that will or may be reclassified subsequently to profit or loss			
Foreign operations – foreign currency translation differences		7,948	(4,927)
Other comprehensive income/(expenditure), net of tax		**7,121**	**(4,619)**
Total comprehensive expenditure for the year		**(52,976)**	**(52,720)**

The Group initially applied IFRS16 at 1 January 2019 using the modified retrospective approach. Under this approach comparative information is not restated.

The notes on pages 17 to 74 form part of these consolidated financial statements.

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GARFUNKELUX HOLDCO 2 S.A.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019

	Note	31 December 2019 £000	31 December 2018 £000
Assets			
Non-current assets			
Goodwill	11	1,184,974	1,215,042
Intangible assets	12	145,681	163,158
Property, plant and equipment	13	53,374	12,607
Portfolio investments	16	1,063,486	1,002,600
Other financial assets	18	9,236	9,071
Deferred tax assets	9	18,329	10,712
Total non-current assets		**2,475,080**	**2,413,190**
Current assets			
Portfolio investments	16	596,652	558,413
Inventories		77	72
Trade and other receivables	17	41,643	48,821
Other financial assets	18	8,389	7,396
Derivatives	28	-	540
Assets for current tax		2,225	4,262
Cash and cash equivalents	19	124,495	129,171
Total current assets		**773,481**	**748,675**
Total assets		**3,248,561**	**3,161,865**
Equity			
Share capital	24	4,385	4,385
Share premium and similar premiums		516,721	516,721
Reserves		(90,838)	(97,614)
Retained deficit		(270,625)	(210,528)
Total equity		**159,643**	**212,964**
Liabilities			
Non-current liabilities			
Borrowings	20	2,449,354	2,584,552
Provisions for pension	31	9,749	7,636
Provisions	22	4,508	2,529
Other financial liabilities	23	34,222	86
Deferred tax liabilities	9	41,527	48,100
Total non-current liabilities		**2,539,360**	**2,642,903**
Current Liabilities			
Trade and other payables	21	105,830	132,850
Provisions	22	16,023	15,965
Borrowings	20	367,329	117,353
Derivatives	28	12,193	1,435
Other financial liabilities	23	17,192	7,189
Current tax liabilities		30,991	31,206
Total current liabilities		**549,558**	**305,998**
Total equity and liabilities		**3,248,561**	**3,161,865**

The Group initially applied IFRS16 at 1 January 2019 using the modified retrospective approach. Under this approach comparative information is not restated.

The notes on pages 17 to 74 form part of these consolidated financial statements.

GARFUNKELUX HOLDCO 2 S.A.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
YEAR ENDED 31 DECEMBER 2019

	Share Capital £000	Share premium & similar premiums £000	Capital Reserve £000	Translation reserve £000	Valuation reserve £000	Retained deficit £000	Total £000
Balance at 1 January 2018	**3,730**	**400,396**	**(7,948)**	**(16,027)**	**(362)**	**(162,427)**	**217,362**
Loss for the year	-	-	-	-	-	(48,101)	(48,101)
Actuarial gains on pensions	-	-	-	-	457	-	457
Deferred tax on pensions	-	-	-	-	(149)	-	(149)
Exchange differences	-	-	-	(4,927)	-	-	(4,927)
Total comprehensive income/(expenditure) for the year	**-**	**-**	**-**	**(4,927)**	**308**	**(48,101)**	**(52,720)**
Capital contribution	-	48,322	-	-	-	-	48,322
Functional currency adjustment	655	68,003	2	(68,660)	-	-	-
Balance at 31 December 2018	**4,385**	**516,721**	**(7,946)**	**(89,614)**	**(54)**	**(210,528)**	**212,964**
Loss for the year	-	-	-	-	-	(60,097)	(60,097)
Exchange differences	-	-	-	7,948	-	-	7,948
Actuarial loss on pensions	-	-	-	-	(1,537)	-	(1,537)
Deferred tax on pensions	-	-	-	-	710	-	710
Total comprehensive Income/(expenditure) for the year	**-**	**-**	**-**	**7,948**	**(827)**	**(60,097)**	**(52,976)**
Adjustment in relation to purchase of shares in subsidiary	-	-	(345)	-	-	-	(345)
Balance at 31 December 2019	**4,385**	**516,721**	**(8,291)**	**(81,666)**	**(881)**	**(270,625)**	**159,643**

The Group initially applied IFRS16 at 1 January 2019 using the modified retrospective approach. Under this approach comparative information is not restated.

The notes on pages 17 to 74 form part of these consolidated financial statements.

GARFUNKELUX HOLDCO 2 S.A.
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED 31 DECEMBER 2019

	Note	Year ended 31 December 2019 £000	Year ended 31 December 2018 £000
Net cash generated by/(used in) operating activities	29	**37,408**	**(27,917)**
Investing activities			
Proceeds from sale of subsidiary, net of cash disposed		3,441	16,117
Purchase of property, plant and equipment	13	(4,939)	(4,207)
Purchase of intangible assets	12	(18,939)	(15,655)
Acquisition of subsidiaries, net of cash acquired		(2,926)	(594,958)
Net cash used in investing activities		**(23,363)**	**(598,703)**
Financing activities			
Proceeds from issue of Senior Secured Notes		-	567,336
Proceeds from loans and borrowings		342,929	287,469
Proceeds from capital contribution		-	48,322
Transaction costs related to loans and borrowings		(685)	(6,908)
Repayment of borrowings		(186,005)	(60,001)
Payment of lease liabilities	14	(7,805)	-
Derivative settlement		(2,772)	(3,526)
Interest paid		(159,044)	(142,828)
Net cash (used in)/ generated by financing activities		**(13,382)**	**689,864**
Net increase in cash and cash equivalents		**663**	**63,244**
Cash and cash equivalents at beginning of period		129,171	65,324
Effect of movements in exchange rates on cash held		(5,339)	603
Cash and cash equivalents at end of period	19	**124,495**	**129,171**

The notes on pages 17 to 74 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 2019 were authorised for issue in accordance with a resolution of Directors on 13 March 2020. 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 15. Information on other related party transactions is presented in note 32.

General information and basis of preparation

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

Adoption of new and revised standards

The Group initially applied IFRS 16 "Leases" from 1 January 2019. Other standards effective from 1 January 2019 do not have a material impact on the financial statements.

IFRS 16 introduces a single, on balance sheet accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The only exemptions to this are short-term leases and leases of low value items.

The Group has applied the modified retrospective approach with no restatement of comparative information required.

At 1 January 2019, the Group recognised a right-of-use asset of £49.3m (disclosed as part of property, plant and equipment in the balance sheet), lease liabilities of £53.7m (included within other financial liabilities) and release of lease accruals of £4.4m.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which were previously classified as 'operating leases' in accordance with IAS 17. The liabilities recognised were measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate of 4.3%.

The €455m Revolving Credit Facility (RCF) is the Group's primary working capital facility which is used to service the leases and is secured on the assets of the Group. Therefore, the RCF's interest rate is used as the base for calculating the effective incremental borrowing rate.

1. Significant accounting policies (continued)

Adoption of new and revised standards (continued)

The table below shows the impact of incremental weighted average rate applied to lease liabilities recognised at the date of initial application and difference between:

a) the operating lease commitments disclosed applying IAS 17 as at 31 December 2018, (discounted using the Group's at the date of initial application); and
b) the lease liabilities recognised at the date of initial application under IFRS 16.

	£000
Operating lease commitments disclosed as at 31 December 2018	**61,614**
Discounted using the Groups incremental borrowing rate of 4.3%	55,064
Add: Recognition of rent to expiry date of leases	10,468
Add: Additional lease liabilities	1,142
Less: Low-value leases recognised on a straight-line basis as expense	(134)
Less: Short term leases	(457)
Less: Non IFRS 16 operating lease commitments	(12,367)
Lease liability recognised as at 1 January 2019	**53,716**

In applying IFRS 16 for the first time, the group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Basis of consolidation

The Group consolidated financial statements consolidate the financial statements of Garfunkelux Holdco 2 S.A. ("the Company") and all its subsidiary undertakings (together "the Group") for the year ended 31 December 2019.

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.

1. Significant accounting policies (continued)

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.

Going concern

The Group's business activities are set out in the strategic report and the Group's performance is set out in the SCI and the Consolidated Statement of Financial Position ("SFP") on pages 13 and 14 respectively. In addition, note 28 to these consolidated financial statements includes the Group's financial risk management objectives; details of its financial instruments and hedging activities and its exposures to credit risk and liquidity risk.

