Lowell

Company No. B197497

Garfunkelux Holdco 2 S.A.

Consolidated Financial Statements
For The Year Ended 31 December 2020

GARFUNKELUX HOLDCO 2 S.A.
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YEAR ENDED 31 DECEMBER 2020

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GARFUNKELUX HOLDCO 2 S.A.
MANAGEMENT REPORT
YEAR ENDED 31 DECEMBER 2020

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 2020.

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 collection services ("3PC").

FINANCIAL PERFORMANCE

Group overview

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

Facing the challenges of a global pandemic of unprecedented scale, the Group has prioritised customer outcomes and individual circumstances to ensure these remain at the heart of everything it does and it has continued to follow a disciplined growth strategy throughout 2020.

During FY20 the Group completed the refinancing of its capital structure, with the issuance of £1.7bn high yield bonds alongside an equity injection of £600m. This refinancing increased the average maturity of the Group's debt from 2.4 years to 5.0 years in November 2020 (31 December 2020: 4.8 years), and increased the Group's liquidity to £466m as at 31 December 2020 (FY19: £261m); a significant position of strength which positions the Company strongly for the future opportunities expected in 2021 and beyond.

Despite the outbreak of the pandemic, the impacts of which have varied across the Group's regions, collections have continued to be resilient. The Group reported collection performance at 94% of its Dec-19 static pool forecast, with performance against this forecast improving across H2-20. Following the re-forecasting of collection expectations in June 2020, the Group has performed at 106% of expectation for the six months to Dec-20. Management actions in the UK to voluntarily reduce outbound activity and pause legal collection activity in Q2-20 resulted in a reduction in collections, judged by Management to be a short-term deferral rather than a loss of collections. Accordingly Management re-forecast its collections expectations at H1-20. With the exception of the delay in collections in the UK due to Management actions, the Group's collections proved strong across all three of its regions, especially in DACH and Nordics, where these regions' overall performance both exceeded 100% of the static pool forecast set at Dec-19.

In response to the pandemic the Group managed liquidity through disciplined deployment of capital on portfolio purchases and a focus on cost control. As a result, all three of the Group's regions saw a reduction in discretionary spend on portfolios during 2020.

FINANCIAL PERFORMANCE (CONTINUED)

Group overview (continued)

This reflected both the conscious decision to preserve capital (whilst the early stages of the pandemic played out and priorities focussed on liquidity management), but also market dynamics as originators have seemingly managed the supply of non-performing loans (NPLs) to the market against a backdrop of wider forbearance initiatives promoted by governments and policymakers. The Group's purchasing activity in 2020 has therefore benefited from its strong, long standing and mutually beneficial forward flow agreements, accounting for ~60% of its FY20 purchases.

Alongside this, the Group has sought to take actions to rationalise its costs base to help offset the reduced income from lower purchasing volumes and enhance longer term margins. Early benefits of these were visible in 2020 with the stable generation of cash flows from operating activities and Cash EBITDA margin improving year-on-year by 310bps to 55.3% (FY19: 52.2%), with such margin improvement achieved despite a backdrop of some collection softness. Cash EBITDA is defined on page 5.

Regional focus

On a regional basis the impact of the Management decision in response to the pandemic can be seen most clearly in the UK region. The UK is the Group's largest region for debt purchase and as a result saw portfolio purchases drop £61m from £234m to £173m year-on-year.

Following the outbreak of the COVID-19 pandemic the Group maintained its customer focus across all regions. In the UK, Management took the decision to reduce outbound collection activity and pause litigation activity. These actions were deemed appropriate for our customers, whilst the impact and uncertainty of the early stages of the COVID-19 pandemic were understood. Litigation activity was paused and outbound collection activity reduced during March 2020, then recommencing gradually across Q3-20 with volumes returning to pre-pandemic levels across Q4-20. Management actions attributed to ~90% of the collections shortfall seen in the UK across Q2-20 and supports Management's judgement that collections during this period were delayed, rather than lost. Accordingly, the Group reforecast its gross collections profile (ERC) as at H1-20, which re-phased the expected recovery of these delayed collections into future periods. Overall, no gross write down of ERC was recognised, however, the impact of delaying collections to future periods resulted in a negative revaluation. This represented the impact of the discounted value of the gross collections having reduced due to the time value of money.

In DACH the Group has continued with its progress in rationalising its operating platforms across the regions and increasing operating efficiency. This work continues to ensure that the DACH region remains well placed to capture opportunities from its long-standing client relationships. Such change programmes to support future competitiveness have initial one-off costs that have been realised in FY20 and are recognised within other operating expenses.

Collection performance in DACH has remained strong and above both Dec-19 and Jun-20 static pool forecasts.

The Nordics has seen the least significant direct impact from the pandemic and any wider impact it may have had on clients and consumers. We continue to see the region report strong collection performance throughout FY20, both against the Dec-19 and Jun-20 static pool forecasts.

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

During 2020 the Group completed the acquisition of Solvencia AS, a Nordic based servicing platform carved out from Fortum, a leading energy company. The transaction will enhance the Group's 3PC earnings, almost doubling the 3PC volumes in Norway and increasing overall Nordic 3PC volumes by ~50%. Full year benefits of this acquisition will be seen across 2021.

FINANCIAL PERFORMANCE (CONTINUED)

Financial analysis

Despite an uncertain backdrop and an unfolding pandemic, the Group has delivered strong financial performance, highlighting its resilience to wider financial and macroeconomic uncertainty. The performance in 2020 can be categorised by three key themes: resilient collection performance, strong cost control and efficiency improvements.

Despite a reduction in portfolio acquisitions, the Group still deployed some £281.4m on NPLs across its three regions. This included growth capital of c.£11m, before currency translation effects, being the amount of purchases in excess of the average replacement rate of c.£270m. The replacement rate is defined as the estimated amount of purchases required to maintain our Group estimated remaining collections.

These purchases originated from 107 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 350 clients through our 3PC offering.

The overall carrying value of portfolio investments at 31 December 2020 was £1,661.8m, remaining broadly consistent with the balance at 31 December 2019 of £1,660.1m.

The Group defines ERC as the expected collections on acquired portfolios using both 84 month and 120 month periods of estimation. As at 31 December 2020, 84 month ERC was £2,890.8m, an increase of 2.0% over 31 December 2019 (£2,835.1m), and 120 month ERC was £3,509.7m, an increase of 3.3% on 31 December 2019 (£3,396.0m).

Total income for the year was £609.9m (2019: £746.3m), with the change predominately relating to a £124.2m reduction in net portfolio write-up, being £20.6m for the year ended 31 December 2020 compared with £144.8m in the year ended 31 December 2019. Lower net portfolio write-up predominantly reflects the expected delay in collections from the Group's decision to pause outbound collection and litigation activity in the UK. This action has since recommenced and in Q4 is back at pre-pandemic levels, but the delay in collections has an impact on the portfolio carrying value due to the time value of money impact from collections being deferred into later periods.

The Group made an operating profit of £79.8m in the year ended 31 December 2020 (2019: £150.5m) and the loss for the year ended 31 December 2020 was £127.8m (2019: £60.1m).

The UK region holds a significant portion of the Group's total portfolio investments and therefore the reduction in net portfolio write-up observed in 2020 compared to 2019 is more prominent within its results. The UK region reported an operating profit of £56.7m (2019: £100.0m) with the reduction from 2019 largely attributable to the significantly lower net portfolio write-up during the period. At the same time, the UK region is experiencing the efficiency and engagement benefits of its investment and growth in digital collection capabilities, with a decrease in both direct and indirect expenses recorded in 2020.

The DACH region has continued to perform strongly, with collection performance over 100% vs Dec-19 expectations. Net portfolio write-up in DACH for FY20 was £14.1m, reflecting the strong performance during the year, although this was a reduction of £19.2m on the previous year due to the exceptional collections performance in FY19. This reduction in net portfolio write up, together with the impact of discontinued business and exceptional costs relating to organisational change, have led to a reported operating loss of £11.2m (2019: operating profit of £21.7m).

The Nordics region achieved an operating profit of £40.1m in the year ended 31 December 2020, remaining broadly consistent with the prior period (2019: £43.9m). This was achieved through having the flexibility to carefully control direct cost from the onset of the COVID-19 pandemic alongside winning significant new 3PC clients, positioning the region well for 2021.

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

FINANCIAL PERFORMANCE (CONTINUED)

Financial analysis (continued)

Concurrently the Group's parent contributed £600m of equity into the Group and in combination the proceeds received were used to redeem the Group's outstanding Senior and Senior Secured notes and partially repay drawings under the Group's Revolving Credit Facility (RCF).

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

The Group is now funded by three offerings of Senior Secured Notes (the "Notes"):

Issuer	Maturity date	Principal	Rate
Garfunkelux Holdco 3 S.A.	01/11/25	€795m	6.75%
Garfunkelux Holdco 3 S.A.	01/05/26	€630m	6.25% + EURIBOR
Garfunkelux Holdco 3 S.A.	01/11/25	£440m	7.75%

At 31 December 2020 the Group had £16.0m drawn on its RCF (31 December 2019: £265.7m) and an unutilised amount of £393.0m (31 December 2019: £121.4m). The Group had £229.2m drawn on its securitisation facilities at 31 December 2020 (31 December 2019: £194.2m). The Group continues to monitor and manage its liquidity as disclosed in note 1.