The Cash EBITDA of the Group is an industry accepted measure of a business's cash flow generation. The Group has demonstrated strong performance during the year ended 31 December 2019 with Cash EBITDA of £496.0m, an increase of £82.5m on the year ended 31 December 2018. The Group is in a net asset position of £159.6m at 31 December 2019.

The business as a whole is cash generative before portfolio acquisitions, generating cash of £452.5m in the year ended 31 December 2019, with operating cash flow after portfolio acquisitions being £37.4m. The Group continually monitors its cash flow requirements to ensure that enough cash is available to meet its commitments.

The Group has four main sources of funding at 31 December 2019, €365m, £565m, €415m, €530m and SEK1,280m of listed Senior Secured loan notes ("notes"), £196.5m of listed Senior loan notes, a €455m RCF and a securitisation facility with an option to reset of £255m. There are covenants on the funding which are detailed in note 20. No maintenance covenants have been breached in 2019. The earliest debt maturity horizon is 31 December 2021 and the latest is 10 April 2024, being the RCF and the Securitisation Loan respectively. The Group continues to monitor its funding requirements and will take action to extend or re-negotiate existing facilities, or explore new funding arrangements as appropriate.

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

As one of a number of mitigating measures, the Group is focussed on reducing leverage in line with its guidance of 4.0-3.5x by 2021/2022. Portfolio acquisitions are largely discretionary and provide the Group with significant control of its cash flow.

The Group has also completed a comprehensive review of the potential impact of Brexit, including assessing the potential impact on customers, colleagues, clients and funding. This review did not identify any material issues which would affect the going concern of either the UK business or the Group.

Overall, 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 at least 18 months from the signing date. 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. 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.

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.

1. Significant accounting policies (continued)

Goodwill

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

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

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

Revenue recognition and effective interest rate method

Finance revenue on acquired portfolio investments

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

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

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

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

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

1. Significant accounting policies (continued)

Revenue recognition and effective interest rate method (continued)

Service revenue

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

Impairment of acquired portfolio investments

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

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

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 IFRS 9.

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.

Portfolio investments include litigation costs which 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.

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.

1. Significant accounting policies (continued)

Financial instruments (continued)

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 are assessed for indicators of impairment at least at the end of 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 collateralised borrowings for the proceeds received.

Financial liabilities and equity

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

Financial liabilities

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

Derivative financial instruments

The Group does not hold derivative instruments for trading purposes.

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

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

Fair value measurements

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

1. Significant accounting policies (continued)

Provisions

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

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

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

Pensions

Defined benefit pensions

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

Defined contribution pensions

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

Taxation

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

Current tax

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

1. Significant accounting policies (continued)

Taxation (continued)

Deferred tax

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

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

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

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

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

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.

1. Significant accounting policies (continued)

Collection activity costs

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

Current versus non-current classification

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

An asset is current when it is:

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

All other assets are classified as non-current.

A liability is current when:

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

The Group classifies all other liabilities as non-current.

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

Cash and cash equivalents

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

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

1. Significant accounting policies (continued)

Share-based Payments

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

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

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

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

Equity-settled transactions

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

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

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

Property, plant and equipment

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

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

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

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

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

1. Significant accounting policies (continued)

Intangible assets

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

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

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

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

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

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

Leases

Leases prior to 1 January 2019

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

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

1. Significant accounting policies (continued)

Leases and Right-of-use assets from 1 January 2019

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

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

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

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

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

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

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

The lease payments are discounted using the Group’s incremental borrowing rate. The weighted average incremental borrowing rate at initial application of IFRS 16 was 4.3%.

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

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

2. Significant accounting estimates and judgements

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

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

Portfolio investment valuation

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

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

Actual cash flows are regularly compared to estimates to assess the accuracy of previous forecasts. Over the course of the past 3 years, the Groups forecasting accuracy (measured as actual cash collections as a percent of estimated collections) has been between 103% and 107%.

An uplift or reduction in expected future cash flows of 1% would increase or decrease the closing carrying value of portfolio investments at 31 December 2019 by £16.6m (31 December 2018: £15.4m).

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 income as a portfolio write up.

Goodwill and valuation of intangible assets

The Group recognises 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 CGUs 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.

2. Significant accounting estimates and judgements (continued)

Leases

Extension and termination options are included in a number of property and equipment leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

3. Segmental reporting

Segmentation

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

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

All revenues are derived from external customers.

Segmental results

Year ended 31 December 2019

	UK	**DACH**	**Nordics**	**Holding companies**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**
Total income	304,648	265,792	177,394	(1,564)[1]	746,270
Collection activity costs	(118,581)	(158,048)	(65,837)	-	(342,466)
Other operating expenses	(81,008)	(67,102)	(55,080)	(7,850)[2]	(211,040)
Operating profit before depreciation, amortisation and impairment	**105,059**	**40,642**	**56,477**	**(9,414)**	**192,764**
Depreciation, amortisation and impairment	(5,048)	(18,978)	(12,557)	(5,645)[3]	(42,228)
Operating profit	**100,011**	**21,664**	**43,920**	**(15,059)**	**150,536**
Finance income					6,200
Finance costs					(224,009)
Loss before tax					**(67,273)**
Income tax					7,176
Loss for the year					**(60,097)**

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

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

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

3. Segmental reporting (continued)

Segmental results (continued)

Year ended 31 December 2018

	UK £000	DACH £000	Nordics £000	Holding companies £000	Total £000
Total income	293,684	243,437	142,917	(625)[1]	679,413
Collection activity costs	(100,977)	(149,588)	(49,353)	-	(299,918)
Other operating expenses	(75,994)	(73,781)	(49,126)	(9,249)[2]	(208,150)
Operating profit before depreciation, amortisation and impairment	**116,713**	**20,068**	**44,438**	**(9,874)**	**171,345**
Depreciation, amortisation and impairment	(2,991)	(11,588)	(7,295)	(5,811)[3]	(27,685)
Operating profit	**113,722**	**8,480**	**37,143**	**(15,685)**	**143,660**
Finance income					1,800
Finance costs					(195,909)
Loss before tax					**(50,449)**
Income tax					2,348
Loss for the year					**(48,101)**

[1] Total income 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 operating expenses in holding companies relate to central costs and acquisition costs for the Carve-out Business from Intrum.

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

	At 31 December 2019 £000	At 31 December 2018 £000
Non-current assets		
UK	588,345	569,333
DACH	558,106	573,570
Nordics	237,578	247,904
Total non-current assets	**1,384,029**	**1,390,807**

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 (3PC).

	Year ended 31 December 2019 £000	Year ended 31 December 2018 £000
Income		
DP	520,298	463,375
3PC income	169,228	154,368
Lawyer service revenue	49,598	49,707
Other	7,146	11,963
Total income	**746,270**	**679,413**

4. Loss before tax

Loss for the period is after charging:	Year ended 31 December 2019 £000	Year ended 31 December 2018 £000
Depreciation and impairment of property, plant and equipment (note 13 & 14)	12,295	3,588
Amortisation and impairment of intangible assets (note 12)	29,933	24,097
Loss on disposal of property, plant and equipment and intangible assets	309	69
Loss on disposal of subsidiary	-	4,327
Staff costs (note 5c)	219,172	189,359
Rentals under operating leases	-	14,176
Acquisition costs – Carve-out Business from Intrum	-	1,576

5. Staff costs and other operating expenses

a) Other operating expenses

	Year ended 31 December 2019 £000	Year ended 31 December 2018 £000
Staff costs (note 5c)	106,260	91,933
Depreciation of property, plant and equipment (note 13 & 14)	12,295	3,588
Amortisation of intangible assets (note 12)	27,205	23,961
Impairment of assets (note 12)	2,728	136
Loss on disposal of property, plant and equipment and intangible assets	309	69
Loss on disposal of subsidiary	-	4,327
Acquisition costs	-	1,576
Licences and maintenance for IT equipment	33,970	29,407
Building and facility costs	6,537	15,930
Other operating expenses	63,964	64,908
Total other operating expenses	**253,268**	**235,835**

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

b) Auditor's remuneration

	Year ended 31 December 2019 £000	Year ended 31 December 2018 £000
Audit fees of Parent Company and consolidated financial statements	206	159
Audit fees of financial statements of subsidiaries	914	947
Tax fees	37	36
Other services	119	138
Total auditor's remuneration	**1,276**	**1,280**