The Group benefits from its ability to generate strong cash flows from operating activities before portfolio acquisitions. In the year to 31 December 2020, the Group generated £503.1m of cash from operating activities before portfolio acquisitions and tax, with these cash flows available to use to service or pay down debt, pay income taxes, before the discretional deployment of capital into new portfolio acquisitions for growth.

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 service revenue, other revenue and other income less collection activity costs and other expenses (which together equal operating costs) and before exceptional items, depreciation, amortisation and impairment of non-performing loans. Cash EBITDA for the year ended 31 December 2020 was £494.2m, compared to £496.0m for the year ended 31 December 2019. The decrease reflecting the softening in UK collections which Management believe is due to the pause in litigation activity and the lower purchasing volumes compared to the prior year, which would have otherwise contributed additional collections and Cash EBITDA contribution in the year.

The Group benefits from excellent cash flow visibility. The Group's ERC forecast has historically been highly accurate, and forecasts future collections from portfolios currently owned of £3,509.7m for the 120 months from 31 December 2020 (31 December 2019: £3,396.0m) for the combined UK, DACH and Nordic businesses. Of this, some £656m and £1,207m are forecast to be collected across the next 12 and 24 months respectively, before accounting for collections from portfolio purchases made across these future periods.

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

FINANCIAL PERFORMANCE (CONTINUED)

Financial analysis (continued)

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 2020	31 December 2019
Portfolio investments acquired	£281.4m	£397.3m
Gross collections (in total)	£1,747.0m	£1,835.2m
Gross collections (DP)	£740.7m	£780.4m
Gross collections (3PC)	£1,006.3m	£1,054.8m
3PC income	£152.6m	£169.2m
Cash income	£893.4m	£949.6m
Cash EBITDA(1)	£494.2m	£496.0m
UK	£269.3m	£270.5m
DACH	£86.8m	£99.4m
Nordics	£141.1m	£129.2m
Holding companies	£(3.0)m	£(3.1)m
Operating profit	£79.8m	£150.5m
Loss for the year	£(127.8)m	£(60.1)m
84 month ERC	£2,890.8m	£2,835.1m
120 month ERC	£3,509.7m	£3,396.0m

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

PRINCIPAL RISKS AND UNCERTAINTIES

As a result of its normal business activities, the Group has exposure to a number of principal risks which are outlined below. For further detail on the financial risks, as well as mitigation and controls, please refer to note 29.

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 and governance, (iii) promote a strong risk and ethics culture based on customer care, conduct principles and integrity; and (iv) ensure compliance with our obligations to regulators, customers, clients, investors and other stakeholders.

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

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

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

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

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

Executive Management further strengthens the overall oversight through 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 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.

PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)

Strategic risk (continued)

Whilst group analysis shows no evident correlation between individual economic trends and collections performance, there remains a risk that dramatic economic and societal stresses could impact collection performance.

The impact of the COVID-19 pandemic as an emerging risk was strictly monitored during 2020 and while collection performance was resilient, there remains a risk that the combination of weaker economic growth due to trading frictions between the EU and UK post Brexit as well as ongoing government restrictions may have a performance impact; especially if we were to pause collection activities (such as litigation) to provide consumer relief in some or all of our markets.

We have put measures in place to help support the business and its stakeholders during this outbreak and continue to evaluate how to evolve our operating practices to be both more efficient and effective in an environment where remote working is much more prevalent.

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

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

Financial risk

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

The Group funding model requires continuing access to the capital markets in order to refinance and issue new debt instruments. This risk is considered to be significantly less prominent following the 2020 refinancing given the nearest debt maturity horizon is now 2024. However, there remains a risk the Group may not be able to access such capital markets, as required, if it fails to deliver on its strategic objectives or if its financial performance deteriorates materially.

The Group continues to monitor its funding requirements and evaluate alternative funding initiatives such as securitisations and partnerships. Alongside this, capital allocation, underwriting discipline and ongoing portfolio reviews 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.

PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)

Compliance risk (continued)

There is a risk that as governments consider their legistative agenda post the COVID-19 pandemic, then there may be changes to laws or regulations to help consumers deal with weaker economic circumstances, their personal debt and associated collection fees. Consequently, there remains the risk that regulations will change and could negatively impact the Group's operations or that the Group could fail to comply with existing regulations and face increased scrutiny or eventual sanction.

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

Operational risk

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

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

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

Supplier monitoring became more intensive during 2020 to reflect the operational challenges facing supply chains. While operational performance was not materially impacted, there remains the risk that the Group's processes do not prove resilient or third party processes fail and expose the Group to a failure in business continuity or operational losses.

Information and data risk

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

The 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 or similar regulations. 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.

The ongoing negotiations between the UK and the EU on a permanent data adequacy decision may lead to more complex contractual arrangements or other safeguards to transfer personal data within the Group, which could lead to increased operational complexity.

RESEARCH AND DEVELOPMENT

Development costs capitalised during the year total £10.1m, which includes work on internally generated software (31 December 2019: £11.1m).

OUTLOOK

During 2020 the Group not only proved its financial resilience but also completed the significant refinancing of its capital structure. The Group has a materially strengthened financial position as at 31 December 2020 and has substantial available liquidity going into 2021.

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

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

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

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

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

The Group expects the actions taken in the year ended 31 December 2020 to bring benefits in 2021 across all regions. The Group has commenced initiatives in all regions to focus on tighter cost control and drive operational efficiency through change and information technology projects. The benefits of these investments and cost reductions are already visible in 2020 and are expected to further crystallise in 2021 - 2022 as the Group continues its focus on margin accretion and efficiency improvements.

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

Building on the success to date of the co-investment strategic partnership entered into in early 2020, the Group expects to jointly acquire further NPL portfolios in the coming years, benefiting from both a portion of debt purchase cash collections and servicing income.

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

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

OUTLOOK (CONTINUED)

We remain mindful of the economic and political environment, noting that consumers are currently benefiting from an increased level of government spending and direct government support in response to the COVID-19 pandemic, which will likely be scaled back in future periods. The UK's departure from the EU on 1 January 2021 has not had any material adverse impact on consumer payment behaviours, however we continue to keep this and any other emerging risk factors under constant review.

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

A very significant year in 2020 for Lowell showed that even in periods of unprecedented global uncertainty, the Group is able to continue to operate effectively, purchase portfolios at attractive IRRs and generate net cash inflows through business-as-usual activity.

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 our obligations to regulators, customers, investors and other stakeholders.

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

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

Governance & Oversight

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

Investor Board: Group oversight and strategy is provided by an Investor Board that comprises our Chairman, Executive 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.

RISK MANAGEMENT (continued)

Governance & Oversight (continued)

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
17 March 2021

GARFUNKELUX HOLDCO 2 S.A.
INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF GARFUNKELUX HOLDCO 2 S.A.
YEAR ENDED 31 DECEMBER 2020

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

REPORT OF THE REVISEUR D'ENTREPRISES AGREE

Report on the audit of the consolidated financial statements

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 2020, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020 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 as adopted for Luxembourg by the CSSF are further described in the « Responsibilities of "réviseur d'entreprises agréé" for the audit of the consolidated financial statements » section of our report. We are also independent of the Group in accordance with the International Code of Ethics for Professional Accountants, including International Independence Standards, issued by the International Ethics Standards Board for Accountants ("IESBA Code") as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the consolidated financial statements, and have fulfilled our other ethical responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

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

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

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

Responsibilities of the Board of Directors for the consolidated financial statements

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

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

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

The objectives of our audit are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report of the "réviseur d'entreprises agréé" that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report of the "réviseur d'entreprises agréé" to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report of the "réviseur d'entreprises agréé". However, future events or conditions may cause the Group to cease to continue as a going concern.

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

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

Report on other legal and regulatory requirements

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

Luxembourg, 17 March 2021
KPMG Luxembourg
Société coopérative
Cabinet de révision agréé
R. Tumanshin
Associate Partner

GARFUNKELUX HOLDCO 2 S.A.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
YEAR ENDED 31 DECEMBER 2020

	Note	Year ended 31 December 2020 £000	Year ended 31 December 2019 £000
Profit or (loss)			
Income			
Income from portfolio investments	16	395,568	377,055
Net portfolio write up	16	20,596	144,807
Portfolio fair value release	16	(1,289)	(1,564)
Service revenue		188,971	218,826
Other revenue		4,562	5,024
Other income		1,446	2,122
Total income		**609,854**	**746,270**
Operating expenses			
Collection activity costs		(290,299)	(342,466)
Other expenses	5	(239,756)	(253,268)
Total operating expenses		**(530,055)**	**(595,734)**
Operating profit		**79,799**	**150,536**
Finance income	6	6,022	6,200
Finance costs	7	(243,534)	(224,009)
Loss for the year, before tax		**(157,713)**	**(67,273)**
Tax credit	8	29,874	7,176
Loss for the year		**(127,839)**	**(60,097)**
Other comprehensive income/(expenditure)			
Items that will not be reclassified to profit or loss			
Actuarial (losses) on pension plans		(787)	(1,537)
Deferred tax on actuarial losses on pension plans	8	54	710
		(733)	**(827)**
Items that will or may be reclassified subsequently to profit or loss			
Foreign operations – foreign currency translation differences		(12,643)	7,948
Other comprehensive (expenditure) / income, net of tax		**(13,376)**	**7,121**
Total comprehensive expenditure for the year		**(141,215)**	**(52,976)**

The notes on pages 20 to 73 form part of these consolidated financial statements.

GARFUNKELUX HOLDCO 2 S.A.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2020

	Note	31 December 2020 £000	31 December 2019 £000
Assets			
Non-current assets			
Goodwill	11	1,221,265	1,184,974
Intangible assets	12	158,411	145,681
Property, plant and equipment	13	55,196	53,374
Portfolio investments	16	1,106,672	1,063,486
Other financial assets	18	5,842	9,236
Deferred tax assets	9	41,236	18,329
Total non-current assets		**2,588,622**	**2,475,080**
Current assets			
Portfolio investments	16	555,093	596,652
Inventories		24	77
Trade and other receivables	17	44,527	41,643
Other financial assets	18	12,277	8,389
Derivatives	29	956	-
Assets for current tax		716	2,225
Cash and cash equivalents	19	114,552	124,495
Assets classified as held for sale	20	3,072	-
Total current assets		**731,217**	**773,481**
Total assets		**3,319,839**	**3,248,561**
Equity			
Share capital	25	4,385	4,385
Share premium and similar premiums		1,109,586	516,721
Reserves		(104,214)	(90,838)
Retained deficit		(398,464)	(270,625)
Total equity		**611,293**	**159,643**
Liabilities			
Non-current liabilities			
Borrowings	21	2,309,085	2,449,354
Provisions for pension	32	10,102	9,749
Provisions	23	5,280	4,508
Other financial liabilities	24	44,518	34,222
Deferred tax liabilities	9	33,582	41,527
Total non-current liabilities		**2,402,567**	**2,539,360**
Current Liabilities			
Trade and other payables	22	105,900	105,830
Provisions	23	31,944	16,023
Borrowings	21	111,455	367,329
Derivatives	29	2,710	12,193
Other financial liabilities	24	14,552	17,192
Current tax liabilities		36,421	30,991
Liabilities classified as held for sale	20	2,997	-
Total current liabilities		**305,979**	**549,558**
Total equity and liabilities		**3,319,839**	**3,248,561**

The notes on pages 20 to 73 form part of these consolidated financial statements.

GARFUNKELUX HOLDCO 2 S.A.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
YEAR ENDED 31 DECEMBER 2020

	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 2019	**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**
Loss for the year	-	-	-	-	-	(127,839)	(127,839)
Capital contribution[1]	-	590,083	-	-	-	-	590,083
Revaluation of share premium	-	2,782	-	-	-	-	2,782
Actuarial loss on pension	-	-	-	-	(787)	-	(787)
Exchange differences	-	-	-	(12,643)	-	-	(12,643)
Deferred tax on pension	-	-	-	-	54	-	54
Total comprehensive income/(expenditure) for the year	**-**	**592,865**	**-**	**(12,643)**	**(733)**	**(127,839)**	**451,650**
Balance at 31 December 2020	**4,385**	**1,109,586**	**(8,291)**	**(94,309)**	**(1,614)**	**(398,464)**	**611,293**

The notes on pages 20 to 73 form part of these consolidated financial statements.

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

GARFUNKELUX HOLDCO 2 S.A.
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED 31 DECEMBER 2020

	Note	Year ended 31 December 2020 £000	Year ended 31 December 2019 £000
Net cash generated by operating activities	30	**214,439**	**37,408**
Investing activities			
Proceeds from sale of subsidiary, net of cash disposed		-	3,441
Purchase of property, plant and equipment	13	(2,293)	(4,939)
Purchase of intangible assets	12	(40,935)	(18,939)
Acquisition of subsidiaries, net of cash acquired	10	(13,628)	(2,926)
Net cash used in investing activities		**(56,856)**	**(23,363)**
Financing activities			
Proceeds from issue of Senior Secured Notes	31	1,731,580	-
Proceeds from loans and borrowings	31	378,554	342,929
Proceeds from capital contribution		590,083	-
Transaction costs related to loans and borrowings	31	(42,563)	(685)
Repayment of borrowings	31	(2,650,488)	(186,005)
Payment of lease liabilities	14	(9,683)	(7,805)
Derivative settlement		(6,433)	(2,772)
Interest paid		(164,193)	(159,044)
Net cash used in financing activities		**(173,143)**	**(13,382)**
Net (decrease) / increase in cash and cash equivalents		**(15,560)**	**663**
Cash and cash equivalents at beginning of period		124,495	129,171
Effect of movements in exchange rates on cash held		5,617	(5,339)
Cash and cash equivalents at end of period	19	**114,552**	**124,495**

The notes on pages 20 to 73 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 2020 were authorised for issue in accordance with a resolution of Directors on 17 March 2021. 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 33.

General information and basis of preparation

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

Basis of consolidation

The Group consolidated financial statements consolidate the financial statements of Garfunkelux Holdco 2 S.A. ("the Company") and all its subsidiary undertakings (together "the Group") for the year ended 31 December 2020.

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

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

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

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

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

Functional and presentation currency

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

1. Significant accounting policies (continued)

Going concern

The Group's business and activities are set out in the Consolidated Statement of Comprehensive Income ("SCI") and Consolidated Statement of Financial Position ("SFP") on pages 16 and 17 respectively. In addition, note 29 to these consolidated financial statements includes the Group's financial risk management objectives; details of its financial instruments and hedging activities and its exposures to credit risk and liquidity risk.

The Group's result for the year ended 31 December 2020 was an operating profit of £79.8m (year ended 31 December 2019: £150.5m) and a net asset position of £611.3m at 31 December 2020 (31 December 2019: £159.6m).

The business as a whole is cash generative before portfolio acquisitions, interest and tax, generating cash of £503.1m in the year to 31 December 2020 (year ended 31 December 2019: £452.5m), with operating cash flow after portfolio acquisitions and tax being £214.4m (year ended 31 December 2019: £37.4m). The Group continually monitors its cash flow requirements to ensure that enough cash is available to meet its commitments.

Management believe collections have shown resilience since the onset of the COVID-19 pandemic; however, as a result of Management actions in the interests of its customers, during Q2 the Group experienced a delay in collections compared to the Estimated Remaining Collections ("ERC") forecast at 31 December 2019. This delay was largely driven by Management decisions to temporarily reduce outbound consumer contact activity and pause legal collection activity in the UK region, of which both activities have resumed in the second half of 2020. Consequently, collections performance has rebounded and as at 31 December 2020 is ahead of the Group's June 2020 collections forecasts at 106%. Management have significant control over the Group's cash flow principally relating to control over the level of portfolio acquisitions, together with cost mitigations, delaying a number of change projects and reducing other discretionary spend.

In assessing whether the going concern basis is appropriate to adopt, the Directors have undertaken a review of forecast cash flow models and a severe but plausible scenario for a period in excess of 12 months from the date of approval of these financial statements. This severe but plausible scenario has been subject to stress testing, taking into account both the Group's performance since the beginning of the COVID-19 pandemic and the possibility of further spikes in infections with continued government lockdown restrictions in 2021. It considers a range of cash flow reductions including reductions in collections across the UK, DACH and the Nordics. This scenario is considered to be reasonable by Management and, after taking Management actions as required, the Group maintains sufficient liquidity and cash reserves to continue as a going concern.

In November 2020 the Group issued three tranches of Senior Secured notes ("notes") being €600m floating rate notes due in May 2026, €740m fixed rate notes and £400m fixed rate notes both due in November 2025. Together with an equity contribution of £600m from the Group's parent, the proceeds were used to redeem all of the Group's outstanding Senior Secured and Senior Unsecured notes. In December 2020 the Group issued additional notes, being €30m floating rate notes due in May 2026, €55m fixed rate notes and £40m fixed rate notes both due in November 2025. The maturity of the Group's €455m RCF has extended to August 2025.

As a result of the refinancing activity, the Group now has three main sources of funding at 31 December 2020, €630m, £440m and €795m, of Senior Secured notes ("notes"), a €455m RCF and a securitisation facility with an option to reset of £255m. As detailed in note 21, at 31 December 2020, £16.0m was drawn on the RCF and there were £229.2m of outstanding borrowings in the securitisation facility. Covenants are detailed in note 21. No covenants have been breached, or are expected to be breached, during the going concern period. The earliest debt maturity horizon is 10 April 2024 and the latest is 1 May 2026, being the securitisation Loan and the €630m senior secured notes respectively. The Group continues to monitor its funding requirements and the Directors believe, given the debt maturity horizon following the recent refinancing activity, there is sufficient time to consider the extension or re-negotiation of existing facilities, or exploration of new funding arrangements as appropriate.