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

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

5. Staff costs and other operating expenses (continued)

c) Staff costs

	Year ended 31 December 2019 £000	Year ended 31 December 2018 £000
Collection activity costs	112,912	97,426
Other expenses	106,260	91,933
Total staff costs	**219,172**	**189,359**

	Year ended 31 December 2019 £000	Year ended 31 December 2018 £000
Wages and salaries	185,933	162,341
Social security costs	24,197	21,217
Pension costs to defined contribution schemes	8,256	5,209
Pension costs to defined benefit schemes	786	592
Total staff costs	**219,172**	**189,359**

The average number of employees during the period was:

	Year ended 31 December 2019 Number	Year ended 31 December 2018 Number
Operational staff	2,958	2,840
Business support	1,279	1,323
Total average number of employees	**4,237**	**4,163**

The period end number of employees was:

	31 December 2019 Number	31 December 2018 Number
Operational staff	2,771	2,898
Business support	1,267	1,321
Total number of employees at period end	**4,038**	**4,219**

d) Directors' remuneration

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

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

6. Finance income

	Year ended 31 December 2019 £000	Year ended 31 December 2018 £000
Bank interest receivable	538	426
Interest receivable on loans to affiliated companies	642	612
Gain from repurchase of borrowings (note 20)	3,910	-
Net foreign exchange gain	1,034	-
Other interest receivable	76	71
Net gain on financial instruments designated as FVTPL	-	691
Total finance income	**6,200**	**1,800**

7. Finance costs

	Year ended 31 December 2019 £000	Year ended 31 December 2018 £000
Interest payable on the Senior Secured Notes	111,320	109,480
Interest payable on the Senior Unsecured Notes	24,051	25,300
Fees payable on borrowings	15,001	8,418
Interest and fees payable on Revolving Credit Facility	9,477	8,460
Interest payable on shareholder loan	35,247	31,979
Interest payable on securitisation	7,847	1,340
Other interest payable	4,852	5,072
Interest expense from lease liabilities	2,221	-
Net loss on financial instruments designated as FVTPL	13,993	4,544
Net foreign exchange loss	-	1,316
Total finance costs	**224,009**	**195,909**

8. Income tax

a) Amounts recognised in the Statement of Comprehensive Income

	Year ended 31 December 2019 £000	Year ended 31 December 2018 £000
Current taxation		
Corporation tax	5,382	1,461
Adjustment in respect of previous periods	(724)	524
Total current tax charge	**4,658**	**1,985**
Deferred tax		
Origination and reversal of temporary differences	(16,521)	(10,599)
Change in estimate of recoverable deferred tax	4,687	6,008
Impact of change in tax rate	-	258
Total deferred tax credit (note 9)	**(11,834)**	**(4,333)**
Total tax credit	**(7,176)**	**(2,348)**

b) Amounts recognised in the Statement of Comprehensive Income

	Year ended 31 December 2019 £000	Year ended 31 December 2018 £000
Pension Provisions	**(710)**	**149**

c) Reconciliation of effective tax rate

The standard average effective rate of corporation tax in Luxembourg is 24.94%. However, as the Group is located in different countries, the standard average effective rate of corporation tax for the Group is 25%. The tax credit assessed for the period is lower than this and the differences are explained below:

	Year ended 31 December 2019 £000	Year ended 31 December 2018 £000
Loss on ordinary activities before tax	**(67,273)**	**(50,449)**
Tax credit on loss on ordinary activities at a combined countries rate of 25% (2018: 25%)	(16,818)	(12,612)
Effects of:		
Permanent differences	169	2,891
Income not taxable for tax purposes	4,832	1,696
Adjustment in respect of prior years deferred taxes	(2,652)	(10,595)
Impact of tax losses carried forward	7,339	16,603
Adjustment in respect of prior years current taxes	(724)	524
Tax rate differences	499	(1,113)
Other	179	258
Total tax credit	**(7,176)**	**(2,348)**

9. Deferred tax

Deferred tax assets and liabilities are attributable to the following as at 31 December 2019 and 31 December 2018.

	31 December 2019 £000	31 December 2018 £000
Recognised in profit or loss		
Intangible assets	(38,644)	(36,417)
Portfolio investments	(37,978)	(35,354)
Tax losses carried forward	47,459	34,879
Other	5,965	(496)
Net tax liabilities	**(23,198)**	**(37,388)**

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 2019 £000	Year ended 31 December 2018 £000
SCI effect	11,834	4,333
Equity effect	710	149
Acquisition of subsidiaries	(155)	(3,341)
Exchange rate differences	1,801	(381)
Movement in the period	**14,190**	**760**

	31 December 2019 £000	31 December 2018 £000
Deferred tax asset	18,329	10,712
Deferred tax liability	(41,527)	(48,100)
Net deferred tax liability	**(23,198)**	**(37,388)**

Deferred tax assets of £14.5m (2018: £7.8m) have not been recognised in respect of tax losses because it is not probable that future taxable profit will be available against which the losses can be utilised. Tax losses recognised are expected to be offset against future taxable profits.

10. Acquisition of subsidiaries

Acqusition of Lucas Credit Services

On 13 July 2019, the Group acquired 100% of the ordinary share capital of Lucas Credit Services, a UK FCA authorised 3PC and Litigation business. The Group paid cash consideration of £4.4m with preliminary goodwill of £2.9m recognised. The figures are after fair value adjustments of £0.7m.

Acquisition of Carve-out Business from Intrum

On 20 March 2018, the Group acquired 100% share in Fair Pay Please AS and Lindorff Sverige AB, which represent the Carve-out Business from Intrum for €741 million (£647 million). The acquisition was made through Lowell Nordics Oy (formerly Hansa Bidco Oy, formerly Pofidax Oy), an indirect subsidiary of the Company.

The carve-out comprised Lindorff's entire business in Denmark, Estonia, Finland and Sweden as well as Intrum Justitia's entire business in Norway and was specified by the European Commission as a condition of the combination of the two companies in 2017.

The business in Estonia, Lowell Eesti AS, had been a small part of Lowell Nordics' and was subsequently disposed of in July 2019 to allow Lowell to focus on its core market.

The combined business added a greater scale and diversification in terms of a broader geographic reach, a more balanced revenue mix together with a complementary and client-focused product offering.

In the nine months to 31 December 2018 the Carve-out Business contributed £9.7m profit to the consolidated net loss for the period and £142.9m to consolidated income. If the acquisition had occurred on 1 January 2018, management estimates that Group income would have been £42.2m higher and Group net loss would have been £3.2m lower. In determining these amounts, management has assumed that the fair value adjustments that arose on the acquisition would have been the same if the acquisition had occurred on 1 January 2018.

Identifiable assets acquired and liabilities assumed

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

Acquiree's net assets at the acquisition date:

	£000
Property, plant and equipment	1,537
Intangible assets	57,696
Portfolio investments	387,474
Other financial assets	814
Trade and other receivables	44,453
Deferred tax assets	7,675
Income tax receivables	220
Cash and cash equivalents	51,860
Trade and other payables	(47,976)
Provisions for pensions	(2,415)
Provisions	(443)
Borrowings	(19,140)
Income tax liabilities	(6,203)
Deferred tax liabilities	(11,016)
Total identifiable net assets acquired	**464,536**

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

10. Acquisition of subsidiaries (continued)

Consideration transferred

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

	£000
Cash payment	380,365
Settlement of existing financial arrangements	266,453
Total consideration transferred in cash	**646,818**

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
Software	Market comparison and cost technique

No contingent consideration or contingent liabilities remain in respect of the acquisition as at 31 December 2018 or 31 December 2019.

Goodwill

Goodwill arising from the acquisition has been recognised as follows:

	£000
Consideration transferred	646,818
Fair value of identifiable net assets	(464,536)
Goodwill (note 11)	**182,282**

The goodwill value comprised the skills and technical talent of the Carve-out Business's workforce and the expected synergies arising from the acquisition which was not separately recognised.

The Group incurred acquisition related costs of £12.5m on legal fees and due diligence costs. These costs have been included in other operating expenses in FY18 and FY17.

For accounting purposes, the effective date of the acquisition was 31 March 2018 as there was an immaterial difference between the acquisition date and the month end date.