1. Significant accounting policies (continued)

Going concern (continued)

At the balance sheet date Management assessed that the combined operating cash flows of the Group, together with the cash resources and borrowings under the 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.

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

Foreign currency

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

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

1. Significant accounting policies (continued)

Business combinations

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

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments (see below).

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

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

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

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

Goodwill

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

Total goodwill is tested for impairment 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.

1. Significant accounting policies (continued)

Revenue recognition and effective interest rate method

Finance revenue on acquired portfolio investments

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

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

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

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

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

Service revenue

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

Impairment of acquired portfolio investments

Acquired portfolio investments are reviewed for indications of impairment in accordance with the IFRS 9 forward looking expected credit loss ("ECL") model. As the Group's portfolio investments are classified as POCI assets, lifetime ECL is included in the calculation of EIR. 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.

1. Significant accounting policies (continued)

Financial instruments

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

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

Financial assets and liabilities at fair value through profit or loss

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

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

Amortised cost financial assets

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

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

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

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

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

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

Impairment of financial assets

Financial assets, other than those held at fair value through profit or loss 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.

1. Significant accounting policies (continued)

Financial instruments (continued)

Derecognition of financial assets

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

Financial liabilities and equity

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

Financial liabilities

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

Derivative financial instruments

The Group does not hold derivative instruments for trading purposes.

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

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

Fair value measurements

The fair value of financial instruments is determined in accordance with IFRS 13 (Fair Value Measurement), as described in note 29.

Provisions

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

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

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

1. Significant accounting policies (continued)

Pensions

Defined benefit pensions

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

Defined contribution pensions

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

Taxation

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

Current tax

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

Deferred tax

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

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

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

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

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

1. Significant accounting policies (continued)

Taxation (continued)

Deferred tax (continued)

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

VAT

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

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

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

Collection activity costs

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

Current versus non-current classification

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

An asset is current when it is:

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

All other assets are classified as non-current.

A liability is current when:

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

The Group classifies all other liabilities as non-current.

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

1. Significant accounting policies (continued)

Investment vehicles

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

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

Share-based Payments

Some employees (including senior executives) of the Group receive remuneration in the form of share-based payments settled by the main shareholder of the Group as described in note 28.

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

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

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

Equity-settled transactions

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

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

In the consolidated financial statements of the Group, the share-based payment arrangements described in note 28 have been classified as equity settled transaction because the Group has no obligation to settle the transaction with the employees for services it receives.

1. Significant accounting policies (continued)

Cash and cash equivalents

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

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

Property, plant and equipment

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

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

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

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

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

Intangible assets

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

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

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

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

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

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

1. Significant accounting policies (continued)

Leases and Right-of-use assets

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

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

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

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

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

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

The lease liability is measured at 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.

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

Portfolio investment valuation

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

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

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

The ERC of the portfolio investments has been assessed at the period-end on a regional basis. Management have considered the observable information available in forming judgements for each region, noting that collections, despite the COVID-19 pandemic, have remained resilient during 2020, albeit reducing in the second quarter across the Group, largely due to temporarily implemented Management actions. Management's significant accounting judgement is that any UK regional underperformance in FY20 is a short-term deferral rather than loss of collections, and that those deferred collections will be recovered during the next couple of years. If the deferred collections were to be recovered 6 months later than expected, the time value of money impact on the carrying value of the portfolio investments at 31 December 2020 would be a reduction of £0.3m.

In line with Management expectations, collection rates have increased since June 2020, as a result of consumer contact activity returning to volumes observed prior to the pandemic outbreak and litigation activity recommencing in the second half of 2020. Consequently, management forecasts incorporate the change in timing of future collections, impacting the portfolio valuation in the short-term and resulting in the Group recognising a net portfolio write-down of £11.0m in Q2 2020. Positive revaluation from H2 2020 and mechanical roll-forward have offset the Q2 write-down, resulting in a net portfolio write-up of £20.6m during the year to December 2020 (FY19: net portfolio write-up of £144.8m).

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 2020 by £16.9m (31 December 2019: £16.6m).

The ongoing impact of the COVID-19 pandemic continues to spread and may impact our ability to perform collection activities due to disruptions to the court system or other key operational activities. Our assumptions regarding the duration and impact of the COVID-19 pandemic to future collections could change significantly as conditions evolve.

2. Significant accounting estimates and judgements (continued)

Goodwill and valuation of intangible assets

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

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

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

The Group’s significant estimate in the cash flow analysis underpinning the impairment review is the level of portfolio acquisitions that can be achieved over the forecast period within each CGU, based on the future profitability and funding profile of the Group.

See note 11 for further details.

3. Segmental reporting

Segmentation

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

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

All revenues are derived from external customers.

Segmental results

Year ended 31 December 2020

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

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

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

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

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

3. Segmental reporting (continued)

Segmental results (continued)

Year ended 31 December 2019

	UK £000	DACH £000	Nordics £000	Holding companies £000	Total £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 / (loss)	**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.

	At 31 December 2020 £000	At 31 December 2019 £000
Non-current assets		
UK	580,759	588,345
DACH	583,503	558,106
Nordics	270,610	237,578
Total non-current assets	**1,434,872**	**1,384,029**

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

3. Segmental reporting (continued)

Secondary segment

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

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

	Year ended 31 December 2020 £000	Year ended 31 December 2019 £000
Income		
DP	414,875	520,298
3PC income	152,523	169,228
Lawyer service revenue	36,448	49,598
Other	6,008	7,146
Total income	**609,854**	**746,270**

4. Loss before tax

Loss for the period is after charging:	Year ended 31 December 2020 £000	Year ended 31 December 2019 £000
Depreciation and impairment of property, plant and equipment (note 13 & 14)	14,027	12,295
Amortisation and impairment of intangible assets (note 12)	29,991	29,933
Loss on disposal of property, plant and equipment and intangible assets	178	309
Staff costs (note 5c)	206,798	219,172

5. Staff costs and other operating expenses

a) Other operating expenses

	Year ended 31 December 2020 £000	Year ended 31 December 2019 £000
Staff costs (note 5c)	101,341	106,260
Depreciation of property, plant and equipment (note 13 & 14)	14,027	12,295
Amortisation of intangible assets (note 12)	29,991	27,205
Impairment of assets	5,338	2,728
Loss on disposal of property, plant and equipment and intangible assets	178	309
Licences and maintenance for IT equipment	32,140	33,970
Building and facility costs	6,393	6,537
Other operating expenses	50,348	63,964
Total other operating expenses	**239,756**	**253,268**

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

5. Staff costs and other operating expenses (continued)

b) Auditor's remuneration

	Year ended 31 December 2020 £000	Year ended 31 December 2019 £000
Audit fees of Parent Company and consolidated financial statements	232	206
Audit fees of financial statements of subsidiaries	931	914
Tax fees	-	37
Other services	520	119
Total auditor's remuneration	**1,683**	**1,276**

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

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

c) Staff costs

	Year ended 31 December 2020 £000	Year ended 31 December 2019 £000
Collection activity costs	105,457	112,912
Other expenses	101,341	106,260
Total staff costs	**206,798**	**219,172**

	Year ended 31 December 2020 £000	Year ended 31 December 2019 £000
Wages and salaries	174,748	185,933
Social security costs	23,233	24,197
Pension costs to defined contribution schemes	8,032	8,256
Pension costs to defined benefit schemes	785	786
Total staff costs	**206,798**	**219,172**

The average number of employees during the period was:

	Year ended 31 December 2020 Number	Year ended 31 December 2019 Number
Operational staff	2,642	2,958
Business support	1,272	1,279
Total average number of employees	**3,914**	**4,237**

The period end number of employees was:

	31 December 2020 Number	31 December 2019 Number
Operational staff	2,535	2,771
Business support	1,265	1,267
Total number of employees at period end	**3,800**	**4,038**

5. Staff costs and other operating expenses (continued)

d) Directors' remuneration

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

Emoluments paid to other key employees who are not Directors of this Company but are Directors of subsidiaries of the Company are detailed in note 33. Twelve employees are paid by subsidiary undertakings of the Company for their services as Directors to the Group.

6. Finance income

	Year ended 31 December 2020 £000	Year ended 31 December 2019 £000
Bank interest receivable	514	538
Interest receivable on loans to affiliated companies	625	642
Gain from repurchase of borrowings (note 21)	-	3,910
Net foreign exchange gain	-	1,034
Other interest receivable	-	76
Net gain on financial instruments designated as FVTPL	4,883	-
Total finance income	**6,022**	**6,200**

7. Finance costs

	Year ended 31 December 2020 £000	Year ended 31 December 2019 £000
Interest payable on the Senior Secured Notes	112,452	111,320
Interest payable on the Senior Unsecured Notes	18,250	24,051
Fees payable on borrowings	44,461	15,001
Interest and fees payable on Revolving Credit Facility	12,887	9,477
Interest payable on shareholder loan	39,633	35,247
Interest payable on securitisation	7,151	7,847
Fees payable on other finance structures	800	-
Other interest payable	4,606	4,852
Interest expense from lease liabilities	2,268	2,221
Net loss on financial instruments designated as FVTPL	-	13,993
Net foreign exchange loss	1,026	-
Total finance costs	**243,534**	**224,009**

8. Income tax

a) Amounts recognised in the Statement of Comprehensive Income

	Year ended 31 December 2020 £000	Year ended 31 December 2019 £000
Current taxation		
Corporation tax	6,584	5,382
Adjustment in respect of previous periods	(864)	(724)
Total current tax charge	**5,720**	**4,658**
Deferred tax		
Origination and reversal of temporary differences	(41,677)	(16,521)
Change in estimate of recoverable deferred tax	7,889	4,687
Impact of change in tax rate	(1,806)	-
Total deferred tax credit (note 9)	**(35,594)**	**(11,834)**
Total tax credit	**(29,874)**	**(7,176)**

	Year ended 31 December 2020 £000	Year ended 31 December 2019 £000
Pension Provisions	**(54)**	**(710)**

b) Reconciliation of effective tax rate

The standard average effective rate of corporation tax in Luxembourg is 24.94%. However, as the Group is located in different countries, the standard average effective rate of corporation tax for the Group is 22% (2019: 25%). The tax credit assessed for the period is lower than this and the differences are explained below:

	Year ended 31 December 2020 £000	Year ended 31 December 2019 £000
Loss on ordinary activities before tax	**(157,713)**	**(67,273)**
Tax credit on loss on ordinary activities at a combined countries rate of 22% (2019: 25%)	(34,697)	(16,818)
Effects of:		
Permanent differences	665	169
Net of expenses not deductible and income not taxable	1,246	4,832
Adjustment in respect of prior years deferred taxes	6,968	(2,652)
Impact of tax losses carried forward	921	7,339
Adjustment in respect of prior years current taxes	(864)	(724)
Tax rate differences	(4,105)	499
Other	(8)	179
Total tax credit	**(29,874)**	**(7,176)**

9. Deferred tax

Deferred tax assets and liabilities are attributable to the following as at 31 December 2020 and 31 December 2019.

	31 December 2020 £000	31 December 2019 £000
Recognised in profit or loss		
Intangible assets	(42,644)	(38,644)
Portfolio investments	(36,969)	(37,978)
Tax losses carried forward	72,157	47,459
Other	15,110	5,965
Net tax assets / (liabilities)	**7,654**	**(23,198)**

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 2020 £000	Year ended 31 December 2019 £000
SCI effect	35,594	11,834
Equity effect	54	710
Acquisition of subsidiaries	(5,031)	(155)
Disposal of subsidiaries	1,765	-
Exchange rate differences	(1,530)	1,801
Movement in the period	**30,852**	**14,190**

	31 December 2020 £000	31 December 2019 £000
Deferred tax asset	41,236	18,329
Deferred tax liability	(33,582)	(41,527)
Net deferred tax asset / (liability)	**7,654**	**(23,198)**

At 31 December 2020 deferred tax assets of £16.0m (31 December 2019: £14.5m) have not been recognised in respect of tax losses because it is not probable that future taxable profit will be available against which the losses can be utilised. Tax losses recognised are expected to be offset against future taxable profits.

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

10. Acquisition of subsidiaries

Acquisition of Solvencia AS

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

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.

11. Goodwill

	Year ended 31 December 2020 £000	Year ended 31 December 2019 £000
Cost		
Opening balance	1,184,974	1,215,042
Addition on acquisition of subsidiary	658	2,927
Effect of currency translation	35,633	(32,995)
At period end	**1,221,265**	**1,184,974**
Net book value		
At period end	**1,221,265**	**1,184,974**

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

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

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

The recoverable amount of the CGUs is determined as the higher of fair value less cost to sell and value in use. The 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 to an appropriate period to reflect the CGU's business model and then into perpetuity, using the following growth rates:

	31 December 2020 £000	31 December 2019 £000
UK CGU	2.0%	2.0%
DACH CGU	2.0%	2.0%
Nordics CGU	1.5%	1.5%

Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The 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 2020 £000	31 December 2019 £000
UK CGU	6.3%	6.8%
DACH CGU	5.6%	4.1%
Nordics CGU	6.0%	6.1%

11. Goodwill (continued)

The Group prepares cash flow forecasts derived from the latest budget, as approved by the Board of Directors in December 2020. 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 69% would result in an impairment at 31 December 2020. An increase in WACC of 6.5 percentage points to 12.8% would result in an impairment at 31 December 2020.

DACH CGU

The CGU has a carrying value of £475m. Based on the value in use a fall in the forecast cash flows of 37% would result in an impairment at 31 December 2020. An increase in WACC of 1.8 percentage points to 7.4% would result in an impairment at 31 December 2020.

Nordics CGU

The CGU has a carrying value of £190m. Based on the value in use a fall in the forecast cash flows of 57% would result in an impairment at 31 December 2020. An increase in WACC of 4.2 percentage points to 10.2% would result in an impairment at 31 December 2020.

12. Intangible assets

	Software and licences £000	Development costs £000	Customer relationships £000	Trademarks £000	Total £000
Cost					
At 1 January 2020	52,091	11,340	154,478	16,278	234,187
Acquisition of subsidiary	-	-	193	-	193
Additions	8,517	10,095	22,323	-	40,935
Held for sale	(924)	-	(9,599)	(8)	(10,531)
Reclassification	5,743	(5,710)	-	-	33
Currency exchange differences	3,364	483	8,292	402	12,541
Disposals	(92)	-	-	-	(92)
At 31 December 2020	**68,699**	**16,208**	**175,687**	**16,672**	**277,266**
Accumulated amortisation					
At 1 January 2020	(26,273)	(428)	(52,246)	(9,559)	(88,506)
Charge for the year	(12,657)	-	(16,714)	(620)	(29,991)
Disposals	26	-	-	-	26
Reclassification	(13)		-	-	(13)
Held for sale	826	4,080	6	-	4,912
Asset impairment	-	-	-	-	-
Currency exchange differences	(1,924)	91	(3,049)	(401)	(5,284)
At 31 December 2020	**(40,015)**	**3,743**	**(72,003)**	**(10,580)**	**(118,855)**
Net book value					
At 31 December 2020	**28,684**	**19,951**	**103,684**	**6,092**	**158,411**
At 31 December 2019	**25,818**	**10,912**	**102,232**	**6,719**	**145,681**

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 2020 £000	31 December 2019 £000
Assets owned by the Group	11,630	13,100
Right-of-use assets (note 14a)	43,566	40,274
Total	**55,196**	**53,374**

Assets owned by the Group

	Leasehold improvements £000	Hardware £000	Office Equipment £000	Total £000
Cost				
At 1 January 2020	4,233	3,943	12,569	20,745
Acquisition of subsidiary	-	-	199	199
Additions	142	767	1,384	2,293
Reclassification	-	-	(33)	(33)
Held for sale	-	-	(167)	(167)
Currency exchange differences	-	-	778	778
Disposals	-	(179)	(213)	(392)
At 31 December 2020	**4,375**	**4,531**	**14,517**	**23,423**
Accumulated depreciation				
At 1 January 2020	(1,165)	(1,820)	(4,660)	(7,645)
Charge for the year	(543)	(778)	(2,877)	(4,198)
Reclassification	-	-	13	13
Held for sale	-	-	121	121
Disposals	-	115	164	279
Currency exchange differences	-	-	(363)	(363)
At 31 December 2020	**(1,708)**	**(2,483)**	**(7,602)**	**(11,793)**
Net book value				
At 31 December 2020	**2,667**	**2,048**	**6,915**	**11,630**
At 31 December 2019	**3,068**	**2,123**	**7,909**	**13,100**

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

14. Leases

The Group's leases

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

There are two property leases in the UK. One, which has been negotiated for a lease term of 15 years, commenced on 9 December 2013, and the other, which has been negotiated for a lease term of 12 years, commenced on 1 July 2016. Both leases include an option to break, free of charge, in November 2023.

During 2020, the Group made the decision to relocate the two UK offices to one new property and therefore intend to use the termination provisions in November 2023 for both current property leases.

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

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

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

a) Right-of-use assets

Amounts recognised on the balance sheet

	31 December 2020 £000	31 December 2019 £000
Leasehold Property	35,693	37,578
Cars	1,192	1,228
Office equipment	6,681	1,468
Total	**43,566**	**40,274**

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

Additions to right-of-use assets during the 2020 financial year were £19.2m (2019: £12.7m).