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

11. Goodwill

	Year ended 31 December 2019 £000	Year ended 31 December 2018 £000
Cost		
Opening balance	1,215,042	1,022,339
Addition on acquisition of subsidiary	2,927	182,282
Effect of currency translation	(32,995)	10,421
At period end	**1,184,974**	**1,215,042**
Net book value		
At period end	**1,184,974**	**1,215,042**

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

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

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

The recoverable amount of the CGUs is determined as the higher of fair value less cost to sell and value in use. The 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. The Group uses cash flow forecasts from the latest budgets, prepared for the next four years and extrapolates these forecasts into perpetuity, using growth rates of 1.5% to 2.0%.

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 2019 £000	31 December 2018 £000
UK CGU	6.8%	7.8%
DACH CGU	4.1%	5.5%
Nordics CGU	6.1%	-

11. Goodwill (continued)

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. Each sensitivity has been performed independently.

UK CGU

The CGU has a carrying value of £556m. Based on the value in use a fall in the forecast cash flows of 47% would result in an impairment at 31 December 2019. An increase in WACC of 3.5 percentage points to 10.3% would result in an impairment at 31 December 2019.

DACH CGU

The CGU has a carrying value of £449m. Based on the value in use a fall in the forecast cash flows of 65% would result in an impairment at 31 December 2019. An increase in WACC of 3.3 percentage points to 7.4% would result in an impairment at 31 December 2019.

Nordics CGU

The CGU has a carrying value of £180m. Based on the value in use a fall in the forecast cash flows of 49% would result in an impairment at 31 December 2019. An increase in WACC of 2.2 percentage points to 8.3% would result in an impairment at 31 December 2019.

12. Intangible assets

	Software and licences	Development costs	Customer relationships	Trademarks	Total
	£000	£000	£000	£000	£000
Cost					
At 1 January 2019	42,453	4,691	162,314	16,638	226,096
Acquisition of subsidiary	870	-	-	-	870
Additions	7,823	11,116	-	-	18,939
Reclassification	4,534	(4,534)	-	-	-
Disposals	(609)	-	-	-	(609)
Currency exchange differences	(2,980)	67	(7,836)	(360)	(11,109)
At 31 December 2019	**52,091**	**11,340**	**154,478**	**16,278**	**234,187**
Accumulated amortisation					
At 1 January 2019	(14,685)	(138)	(38,816)	(9,299)	(62,938)
Charge for the year	(10,772)	-	(15,813)	(620)	(27,205)
Disposals	608	-	-	-	608
Asset impairment	(2,509)	(219)	-	-	(2,728)
Currency exchange differences	1,085	(71)	2,383	360	3,757
At 31 December 2019	**(26,273)**	**(428)**	**(52,246)**	**(9,559)**	**(88,506)**
Net book value					
At 31 December 2019	**25,818**	**10,912**	**102,232**	**6,719**	**145,681**
At 31 December 2018	**27,768**	**4,553**	**123,498**	**7,339**	**163,158**

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

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

13. Property, plant and equipment

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

	31 December 2019 £000	31 December 2018 £000
Assets owned by the Group	13,100	12,607
Right-of-use assets (note 14a)	40,274	-
Total	**53,374**	**12,607**

Assets owned by the Group

	Leasehold improvements £000	Hardware £000	Office Equipment £000	Total £000
Cost				
At 1 January 2019	4,774	3,393	9,775	17,942
Acquisition of subsidiary	14	15	12	41
Additions	16	982	3,941	4,939
Disposals	(571)	(447)	(728)	(1,746)
Currency exchange differences	-	-	(431)	(431)
At 31 December 2019	**4,233**	**3,943**	**12,569**	**20,745**
Accumulated depreciation				
At 1 January 2019	(1,165)	(1,518)	(2,652)	(5,335)
Charge for the year	(388)	(675)	(2,860)	(3,923)
Disposals	388	373	676	1,437
Currency exchange differences	-	-	176	176
At 31 December 2019	**(1,165)**	**(1,820)**	**(4,660)**	**(7,645)**
Net book value				
At 31 December 2019	**3,068**	**2,123**	**7,909**	**13,100**
At 31 December 2018	**3,609**	**1,875**	**7,123**	**12,607**

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

14. Leases

The Group's leases

The Group's leases represent right-of-use assets and their corresponding lease liabilities in respect of its office properties, car leases and office equipment effective from 1 January 2019 (note 1).

There are two property leases in the UK. One which 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, and the other which has been negotiated for a lease term of 12 years, commenced on 1 July 2016, with the option to break, free of charge, after 7 years.

There are two main property leases in Germany. One which has been negotiated for a lease term of 10 years, commenced on 3 February 2014 and the other which has been negotiated for a lease term of 6 years and commenced on 31 October 2018.

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

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

a) Right-of-use assets

Amounts recognised on the balance sheet

	31 December 2019 £000	31 December 2018 £000
Leasehold Property	37,578	-
Cars	1,228	-
Office equipment	1,468	-
Total	**40,274**	**-**

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

Additions to right-of-use assets during the 2019 financial year were £12.7m.

There was no evidence of impairment on right-of-use assets at 31 December 2019.

b) Lease liabilities

	31 December 2019 £000	31 December 2018 £000
Non-current	33,667	-
Current	9,707	-
Total	**43,374**	**-**

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

For adjustments recognised on adoption of IFRS 16 on 1 January 2019, see note 1.

14. Leases (continued)

c) Amounts recognised in the consolidated statement of comprehensive income

Depreciation charge for right-of-use assets	31 December 2019 £000	31 December 2018 £000
Leasehold Property	7,196	-
Cars	792	-
Other office equipment	384	-
Total	**8,372**	**-**

	31 December 2019 £000
Finance costs	
Interest expense	2,221
Other expenses	
Expense relating to short-term leases (included in other expenses)	710
Expense relating to leases of low-value assets that are not short-term leases (included in other expenses)	90
Expense relating to variable lease payments not included in lease liabilities (included in other expenses)	98

The total cash outflow for leases in 2019 was £10.0m of which £2.2m relates to interest expense and £7.8m relates to the payment of lease liabilities.

d) Other commitments

Other than the information noted above for leases, the Group has no other outstanding commitments at 31 December 2019 (31 December 2018: none).

15. Group structure

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

Name	Country of incorporation	Ordinary share holding % as at 31 December 2019	Ordinary share holding % as at 31 December 2018
Garfunkelux Holdco 3 S.A.	Luxembourg	100	100
Lowell Holding GmbH	Germany	100	100
Lowell Financial Services GmbH	Germany	100	100
Zyklop Inkasso Deutschland GmbH	Germany	100	100
GFKL PayProtect GmbH	Germany	100	100
GFKL Collections GmbH	Germany	100	100
Deutsche Multiauskunftei GmbH	Germany	100	100
Lowell Service Center GmbH	Germany	100	100
Proceed Collection Services GmbH	Germany	100	100
Sirius Inkasso GmbH	Germany	100	100
Inkasso Becker Wuppertal Gmbh & Co. KG	Germany	100	100
IBW Verwaltungsund - und Beteiligungs GmbH	Germany	100	100
Intratech GmbH	Germany	100	100
debifact Factoring GmbH & Co. KG	Germany	100	100
debifact Verwaltungs GmbH	Germany	100	100
Simon Holdco Limited	Jersey	100	100
Simon Midco Limited	UK	100	100
Simon Bidco Limited	UK	100	100
Hansa Holdco Limited	UK	100	100
Metis Bidco Limited	UK	100	100
Lowell Finance Holdings Limited[4]	UK	100	100
Lowell Group Financing Plc[4]	UK	100	100
Lowell Group Limited[5] (formerly Lowell Portfolio III Limited)	UK	100	100
Lowell Funding Limited[4]	UK	100	100
Lowell Acquisitions Limited[4]	UK	100	100
Lowell Holdings Limited[4]	UK	100	100
Lowell Finance Limited[4]	UK	100	100
Lowell Financial Limited	UK	100	100
Lowell Portfolio I Limited	UK	100	100
Tocatto Limited[4]	UK	100	100
Lowell Portfolio III Holdings Limited	UK	100	100
Lowell Portfolio III Limited[4] (formerly Lowell Group Limited)	UK	100	100
Lowell Portfolio IV Holdings Limited	UK	100	100
Lowell Portfolio IV Limited	UK	100	100
Lowell Solicitors Limited	UK	100	100
Interlaken Group Limited[4]	UK	100	100
Fredrickson International Limited	UK	100	100
SRJ Debt Recoveries Limited[4]	UK	100	100
Lowell Receivables Financing 1 Limited	UK	100	100
Lucas Credit Services Limited[1]	UK	100	-
Lowell Group Management GmbH	Austria	100	100
Lowell Inkasso Service GmbH	Austria	100	100
Lowell Portfoliomanagement GmbH	Austria	100	100
Lowell Inkasso Service GmbH	Switzerland	100	100
Lowell Inkasso Servis d.o.o	Croatia	100	100
Tesch Inkasso Forderungsmanagement GmbH	Germany	100	100
Tesch Service GmbH	Germany	100	100