There was no evidence of impairment on right-of-use assets at 31 December 2020.

b) Lease liabilities

	31 December 2020 £000	31 December 2019 £000
Non-current	37,580	33,667
Current	11,035	9,707
Total	**48,615**	**43,374**

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

14. Leases (continued)

c) Amounts recognised in the consolidated statement of comprehensive income

Depreciation charge for right-of-use assets	31 December 2020 £000	31 December 2019 £000
Leasehold Property	7,440	7,196
Cars	1,005	792
Other office equipment	1,384	384
Total	**9,829**	**8,372**

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

The total cash outflow for leases in 2020 was £11.9m (2019: 10.0m) of which £2.3m (2019: £2.2m) relates to interest expense and £9.7m (2019: £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 2020 (31 December 2019: 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 2020	Ordinary share holding % as at 31 December 2019
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[2]	UK	100	100
Lowell Group Financing Plc[2]	UK	100	100
Lowell Group Limited	UK	100	100
Lowell Funding Limited[2]	UK	100	100
Lowell Acquisitions Limited[2]	UK	100	100
Lowell Holdings Limited[2]	UK	100	100
Lowell Finance Limited[2]	UK	100	100
Lowell Financial Limited	UK	100	100
Lowell Portfolio I Limited	UK	100	100
Tocatto Limited[2]	UK	100	100
Lowell UK Shared Services Limited[4] (formerly Lowell Portfolio III Holdings Limited)	UK	100	100
Lowell Portfolio III Limited[2]	UK	100	100
Lowell Group Shared Services Limited[5] (formerly Lowell Portfolio IV Holdings Limited)	UK	100	100
Lowell Portfolio IV Limited	UK	100	100
Lowell Solicitors Limited	UK	100	100
Interlaken Group Limited[2]	UK	100	100
Fredrickson International Limited	UK	100	100
SRJ Debt Recoveries Limited[2]	UK	100	100
Lowell Receivables Financing 1 Limited	UK	100	100
Lucas Credit Services Limited	UK	100	100
Lowell Group Management GmbH	Austria	100	100
Lowell Inkasso Service GmbH	Austria	100	100
Lowell Portfoliomanagement GmbH	Austria	100	100
Lowell Inkasso Service GmbH	Switzerland	100	100
Lowell Inkasso Servis d.o.o	Croatia	100	100
Tesch Inkasso Forderungsmanagement GmbH	Germany	100	100
Tesch Service GmbH	Germany	100	100

15. Group structure (continued)

Name	Country of incorporation	Ordinary share holding % as at 31 December 2020	Ordinary share holding % as at 31 December 2019
DC Portfolien GmbH	Germany	100	100
Tesch Mediafinanz GmbH[7]	Germany	100	100
Tesch Inkasso Finance GmbH	Germany	100	100
Apontas GmbH & Co KG[6]	Germany	100	100
Apontas Verwaltungs GmbH	Germany	100	100
Apontas Inkasso GmbH[6]	Germany	-	100
Apontas Invest GmbH[6]	Germany	-	100
Lowell Investment GmbH	Germany	100	100
Lowell Service GmbH	Germany	100	100
Lowell Nordics Oy	Finland	100	100
Lowell Sverige AB	Sweden	100	100
Lowell AS	Norway	100	100
Lowell Norge AS	Norway	100	100
Lowell Finans AS	Norway	100	100
Lowell Danmark A/S	Denmark	100	100
Lowell Finans A/S	Denmark	100	100
Aktieselskabet af 18. Maj 2018 A/S	Denmark	100	100
Lowell Suomi Oy	Finland	100	100
Solvencia AS[1]	Norway	100	-
Lowell Treasury Co. Limited[3]	UK	100	-

[1]Solvencia AS was acquired on 1 October 2020 (note 10).

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

[3]Lowell Treasury Co. Limited was incorporated on 3 November 2020.

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

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

[6]Apontas Inkasso GmbH and Apontas Invest GmbH merged with Apontas GmbH & Co KG on 27 August 2020.

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

16. Portfolio investments

	31 December 2020 £000	31 December 2019 £000
Non-current		
Portfolio investments	1,106,672	1,063,486
Current		
Portfolio investments	555,093	596,652
Total	**1,661,765**	**1,660,138**

The movements in acquired portfolio investments were as follows:

	31 December 2020 £000	31 December 2019 £000
At start of year	**1,660,138**	**1,561,013**
Portfolios acquired during the year	281,406	397,251
Collections in the year	(740,756)	(780,447)
Income from portfolio investments	395,568	377,055
Net portfolio write up	20,596	144,807
Portfolio fair value release	(1,289)	(1,564)
Other*	46,102	(37,977)
At end of year	**1,661,765**	**1,660,138**

*Relates primarily to foreign exchange movements.

17. Trade and other receivables

	31 December 2020 £000	31 December 2019 £000
Trade receivables	13,426	11,039
Prepayments and accrued income	15,176	16,405
Other receivables	13,447	11,067
Tax receivable	2,478	3,132
Total	**44,527**	**41,643**

Trade receivables are primarily made up of amounts due from clients for services provided. This figure includes gross receivables of £15.5m (2019: £12.5m), and an allowance for bad debt of £2.1m (2019: £1.5m).

18. Other financial assets

	31 December 2020 £000	31 December 2019 £000
Non-current		
Receivables from affiliated companies	44	8,710
Other	5,798	526
Total non-current	**5,842**	**9,236**
Current		
Securitisation receivables	1,536	1,771
Other	10,741	6,618
Total current	**12,277**	**8,389**
Total other financial assets	**18,119**	**17,625**

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 2020 £000	31 December 2019 £000
Cash and bank balances	47,610	62,984
Restricted cash balances	66,942	61,511
Total cash and equivalents	**114,552**	**124,495**

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. Assets and liabilities held for sale

During 2020 the Group made the decision to sell a small element of its Tesch businesses within the DACH region, being the entity Tesch Mediafinanz GmbH, which provided 3PC services on low balance claims. A sale of the entity was agreed for 1 January 2021 and has subsequently been completed. In accordance with IFRS 5, the assets and liabilities of the entity are classified separately in the Statement of Financial Position and measured at the lower of their carrying value and fair value less costs to sell, being a net asset value of £0.1m.

21. Borrowings

	31 December 2020 £000	31 December 2019 £000
Non-current		
Unsecured borrowings at amortised cost		
Senior Notes	-	196,500
Prepaid costs on Senior Notes	-	(5,503)
Shareholder loan owed to Garfunkelux Holdco 1 S.à r.l.	454,139	388,079
Total unsecured	**454,139**	**579,076**
Secured borrowings at amortised cost		
Senior Secured Notes	1,721,075	1,779,485
Prepaid costs on Senior Secured borrowings	(24,021)	(26,650)
Securitisation loans	157,892	117,443
Total secured	**1,854,946**	**1,870,278**
Total borrowings due for settlement after 12 months	**2,309,085**	**2,449,354**
Current		
Unsecured borrowings at amortised cost		
Interest on Senior Notes	-	3,603
Other interest payable	508	498
Total unsecured	**508**	**4,101**
Secured borrowings at amortised cost		
Interest on Senior Secured Notes	18,642	20,770
Prepaid costs on Senior Secured borrowings	(5,005)	-
Revolving credit facility	16,001	265,741
Securitisation loans	81,309	76,717
Total secured	**110,947**	**363,228**
Total borrowings due for settlement before 12 months	**111,455**	**367,329**

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

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

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

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

21. Borrowings (continued)

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

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

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

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

There are two covenant measures under the terms of the Senior Secured Notes; Fixed Charge Coverage Ratio, which must be at least 2:1 and Consolidated Senior Secured Leverage Ratio, which cannot exceed 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 International Stock Exchange (TISE).

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 which was extended to 4 August 2025 as part of the Group’s refinancing in November 2020. As part of the extension, the RCF availability will now be calculated as the lower of either 17.5% of 84m ERC or committed funds, which remain €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.

21. 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.

On 5 November 2020 the aggregate amount outstanding on the Shareholder Loans was €490.4m. On this date the Shareholder Loans were re-denominated into £447.3m and continue to accrue interest at a rate of 9.66% (2019: 9.66%), which can be paid or capitalised on an annual basis.

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

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

	31 December 2020	31 December 2019
Notes	6.84%	6.59%
RCF	3.90%	4.11%
Shareholder loan owed to Garfunkelux Holdco 1 S.à r.l.	9.66%	9.66%
Securitisation loans	3.01%	3.51%

22. Trade and other payables

	31 December 2020 £000	31 December 2019 £000
Trade payables	9,808	12,942
Other taxes and social security	10,458	5,638
Accruals and deferred income	41,697	42,571
Other payables	43,937	44,679
Total	**105,900**	**105,830**

Other payables includes amounts due of £0.7m in respect of portfolios purchased but not yet paid for at 31 December 2020 (31 December 2019: £5.6m).

23. Provisions

	Tax provision £000	Site restoration provision £000	Employee related provision £000	Other provision £000	Client payments provision £000	Total £000
At 1 January 2020	**11,905**	**1,982**	**1,749**	**4,895**	**-**	**20,531**
Provisions made during the year	2,122	599	251	6,655	9,993	19,620
Amounts utilised during the year	(1,401)	-	(136)	(1,755)	-	(3,292)
Provisions reversed during the year	(56)	-	(17)	(745)	-	(818)
Discount unwind	-	97	(55)	46	-	88
Exchange differences	695	-	101	299	-	1,095
At 31 December 2020	**13,265**	**2,678**	**1,893**	**9,395**	**9,993**	**37,224**
Non-current	-	2,678	1,833	768	-	5,280
Current	13,265	-	60	8,627	9,993	31,944
Total	**13,265**	**2,678**	**1,893**	**9,395**	**9,993**	**37,224**

Tax related provisions of £13.3m largely comprise amounts owed due to VAT backpayments of £4.6m (31 December 2019: £4.7m) as well as other tax related provisions of £8.7m (31 December 2019: £7.2m).