15. Group structure (continued)

Name	Country of incorporation	Ordinary share holding % as at 31 December 2019	Ordinary share holding % as at 31 December 2018
DC Portfolien GmbH	Germany	100	100
Tesch Mediafinanz GmbH	Germany	100	100
Tesch Inkasso Finance GmbH	Germany	100	100
Apontas GmbH & Co KG	Germany	100	100
Apontas Verwaltungs GmbH	Germany	100	100
Apontas Inkasso GmbH	Germany	100	100
Apontas Invest GmbH	Germany	100	100
Lowell Investment GmbH	Germany	100	100
Lowell Service GmbH	Germany	100	100
Lowell Nordics Oy	Finland	100	100
Lowell Sverige AB	Sweden	100	100
Mentpaylind AB[6]	Sweden	-	100
Lowell AS	Norway	100	100
Lindorff Payment Services AS[7]	Norway	-	100
Lowell Norge AS	Norway	100	100
Lowell Finans AS	Norway	100	100
Lindorff Payment Services Holding AB[6]	Sweden	-	100
Lowell Danmark A/S	Denmark	100	100
Lowell Finans A/S	Denmark	100	100
Aktieselskabet af 18. Maj 2018 A/S	Denmark	100	100
Lowell Rahoitus Oy[2]	Finland	-	100
Lowell Suomi Oy	Finland	100	100
Lowell Eesti AS[3]	Estonia	-	100

[1]Lucas Credit Services Limited was acquired on 13 July 2019.

[2]During 2019 Lowell Rahoitus Oy merged with Lowell Suomi Oy.

[3]Lowell Eesti AS was disposed of in July 2019.

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

[5]Name changed from Lowell Portfolio III Limited to Lowell Group Limited on 18 December 2019.

[6]Non trading entity liquidated on 18 December 2019.

[7]Liquidated 23 September 2019.

16. Portfolio investments

	31 December 2019 £000	31 December 2018 £000
Non-current		
Portfolio investments	1,063,486	1,002,600
Current		
Portfolio investments	596,652	558,413
Total	**1,660,138**	**1,561,013**

The movements in acquired portfolio investments were as follows:

	31 December 2019 £000	31 December 2018 £000
At start of year	**1,561,013**	**964,507**
On acquisition of subsidiaries	-	387,474
Portfolios acquired during the year	397,251	383,614
Collections in the year	(780,447)	(660,531)
Income from portfolio investments	377,055	339,294
Net portfolio write up	144,807	126,067
Portfolio fair value release	(1,564)	(1,986)
Other	(37,977)	22,574
At end of year	**1,660,138**	**1,561,013**

17. Trade and other receivables

	31 December 2019 £000	31 December 2018 £000
Trade receivables	11,039	16,804
Prepayments and accrued income	16,405	13,386
Other receivables	11,067	16,891
Tax receivable	3,132	1,740
Total	**41,643**	**48,821**

Trade receivables are primarily made up of amounts due from clients for services provided. This figure includes gross receivables of £12.5m (2018: £18.0m), and an allowance for bad debt of £1.5m (2018: £1.2m).

18. Other financial assets

	31 December 2019 £000	31 December 2018 £000
Non-current		
Receivables from affiliated companies	8,710	8,569
Other	526	502
Total non-current	**9,236**	**9,071**
Current		
Securitisation receivables	1,771	1,935
Other	6,618	5,461
Total current	**8,389**	**7,396**
Total other financial assets	**17,625**	**16,467**

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

19. Cash and cash equivalents

	31 December 2019 £000	31 December 2018 £000
Cash and bank balances	62,984	70,827
Restricted cash balances	61,511	58,344
Total cash and equivalents	**124,495**	**129,171**

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

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

20. Borrowings

	31 December 2019 £000	31 December 2018 £000
Non-current		
Unsecured borrowings at amortised cost		
Senior Notes	196,500	230,000
Prepaid costs on Senior Notes	(5,503)	(6,172)
Shareholder loan owed to Garfunkelux Holdco 1 S.à r.l.	388,079	372,302
Total unsecured	**579,076**	**596,130**
Secured borrowings at amortised cost		
Senior Secured Notes	1,779,485	1,843,575
Prepaid costs on Senior Secured borrowings	(26,650)	(40,491)
Securitisation loans	117,443	185,338
Total secured	**1,870,278**	**1,988,422**
Total borrowings due for settlement after 12 months	**2,449,354**	**2,584,552**
Current		
Unsecured borrowings at amortised cost		
Interest on Senior Notes	3,603	4,218
Other interest payable	498	1,091
Total unsecured	**4,101**	**5,309**
Secured borrowings at amortised cost		
Interest on Senior Secured Notes	20,770	21,333
Revolving credit facility	265,741	14,046
Securitisation loans	76,717	76,665
Total secured	**363,228**	**112,044**
Total borrowings due for settlement before 12 months	**367,329**	**117,353**

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.

20. Borrowings (continued)

Senior Secured Notes ("Notes") (continued)

On 20 September 2017 the Group issued €415m 3.5% plus EURIBOR (subject to a 0% floor) Senior Secured Notes due 2023 through its subsidiary Garfunkelux Holdco 3 S.A. The interest on the loan notes is payable quarterly on 1 December, 1 March, 1 June and 1 September, commencing on 1 December 2017. The notes will mature on 1 September 2023, 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 6 September 2017.

On 2 February 2018, the Group issued €530m floating rate senior secured notes at a rate of 4.5% + EURIBOR (subject to a 0% floor) and SEK 1,280m floating rate senior secured notes at a rate of 4.75% + STIBOR (subject to a 0% floor) both due on 1 September 2023 through its subsidiary Garfunkelux Holdco 3 S.A.. The interest on the Notes is payable quarterly on 1 March, 1 June, 1 September, 1 December, commencing on 1 March 2018. The Notes will mature on 1 September 2023, 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 19 January 2018.

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. These are incurrence covenants only, which would only need to be satisfied should the Group intend to raise additional senior secured financing.

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

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.

On 29 August 2019 the Group repurchased £33.5m of the 11% Senior Unsecured Notes through its subsidiary company Simon Bidco Limited recognising a gain of £3.9m. Following the 11% Senior Unsecured Notes purchase, £196.5 million in aggregate principal remains outstanding in the open market. The 11% Unsecured Senior Notes repurchased by the Group remain held by the Group and were not immediately cancelled in the financial year.

There is one covenant measure under the terms of the Notes, the Fixed Charge Coverage Ratio, which must be at least 2:1. These are incurrence covenants only, which would only need to be satisfied should the Group intend to raise additional senior secured financing.

Revolving Credit Facility ("RCF")

The Group has an RCF commitment of €455m. The RCF has a variable interest rate linked to LIBOR/EURIBOR (subject to a 0% floor) and a quarterly commitment fee calculated on the undrawn facility.

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

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

20. Borrowings (continued)

Securitisation Loan

On 22 November 2018 the Group entered into a £255m securitisation facility through its subsidiary Lowell Receivables Financing 1 Limited. This facility has a four-year legal maturity and a margin of 2.75% + 1M LIBOR.

On 11 April 2019 the facility was re-negotiated with an option to reset in future periods. This facility has a five-year legal maturity and a margin of 2.85% + 1M LIBOR.

Shareholder Loan

The Group entered into a loan facility in October 2015 for €260.4m with its holding company Garfunkelux Holdco 1 S.à r.l.. The Group increased this facility in May 2016 to €287.4m. A further loan was issued in March 2018 of €28.9m as part of the acquisition of the Carve-out Business from Intrum. The loan has an interest rate of 9.66% (2018: 9.66%).