The client payments provision represents the estimated liability of contractual reimbursement of collections to be transferred to certain clients on a small number of legacy portfolios.

Other provisions contains onerous contract provisions of £1.8m as at 31 December 2020 (31 December 2019: £1.5m).

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

24. Other financial liabilities

	31 December 2020 £000	31 December 2019 £000
Non-current		
Lease liabilities	37,580	33,667
Other financial liabilities	6,938	555
Total non-current other financial liabilities	**44,518**	**34,222**
Current		
Lease liabilities	11,035	9,707
Liabilities from treasury shares	3,517	7,485
Total current other financial liabilities	**14,552**	**17,192**

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

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

25. Share capital

	£000
In issue at 31 December 2019 and 31 December 2020	**4,385**

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

The rights attached to the ordinary shares are as follows:

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

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

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

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

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

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

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

26. Reserves

Capital reserve

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

	31 December 2020 £000	31 December 2019 £000
At start of year	**(8,291)**	**(7,946)**
Adjustment in relation to purchase of shares in subsidiary	-	(345)
At end of year	**(8,291)**	**(8,291)**

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

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

At 31 December 2020 and 31 December 2019, 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.

27. Retained deficit

	31 December 2020 £000	31 December 2019 £000
Loss attributable to equity holders of the parent	**(127,839)**	**(60,097)**

28. Share-based payments

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

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

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

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

29. Financial instruments

Categories of financial instruments

	31 December 2020 £000	31 December 2019 £000
Financial assets		
Cash and cash equivalents	114,552	124,495
Loans and receivables (portfolio investments)	1,661,765	1,660,138
Other	63,363	61,493
Derivatives (FVTPL)	956	-
Financial liabilities		
Borrowings - Notes	1,739,717	2,000,358
Borrowings – RCF	16,001	265,741
Borrowings – Shareholder loan	454,139	388,079
Borrowings – Securitisation loan	239,202	194,160
Borrowings – other	508	498
Trade and other payables	105,900	105,830
Other financial liabilities	59,070	51,414
Tax liability	36,421	30,991
Provisions	37,224	20,531
Derivatives (FVTPL)	2,710	12,193

29. Financial instruments (continued)

Significant accounting policies

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

Financial risk management objectives

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

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

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

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

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

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

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

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

Strategic risk management

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

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

The Group manages the unpredictability of the market through a number of financing structures. The Group has in place €630m, £440m and €795m of Senior Secured loan Notes, €455m RCF facility and securitisation facility with an option to reset of £255.0m. At 31 December 2020 the UK securitisation and RCF facilities were £245.2m drawn down (31 December 2019: £459.9m). These facilities allow the Group the flexibility to bid on portfolios as and when they come to market and are not restricted by cash flow constraints. The Group is also able to jointly purchase portfolios with another party through its co-investment strategic partnership.

29. Financial instruments (continued)

Financial risk management

Credit and Counterparty risk management

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

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

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

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

The carrying value by geography is shown below:

	31 December 2020 £000	31 December 2019 £000
UK	950,430	974,164
DACH	227,889	222,035
Nordics	483,446	463,939
Total	**1,661,765**	**1,660,138**

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 2020, the Group had available undrawn committed borrowing facilities of £418.8m (31 December 2018: £198.4m). See note 21 for further details on banking facilities.

29. Financial instruments (continued)

Liquidity and Capital risk management (continued)

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

As at 31 December 2020

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

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**

[1] Includes Loan principal outstanding and accrued interest (note 21).

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

Other liabilities includes "Trade and other payables", "Provisions", "Derivatives", "Current tax liabilities", "Other financial liabilities" and "Other interest payable" (note 21).

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

29. Financial instruments (continued)

Liquidity and Capital risk management (continued)

Group financing facilities

	31 December 2020 £000	31 December 2019 £000
Securitisation and RCF		
Amount used	245,281	459,901
Amount unused	418,828	198,385
Total	**664,109**	**658,286**

Capital risk management

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

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

Interest rate risk management

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

The Group's RCF has a variable interest rate and as at 31 December 2020 this was £16.0m drawn down (31 December 2019: £265.4m). Interest is payable on the RCF at a maximum of 3.5% + LIBOR/EURIBOR. The Group also had one floating rate note issuance in place as at 31 December 2020 with principal of €630m and an interest rate of 6.25% + EURIBOR (subject to a 0% floor).

Interest rate sensitivity analysis

The sensitivity analysis has been determined based on the exposure to interest rates for non-derivative instruments at the SFP date. A 2.5 percentage point increase or decrease represents Management's assessment of the reasonably possible change in interest rates. If interest rates had been 2.5 percentage points higher for the full year and all other variables were held constant, the Group's losses would increase for the year ended 31 December 2020 by £36.1m (2019: £34.8m). This is attributable to the Group's exposure to interest rates on its variable rate borrowings.

Foreign exchange swap contracts

The derivatives recognised at 31 December 2020 and 31 December 2019 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.

29. Financial instruments (continued)

Foreign exchange risk management

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

	31 December 2020 £000	31 December 2019 £000
Net assets		
EUR	(778,762)	(622,073)
SEK	257,932	142,723
NOK	148,324	99,916
DKK	116,790	131,466
Total	**(255,716)**	**(247,968)**

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.

	2020 £000	2019 £000
(Increase) / decrease in loss before tax		
EUR	(8,139)	1,200
SEK	324	359
NOK	742	383
DKK	809	817
(Decrease) / increase in Shareholders' equity		
EUR	(70,310)	(53,206)
SEK	25,793	14,272
NOK	14,832	9,992
DKK	11,679	13,147

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.

29. Financial instruments (continued)

Compliance risk

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

29. Financial instruments (continued)

Financial assets and liabilities

Financial assets and liabilities are classified into the following categories:

	31 December 2020 £000	31 December 2019 £000
Financial assets		
Investments and receivables	1,725,128	1,721,631
Cash and cash equivalents	114,552	124,495
Derivative financial instruments	956	-
Total financial assets	**1,840,636**	**1,846,126**
Financial liabilities		
Derivative financial instruments	2,710	12,193
Financial liabilities measured at amortised cost	2,688,170	3,057,602
Total financial liabilities	**2,690,880**	**3,069,795**

Derivatives with positive and negative fair values

As of 31 December 2020, foreign exchange forwards with a total negative fair value of £2.7m were held (31 December 2019: £12.2m). As of 31 December 2020, foreign exchange forwards with a total positive fair value of £1.0m were held (31 December 2019: nil). They were not designated as hedges for hedge accounting purposes (IFRS 9).

Fair value of financial instruments carried at amortised cost

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

	Carrying amount		Fair Value	
	31 December 2020 £000	31 December 2019 £000	31 December 2020 £000	31 December 2019 £000
Financial assets				
Cash and cash equivalents	114,552	124,495	114,552	124,495
Investments and receivables:				
Portfolio investments	1,661,765	1,660,138	1,691,018	1,710,787
Other financial assets	63,362	61,493	63,362	61,493
Total financial assets	**1,839,579**	**1,846,126**	**1,868,932**	**1,896,775**
Financial liabilities				
Financial liabilities measured at amortised cost:				
Senior Secured Notes[1]	1,739,717	1,800,255	1,758,742	1,685,153
Senior Notes[1]	-	200,103	-	194,429
RCF	16,001	265,741	16,001	265,741
Shareholder loan	454,139	388,079	454,139	388,079
Securitisation loan	239,202	194,160	239,202	194,160
Other financial liabilities	239,111	209,264	239,111	209,267
Total financial liabilities	**2,688,170**	**3,057,602**	**2,707,195**	**2,936,829**

[1]Includes loan principal outstanding and accrued interest (note 21).

29. Financial instruments (continued)

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

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

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

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

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

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

29. Financial instruments (continued)

Fair value measurements recognised in the Statement of Financial Position

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

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

	31 December 2020 £000	31 December 2019 £000
Level 2		
Financial assets at fair value:		
Derivatives not designated as part of a hedge relationship	956	-
Financial liabilities at fair value:		
Derivatives not designated as part of a hedge relationship	(2,710)	(12,193)
Total	**(1,754)**	**(12,193)**

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

30. Note to the statement of cash flows

	Note	Year ended 31 December 2020 £000	Year ended 31 December 2019 £000
Loss for the year		**(127,839)**	**(60,097)**
Tax credit	8	29,874	7,176
Loss for the year, before tax		**(157,713)**	**(67,273)**
Adjustments for:			
Income on portfolio investments	16	(395,568)	(377,055)
Net portfolio write up	16	(20,596)	(144,807)
Portfolio fair value release	16	1,289	1,564
Collections on owned portfolios	16	740,756	780,447
Depreciation and amortisation	5	44,017	39,500
Impairment of assets	5	5,338	2,728
Loss on disposal of PPE and intangible assets	5	178	309
Finance income	6	(6,022)	(6,200)
Finance costs	7	243,534	224,009
Unrealised losses from foreign exchange		42,916	870
Decrease in trade and other receivables		184	3,860
Decrease in trade and other payables		(29,611)	(9,033)
Movement in other net assets		34,434	3,555
Cash generated by operating activities before portfolio acquisitions		**503,137**	**452,474**
Portfolios acquired[1]		(287,776)	(413,804)
Income taxes paid		(922)	(1,262)
Net cash generated by operating activities		**214,439**	**37,408**