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 year were as follows:

	31 December 2019 £000	31 December 2018 £000
Notes	6.59%	6.66%
RCF	4.11%	3.67%
Shareholder loan owed to Garfunkelux Holdco 1 S.à r.l.	9.66%	9.66%
Securitisation loans	3.51%	3.48%

21. Trade and other payables

	31 December 2019 £000	31 December 2018 £000
Trade payables	12,942	17,808
Other taxes and social security	5,638	6,609
Accruals and deferred income	42,571	38,537
Other payables	44,679	69,896
Total	**105,830**	**132,850**

Other payables includes amounts due of £5.6m in respect of portfolios purchased but not yet paid for at 31 December 2019 (31 December 2018: £22.6m).

22. Provisions

	Tax provisions £000	Site restoration provision £000	Employee related provision £000	Other provisions £000	Total £000
At 1 January 2019	**11,320**	**-**	**1,800**	**5,374**	**18,494**
Provisions made during the year	1,300	1,982	283	2,442	6,007
Amounts utilised during the year	(52)	-	(67)	(1,241)	(1,360)
Reclassification	-	-	12	(12)	-
Provisions reversed during the year	(70)	-	(64)	(1,219)	(1,353)
Discount unwind	-	-	34	3	37
Exchange differences	(593)	-	(249)	(452)	(1,294)
At 31 December 2019	**11,905**	**1,982**	**1,749**	**4,895**	**20,531**
Current	11,905	-	55	4,063	16,023
Non-current	-	1,982	1,694	832	4,508
Total	**11,905**	**1,982**	**1,749**	**4,895**	**20,531**

Tax related provisions of £4.7m largely comprise amounts owed due to VAT backpayments (31 December 2018: £4.4m) as well as other tax related provisions of £7.2m (31 December 2018: £6.9m).

Other provisions contains onerous contract provisions of £1.5m as at 31 December 2019 (31 December 2018: £0.9m)

23. Other financial liabilities

	31 December 2019 £000	31 December 2018 £000
Non-current		
Lease liabilities	33,667	-
Other financial liabilities	555	86
Total non-current other financial liabilities	**34,222**	**86**
Current		
Lease liabilities	9,707	-
Liabilities from treasury shares	7,485	7,189
Total current other financial liabilities	**17,192**	**7,189**

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.

24. Share capital

	£000
In issue at 31 December 2018 and 31 December 2019	**4,385**

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

The rights attached to the ordinary shares are as follows:

Voting
Each Shareholder shall have one vote for every share held. Each Shareholder and Beneficiary Unit ("BU") holder (note 25), where applicable, may vote through voting forms in the manner set out in the convening notice in relation to a Shareholders' Meeting. The Shareholders and the BU holders may only use voting forms provided by the Company and which contain at least the place, date and time of the meeting, the agenda of the meeting, the proposal submitted to the decision of the meeting, as well as for each proposal three boxes allowing the Shareholder and the BU holder to vote in favour, against, or abstain from voting on each proposed resolution by ticking the appropriate box.

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

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

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

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

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

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

25. Reserves

Capital reserve

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

	31 December 2019 £000	31 December 2018 £000
At start of year	**(7,946)**	**(7,948)**
Functional currency adjustment	-	2
Adjustment in relation to purchase of shares in subsidiary	(345)	-
At end of year	**(8,291)**	**(7,946)**

Beneficiary Units

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

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

At 31 December 2019 and 31 December 2018, there were 333m beneficiary units in issue and the BU reserve totalled €25,000 (£21,250).

Rights

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

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

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

Translation Reserve

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

Valuation reserve

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

26. Retained deficit

	31 December 2019 £000	31 December 2018 £000
Loss attributable to equity holders of the parent	**(60,097)**	**(48,101)**

27. 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 a good leaver or a bad leaver. The sale price of the shares in Garfunkelux Holdco 1 S.à r.l. owned by the Garfunkelux Group managers will be settled in cash.

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

28. Financial instruments

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 2019 £000	31 December 2018 £000
Financial assets		
Cash and cash equivalents	124,495	129,171
Loans and receivables (portfolio investments)	1,660,138	1,561,013
Other	61,493	69,550
Derivatives (FVTPL)	-	540
Financial liabilities		
Borrowings - Notes	2,000,358	2,099,126
Borrowings – RCF	265,741	14,046
Borrowings – Shareholder loan	388,079	372,302
Borrowings – Securitisation loan	194,160	262,003
Borrowings – other	498	1,091
Trade and other payables	105,830	132,850
Other financial liabilities	51,414	7,275
Tax liability	30,991	31,206
Provisions	20,531	18,494
Derivatives (FVTPL)	12,193	1,435

Financial risk management objectives

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

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

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

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

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

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

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

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

28. Financial instruments (continued)

Strategic risk management

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

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

The Group manages the unpredictability of the market through a number of financing structures. The Group has in place €365m, £565m, €415m, €530m and SEK 1,280m of Senior Secured loan Notes, £196.5m of Senior loan Notes, €455m RCF facility and securitisation facility with an option to reset of £255.0m. At 31 December 2019 the securitisation and RCF facilities were £459.9m drawn down (31 December 2018: £276.0m). These facilities allow the Group the flexibility to bid on portfolios as and when they come to market and are not restricted by cash flow constraints.

Financial risk management

Credit and Counterparty risk management

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

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

The Group's principal activity is the acquisition and management of underperforming consumer debt portfolios. All portfolios by their nature are impaired on acquisition and the Group continually monitors cash collections. Carrying values are impaired when and if the underlying performance 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 information on debt types and customers into pricing assumptions and models. An Investment Committee is in place which is attended by members of the Executive Committee as well as other key indivduals from across the business.

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

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

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

The carrying value by geography is shown below:

	31 December 2019 £000	31 December 2018 £000
UK	974,164	894,013
DACH	222,035	213,017
Nordics	463,939	453,983
Total	**1,660,138**	**1,561,013**

28. Financial instruments (continued)

Liquidity and Capital risk management

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

The Group manages liquidity risk by maintaining adequate reserves and banking facilities and by continuously monitoring forecast and actual cash flows. At 31 December 2019, the Group had available undrawn committed borrowing facilities of £198.4m (31 December 2018: £377.7m). See note 20 for further details on banking facilities.

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 2019

	Weighted average interest rate	Carrying amount	Contractual cash flows	0-6 months	6-12 months	1-5 years	Over 5 years
	%	£000	£000	£000	£000	£000	£000
Notes[1]	6.59	2,000,358	2,420,685	65,277	65,277	2,290,131	-
RCF	4.11	265,741	265,741	265,741	-	-	-
Shareholder loan	9.66	388,079	388,079	-	-	388,079	-
Securitisation loan	3.51	194,160	201,194	40,903	39,757	120,534	-
Lease liabilities	-	43,374	54,219	5,190	4,920	26,044	18,065
Other liabilities	-	178,083	178,084	161,383	12,193	4,508	-
Total liabilities		**3,069,795**	**3,508,002**	**538,494**	**122,147**	**2,829,296**	**18,065**

As at 31 December 2018

	Weighted average interest rate	Carrying amount	Contractual cash flows	0-6 months	6-12 months	1-5 years	Over 5 years
	%	£000	£000	£000	£000	£000	£000
Notes[1]	6.66	2,099,126	2,699,049	69,064	69,064	2,560,921	-
RCF	3.67	14,046	14,046	14,046	-	-	-
Shareholder loan	9.66	372,302	372,302	-	-	-	372,302
Securitisation loan	3.48	262,003	274,875	42,014	40,668	192,193	-
Other liabilities	-	192,351	192,351	189,737	-	2,614	-
Total liabilities		**2,939,828**	**3,552,623**	**314,861**	**109,732**	**2,755,728**	**372,302**

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

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

28. Financial instruments (continued)

Liquidity and Capital risk management (continued)

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

Group financing facilities

	31 December 2019 £000	31 December 2018 £000
Securitisation and RCF		
Amount used	459,901	276,049
Amount unused	198,385	377,664
Total	**658,286**	**653,713**

Capital risk management

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

The capital structure of the Group consists of net debt, which includes the borrowings disclosed in note 20 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").

Interest rate risk management

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

The Group's RCF has a variable interest rate and at 31 December 2019 this was £265.7m drawn down (31 December 2018: £14.0m). Interest is payable on the RCF at a maximum of 3.5% + LIBOR/EURIBOR. The Group also had three floating rate note issuances in place at 31 December 2019 with principals of €415m, €530m and SEK 1,280m and interest rates of 3.5% + EURIBOR, 4.5% + EURIBOR and 4.75% + STIBOR respectively, all with floors 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 percentage point increase or decrease represents management's assessment of the reasonably possible change in interest rates. If interest rates had been 2.5 percentage points higher for the full year and all other variables were held constant, the Group's losses would increase for the year ended 31 December 2019 by c£34.8m (2018: c£29.5m). This is attributable to the Group's exposure to interest rates on its variable rate borrowings.

28. Financial instruments (continued)

Foreign exchange swap contracts

The derivatives recognised at 31 December 2019 and 31 December 2018 relate to OTC ("Over the Counter") foreign exchange derivatives that the Group transacts with its banking partners. In order to recognise the fair value of these derivatives, the fair value calculation performed by the Group as of the balance sheet date is used, which is based on the customary market method and is regularly compared with fair value calculations provided by the counter parties. The fair value of foreign exchange 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 exchange risk management

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

	31 December 2019 £000	31 December 2018 £000
Net assets		
EUR	(622,073)	(613,656)
SEK	142,723	137,292
NOK	99,916	104,336
DKK	131,466	146,267
Total	**(247,968)**	**(225,761)**

Foreign Currency Sensitivity Analysis

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

	2019 £000	2018 £000
Loss before tax		
EUR	1,200	9,939
SEK	359	1,095
NOK	383	(774)
DKK	817	627
Shareholders' equity		
EUR	(53,206)	(47,736)
SEK	14,272	13,729
NOK	9,992	10,434
DKK	13,147	14,627

28. Financial instruments (continued)

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

Compliance risk

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

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

Operational risk

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

Information and data risk

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

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

28. Financial instruments (continued)

Financial assets and liabilities

Financial assets and liabilities are classified into the following categories:

	31 December 2019 £000	31 December 2018 £000
Financial assets		
Investments and receivables	1,721,631	1,630,563
Cash and cash equivalents	124,495	129,171
Derivatives	-	540
Total financial assets	**1,846,126**	**1,760,274**
Financial liabilities		
Fair value through SCI	12,193	1,435
Financial liabilities measured at amortised cost	3,057,602	2,938,393
Total financial liabilities	**3,069,795**	**2,939,828**

Derivatives with positive and negative fair values

As of 31 December 2019, foreign exchange forwards with a total negative fair value of £12.2m were held (31 December 2018: £1.4m). As of 31 December 2019, no foreign exchange forwards with a total positive fair value were held (31 December 2018: £0.5m). They were not designated as hedges for hedge accounting purposes (IFRS 9).

28. 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 2019 £000	**31 December 2018 £000**	**31 December 2019 £000**	**31 December 2018 £000**
Financial assets				
Cash and cash equivalents	124,495	129,171	124,495	129,171
Investments and receivables:				
Portfolio investments	1,660,138	1,561,013	1,710,787	1,566,567
Other	61,493	69,550	61,493	69,550
Total financial assets	**1,846,126**	**1,759,734**	**1,896,775**	**1,765,288**
Financial liabilities				
Financial liabilities measured at amortised cost:				
Senior Secured Notes[1]	1,800,255	1,864,908	1,685,153	1,564,939
Senior Notes[1]	200,103	234,218	194,429	173,526
RCF	265,741	14,046	265,741	14,046
Shareholder loan	388,079	372,302	388,079	372,302
Securitisation loan	194,160	262,003	194,160	262,003
Other financial liabilities	209,264	190,916	209,267	190,916
Total financial liabilities	**3,057,602**	**2,938,393**	**2,936,829**	**2,577,732**

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

28. Financial instruments (continued)

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

For the Group, the fair value of the acquired portfolios is determined using a discounted cash flow model with unobservable inputs which are classified as level 3 measurements. The Senior 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 fair value of non-financial instruments has been considered and it was determined that the fair value is materially equal to their carrying value therefore no additional disclosure has been made.

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

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

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

28. Financial instruments (continued)

Fair value measurements recognised in the Statement of Financial Position

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

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

	31 December 2019 £000	31 December 2018 £000
Level 2		
Financial assets at fair value:		
Derivatives not designated as part of a hedge relationship	-	540
Financial liabilities at fair value:		
Derivatives not designated as part of a hedge relationship	(12,193)	(1,435)
Total	**(12,193)**	**(895)**

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

29. Note to the statement of cash flows

	Note	Year ended 31 December 2019 £000	Year ended 31 December 2018 £000
Loss for the year before tax		**(67,273)**	**(50,449)**
Adjustments for:			
Income on portfolio investments	16	(377,055)	(339,294)
Net portfolio write up	16	(144,807)	(126,067)
Portfolio fair value release	16	1,564	1,986
Collections on owned portfolios	16	780,447	660,531
Depreciation and amortisation	5	39,500	27,549
Impairment of intangible assets	5	2,728	136
Loss on disposal of subsidiary	5	-	4,327
Loss on disposal of PPE and intangible assets	5	309	69
Finance income	6	(6,200)	(1,800)
Finance costs	7	224,009	195,909
Unrealised losses from foreign exchange		870	(5,686)
Decrease in trade and other receivables		3,860	2,389
Increase in trade and other payables		(9,033)	(5,656)
Movement in other net assets		3,555	(14,455)
Cash generated by operating activities before portfolio acquisitions		**452,474**	**349,489**
Portfolios acquired[1]		(413,804)	(371,423)
Income taxes paid		(1,262)	(5,983)
Net cash generated by/(used in) operating activities		**37,408**	**(27,917)**

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

30. Reconciliation of movements in borrowings to financing cash flows

	Senior Notes £000	Shareholder loan £000	Prepaid costs on Senior notes £000	RCF £000	Securitisation loans £000	Other £000	Total £000
Balance at 1 January 2019	**2,099,126**	**372,302**	**(46,663)**	**14,046**	**262,003**	**1,091**	**2,701,905**
Changes from financing cash flows							
Proceeds from loans and borrowings	-	-	-	333,876	9,053	-	342,929
Repayment of borrowings	(29,590)	-	-	(79,750)	(76,665)	-	(186,005)
Interest paid	(136,502)	(83)	-	-	(7,588)	(12,650)	(156,823)
Transaction costs on borrowings	-	-	(685)	-	-	-	(685)
Total changes from financing cash flows	**(166,092)**	**(83)**	**(685)**	**254,126**	**(75,200)**	**(12,650)**	**(584)**
The effect of changes in foreign exchange rates	**(64,930)**	**(19,387)**	**194**	**(2,431)**	**(490)**	**(79)**	**(87,123)**
Changes from liabilities							
Interest expense	135,371	35,247	-	-	7,847	12,136	190,601
Discount release	793	-	-	-	-	-	793
Repurchase of borrowings	(3,910)	-	-	-	-	-	(3,910)
Prepaid cost release	-	-	15,001	-	-	-	15,001
Total liability related changes	**132,254**	**35,247**	**15,001**	**-**	**7,847**	**12,136**	**202,485**
Balance at 31 December 2019	**2,000,358**	**388,079**	**(32,153)**	**265,741**	**194,160**	**498**	**2,816,683**

31. Employee benefits

a) Defined benefit schemes

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

	31 December 2019 £000	31 December 2018 £000
Defined benefit pension net liabilities		
DACH	6,457	5,262
Nordics	3,292	2,374
Total	**9,749**	**7,636**

DACH

The German defined benefit pension obligations in relation to the DACH business are provided through the Groups German subsidiary, Lowell Financial Services GmbH. Pension obligations were calculated in accordance with the requirements set out in IAS 19. An interest rate of between 1.7% and 2.2% (2018: 1.7% and 2.8%), depending on the group of beneficiaries, was used for this purpose. The defined benefit obligation arising from the defined benefit plans was determined in accordance with IAS 19. The calculations took into account estimated increases in pensions and salaries as well as an employee turnover rate. Pension increases were estimated at 1.0% to 1.5% (2018: 1.0 to 1.5%), salary increases at 0.0% to 2.0% (2018: 0.0% to 2.0%), and the employee turnover rate in a range from 0.0% to 2.0% (2018: 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 Lowell Financial Services GmbH includes a retirement pension entitlement when the beneficiary reaches the age of 60. This retirement pension is equivalent to up to 75% of the average fixed salary over the five years immediately prior to retirement. The pension entitlement for two former employees of GFKL PayProtect GmbH comprises a retirement pension to be paid when the beneficiary reaches the age of 65. Following the transfer of employees from the ERGO Group, Sirius Inkasso GmbH recognised provisions for pensions for the first time in 2006. The pension entitlement comprises a lifelong retirement pension paid when the beneficiary retires from the service of the entity upon reaching the age of 65. A total of 13 employees at Sirius Inkasso GmbH have the benefit of this pension entitlement. Pension entitlements have also been granted to employees of Proceed Collection Services GmbH as a result of the transfer of 19 employees from Bayerische Hypo- und Vereinsbank AG (now UniCredit Bank AG).