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

31. 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 2020	**2,000,358**	**388,079**	**(32,153)**	**265,741**	**194,160**	**498**	**2,816,683**
Changes from financing cash flows							
Proceeds from loans and borrowings	1,731,580	-	-	257,617	120,937	-	2,110,134
Repayment of borrowings	(2,061,015)	-	-	(512,879)	(76,594)	-	(2,650,488)
Interest paid	(139,434)	(4)	-	(13,270)	(7,344)	(1,873)	(161,925)
Transaction costs on borrowings	-	-	(42,563)	-	-	-	(42,563)
Total changes from financing cash flows	**(468,869)**	**(4)**	**(42,563)**	**(268,532)**	**36,999**	**(1,873)**	**(744,842)**
The effect of changes in foreign exchange rates	**77,526**	**26,431**	**1,229**	**5,908**	**897**	**10**	**112,001**
Changes from liabilities							
Interest expense	130,702	39,633	-	12,884	7,145	1,873	192,237
Redemption premium	-	-	8,068	-	-	-	8,068
Prepaid cost release	-	-	36,394	-	-	-	36,394
Total liability related changes	**130,702**	**39,633**	**44,461**	**12,884**	**7,145**	**1,873**	**236,698**
Balance at 31 December 2020	**1,739,717**	**454,139**	**(29,026)**	**16,001**	**239,201**	**508**	**2,420,540**

32. Employee benefits

a) Defined benefit schemes

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

	31 December 2020 £000	31 December 2019 £000
Defined benefit pension net liabilities		
DACH	7,727	6,457
Nordics	2,375	3,292
Total	**10,102**	**9,749**

DACH

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

An interest rate of between 0.5% and 0.8% (2019: 1.7% and 2.2%), 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% (2019: 1.0 to 1.5%), salary increases at 2.0% (2019: 0.0% to 2.0%), and the employee turnover rate in a range from 0.0% to 2.0% (2019: 0.0% to 2.0%). The employee turnover rate, in particular, depends on the age of the pension beneficiaries. Mortality and invalidity rates were measured for the German companies using the 2018 G Heubeck mortality tables.

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

The net liability is calculated as follows:

	31 December 20209 £000	31 December 2019 £000
Present value of unfunded defined benefit obligation	10,686	9,189
Plan assets	(2,959)	(2,732)
Net liability	**7,727**	**6,457**

32. Employee benefits (continued)

a) Defined benefit schemes (continued)

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

	31 December 2020 £000	31 December 2019 £000
Opening balance of defined benefit obligation	**9,189**	**8,050**
Interest expense	107	153
Pension payments	(227)	(215)
Current service cost	92	77
Actuarial losses/(gains)	986	1,524
Currency translation adjustments	539	(400)
Closing balance of defined benefit obligation	**10,686**	**9,189**

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 2020 £000	31 December 2019 £000
Opening balance of plan assets	**2,732**	**2,788**
Net interest income	34	55
Actuarial gains	23	28
Contributions	88	71
Payments	(76)	(74)
Currency translation adjustments	158	(136)
Closing balance of plan assets	**2,959**	**2,732**

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 £89k (£70k at 31 December 2019).

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

	Year ended 31 December 2020 £000	Year ended 31 December 2019 £000
Opening balance	**6,457**	**5,262**
Payments arising from pension obligations	(238)	(215)
Allocation to defined benefit obligation	164	178
Actuarial losses	962	1,496
Currency translation adjustments	382	(264)
Closing balance	**7,727**	**6,457**

32. Employee benefits (continued)

a) Defined benefit schemes (continued)

A quantitative sensitivity analysis of the key assumptions as of 31 December 2020 is as shown below:

	31 December 2020 £000
Interest rate	
Increase 0.5%	(982)
Decrease 0.5%	1,133
Salary trend	
Increase 0.5%	195
Decrease 0.5%	(163)
Benefits trend	
Increase 0.5%	882
Decrease 0.5%	(789)

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 2020 £000	31 December 2019 £000
Within the next 12 months	237	219
Between 1 and 5 years	1,022	938
Between 5 and 10 years	1,602	1,452
More than 10 years	11,104	10,665
Total expected payments	**13,965**	**13,274**

The average duration of the defined benefit obligation at the end of the reporting period is 20 years (31 December 2019: 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 2020 £000	31 December 2019 £000
Present value of unfunded defined benefit obligation	7,638	7,631
Plan assets	(5,263)	(4,339)
Net liability	**2,375**	**3,292**

32. Employee benefits (continued)

a) Defined benefit schemes (continued)

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

	31 December 2020 £000
Opening balance of defined benefit obligation	**7,971**
Interest expense	103
Pension payments	(99)
Current service cost	281
Payroll tax of employer	(34)
Actuarial gains	(538)
Currency translation adjustments	(46)
Closing balance of defined benefit obligation	**7,638**

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

	31 December 2020 £000
Opening balance of plan assets	**4,576**
Net interest income	54
Actuarial gains	386
Contributions	273
Payroll tax of employer	(34)
Payments	(99)
Currency translation adjustments	107
Closing balance of plan assets	**5,263**

b) Defined contribution schemes

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

The total cost charged to income of £5.5m (2019: £8.3m) represents contributions payable to these schemes by the Group at rates specified in the rules of the schemes.

As at 31 December 2020, contributions of £303k (31 December 2019: £786k) due in respect of the current reporting period had not been paid over to the schemes.

33. 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 2020 £000	31 December 2019 £000
Balances with immediate parent undertaking		
Shareholder loan with Garfunkelux Holdco 1 S.à r.l. (note 21)	(454,139)	(388,079)
Loan owed from Garfunkelux Holdco 1 S.à r.l.	-	3,529
Balances with other related parties		
Loan owed from Garfunkelux Nominee S.à r.l.	116	5,171
Permira Beteiligungsberatung GmbH (trading)	(6)	(9)
Genesys Telecommunication Laboratories B.V. (trading)	1	(40)

Transactions with related parties

	31 December 2020 £000	31 December 2019 £000
Transactions with immediate parent		
Shareholder loan interest with Garfunkelux Holdco 1 S.à r.l.	(39,633)	(35,247)
Loan interest owed from Garfunkelux Holdco 1 S.à r.l.	241	265
Transactions with other related parties		
Loan interest owed from Garfunkelux Nominee S.à r.l.	343	377
Loan to Garfunkelux Nominee S.à r.l.	(5,398)	(254)
Permira Beteiligungsberatung GmbH (trading)	(72)	(88)
Teamviewer GmbH (trading)	5	1
Duff and Phelps (trading)	(21)	(35)
Genesys Telecommunication Laboratories B.V. (trading)	(399)	(556)
P&I Personal und Informatik AG (trading)	(2)	(2)

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

33. Related party transactions (continued)

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

	Year ended 31 December 2020 £000	Year ended 31 December 2019 £000
Short-term employee benefits	**3,655**	**4,457**

The above details relate to twelve key management personnel (2019: fifteen) 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 2020, loans totalling €1.3m (31 December 2019: €1.3m) were outstanding with one key management personnel (31 December 2019: one key management personnel).

34. Subsequent events

On 1 January 2021 the Group sold a small segment of its Tesch business within the DACH region, being the entity Tesch Mediafinanz GmbH for €0.1m (£0.1m).

GARFUNKELUX HOLDCO 2 S.A.
CASH EBITDA WALKS (UNAUDITED)
YEAR ENDED 31 DECEMBER 2020

Loss for the year to Cash EBITDA	Year ended 31 December 2020 £000
Loss for the year	(127,389)
Net finance costs	237,512
Taxation credit	(29,874)
Operating profit	**79,799**
Portfolio amortisation	345,188
Net portfolio write up	(20,596)
Portfolio fair value release	1,289
Non-recurring costs/exceptional items, net of exceptional income	39,163
Depreciation, amortisation and impairment	49,356
Cash EBITDA	**494,199**

Cash collections to Cash EBITDA	Year ended 31 December 2020 £000
Cash collections (DP)	740,756
Other income	194,979
Operating expenses	(530,055)
Non-recurring costs/exceptional items, net of exceptional income	39,163
Depreciation, amortisation and impairment	49,356
Cash EBITDA	**494,199**

Net cash flow to Cash EBITDA	Year ended 31 December 2020 £000
Decrease in cash in the year	(15,560)
Movement in debt	540,354
Capital contribution	(590,083)
Purchases of loan portfolios	287,776
Interest paid net of interest received	164,193
Income taxes paid	922
Transaction costs relating to loans and borrowings	42,563
Capital expenditure and financial investment	56,856
Derivative settlements	6,433
Payment of lease liabilities	9,683
Cash flow before interest, portfolio purchases, tax expenses and capital expenditure	**503,137**
Working capital adjustments	(48,101)
Non-recurring costs/exceptional items, net of exceptional income	39,163
Cash EBITDA	**494,199**