The net liability is calculated as follows:

	31 December 2019 £000	31 December 2018 £000
Present value of unfunded defined benefit obligation	9,189	8,050
Plan assets	(2,732)	(2,788)
Net liability	**6,457**	**5,262**

31. Employee benefits (continued)

a) Defined benefit schemes (continued)

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

	31 December 2019 £000	31 December 2018 £000
Opening balance of defined benefit obligation	**8,050**	**8,419**
Interest expense	153	144
Pension payments	(215)	(215)
Current service cost	77	90
Actuarial losses/(gains)	1,524	(446)
Currency translation adjustments	(400)	58
Closing balance of defined benefit obligation	**9,189**	**8,050**

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

	31 December 2019 £000	31 December 2018 £000
Opening balance of plan assets	**2,788**	**2,714**
Net interest income	55	46
Actuarial gains	28	11
Contributions	71	72
Payments	(74)	(76)
Currency translation adjustments	(136)	21
Closing balance of plan assets	**2,732**	**2,788**

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 £70k (£81k at 31 December 2018).

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

	Year ended 31 December 2019 £000	Year ended 31 December 2018 £000
Opening balance	**5,262**	**5,705**
Payments arising from pension obligations	(215)	(215)
Allocation to defined benefit obligation	178	188
Allocation to plan assets	-	4
Actuarial losses/(gains)	1,496	(457)
Currency translation adjustments	(264)	37
Closing balance	**6,457**	**5,262**

31. Employee benefits (continued)

a) Defined benefit schemes (continued)

A quantitative sensitivity analysis of the key assumptions as of 31 December 2019 is as shown below:

	31 December 2019 £000
Interest rate	
Increase 0.5%	(820)
Decrease 0.5%	944
Salary trend	
Increase 0.5%	157
Decrease 0.5%	(143)
Benefits trend	
Increase 0.5%	749
Decrease 0.5%	(671)

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

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

	31 December 2019 £000	31 December 2018 £000
Within the next 12 months	219	220
Between 1 and 5 years	938	931
Between 5 and 10 years	1,452	1,416
More than 10 years	10,665	12,500
Total expected payments	**13,274**	**15,067**

The average duration of the defined benefit obligation at the end of the reporting period is 20 years (31 December 2018: 20 years).

Nordics

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

The net liability is calculated as follows:

	31 December 2019 £000	31 December 2018 £000
Present value of unfunded defined benefit obligation	7,631	7,129
Plan assets	(4,339)	(4,755)
Net liability	**3,292**	**2,374**

31. Employee benefits (continued)

a) Defined benefit schemes (continued)

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

	31 December 2019 £000
Opening balance of defined benefit obligation	**7,129**
Interest expense	137
Pension payments	(89)
Current service cost	273
Payroll tax of employer	(38)
Actuarial losses	486
Currency translation adjustments	(267)
Closing balance of defined benefit obligation	**7,631**

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

	31 December 2019 £000
Opening balance of plan assets	**4,755**
Net interest income	84
Actuarial losses	(446)
Contributions	310
Payroll tax of employer	(38)
Payments	(89)
Currency translation adjustments	(237)
Closing balance of plan assets	**4,339**

b) Defined contribution schemes

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

The total cost charged to income of £8.3m (2018: £5.2m) represents contributions payable to these schemes by the Group at rates specified in the rules of the schemes.

As at 31 December 2019, contributions of £786k (31 December 2018: £549k) due in respect of the current reporting period had not been paid over to the schemes.

32. Related party transactions

Parent and ultimate controlling party

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

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

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

Year end balances with related parties

	31 December 2019 £000	31 December 2018 £000
Balances with immediate parent undertaking		
Shareholder loan with Garfunkelux Holdco 1 S.à r.l. (note 20)	(388,079)	(372,302)
Loan owed from Garfunkelux Holdco 1 S.à r.l.	3,529	3,520
Balances with other related parties		
Loan owed from Garfunkelux Nominee S.à r.l.	5,171	5,049
Permira Beteiligungsberatung GmbH (trading)	(9)	(15)
Genesys Telecommunication Laboratories B.V. (trading)	(40)	-

Transactions with related parties

	31 December 2019 £000	31 December 2018 £000
Transactions with immediate parent		
Shareholder loan interest with Garfunkelux Holdco 1 S.à r.l.	(35,247)	(31,979)
Loan interest owed from Garfunkelux Holdco 1 S.à r.l.	265	245
Transactions with other related parties		
Loan interest owed from Garfunkelux Nominee S.à r.l.	377	367
Loan to Garfunkelux Nominee S.à r.l.	(254)	(106)
Permira Beteiligungsberatung GmbH (trading)	(88)	(250)
Teamviewer GmbH (trading)	1	3
Duff and Phelps (trading)	(35)	(68)
Genesys Telecommunication Laboratories B.V. (trading)	(556)	-
P&I Personal und Informatik AG (trading)	(2)	-

Remuneration of key management personnel

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

	Year ended 31 December 2019 £000	Year ended 31 December 2018 £000
Short-term employee benefits	**4,457**	**4,962**

The above details relate to fifteen key management personnel (2018: fourteen) who are Directors and/or senior executives of subsidiary undertakings of the Company. They are paid emoluments by subsidiary companies (Simon Bidco Limited, Lowell Financial Limited, Lowell Holding GmbH, Lowell Financial Services GmbH and Lowell AS) for their services to the Group. The Directors of the Company are not paid by any company that forms part of the Group, see note 5d.

At 31 December 2019, loans totalling €1.3m (31 December 2018: €4.0m) were outstanding with one key management personnel (31 December 2018: two key management personnel).

33. Subsequent events

On 12 February 2020 Lowell entered into a strategic partnership with a global asset manager to jointly acquire consumer unsecured non-performing loan opportunities across Lowell's markets. Lowell will act as the asset manager for all of the acquired assets and it is envisaged that up to €300m of capital will be deployed over the next 3 years with an inaugural transaction having already been closed in February 2020. The partnership will provide Lowell with an enhanced ability to continue to meet the needs of our clients, whilst at the same time providing for future servicing income growth.

Lowell

GARFUNKELUX HOLDCO 2 S.A.
CASH EBITDA WALKS (UNAUDITED)
YEAR ENDED 31 DECEMBER 2019

	Year ended 31 December 2019
Loss for the year to Cash EBITDA	**£000**
Loss for the year	(60,097)
Net finance costs	217,809
Taxation credit	(7,176)
Operating profit	**150,536**
Portfolio amortisation	403,392
Net portfolio write up	(144,807)
Portfolio fair value release	1,564
Non-recurring costs/exceptional items, net of exceptional income	43,064
Depreciation, amortisation and impairment	42,228
Cash EBITDA	**495,977**

	Year ended 31 December 2019
Cash collections to Cash EBITDA	**£000**
Cash collections (DP)	780,447
Other income	225,972
Operating expenses	(595,734)
Non-recurring costs/exceptional items, net of exceptional income	43,064
Depreciation, amortisation and impairment	42,228
Cash EBITDA	**495,977**

	Year ended 31 December 2019
Net cash flow to Cash EBITDA	**£000**
Increase in cash in the year	663
Movement in debt	(156,924)
Purchases of loan portfolios	413,804
Interest paid net of interest received	159,044
Income taxes paid	1,262
Transaction costs relating to loans and borrowings	685
Capital expenditure and financial investment	26,804
Proceeds from sale of subsidiary	(3,441)
Payment of hedging arrangements	2,772
Payment of lease liabilities	7,805
Cash flow before interest, portfolio purchases, tax expenses and capital expenditure	**452,474**
Working capital adjustments	439
Non-recurring costs/exceptional items, net of exceptional income	43,064
Cash EBITDA	**495,977**