Company No. B197497

Garfunkelux Holdco 2 S.A.

Consolidated Financial Statements
For The Year Ended 31 December 2023

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GARFUNKELUX HOLDCO 2 S.A.
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YEAR ENDED 31 DECEMBER 2023

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GARFUNKELUX HOLDCO 2 S.A.
MANAGEMENT REPORT
YEAR ENDED 31 DECEMBER 2023

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 2023.

BUSINESS AND GENERAL CONDITIONS

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

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

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

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

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

PRINCIPAL ACTIVITIES

The principal activity of the Group is the provision of credit management services: the acquisition and collection of non-performing consumer debt portfolios ("DP"); and the provision of third party collection services ("3PC").

FINANCIAL PERFORMANCE

Group overview

Lowell Group is one of the largest Credit Management Service ("CMS") providers in Europe, by revenue and ERC, and has leading positions across the UK, DACH and Nordic regions; three of the largest consumer credit markets in Europe.

The Group deployed £319m of capital on non-performing loans across its regions in 2023, in line with guidance to deploy at levels above its internally calculated ERC Replacement Rate; sustainably deploying capital from cash flow generated. Investments have continued at attractive returns, with the 2023 vintage priced at a 20.4% net IRR (gross expected collections net of variable collection costs). Lowell Group continues to benefit strongly from its long-standing, and mutually beneficial forward flow agreements, which accounted for 83% of its 2023 purchases.

Collection performance on assets owned has been very strong across 2023, delivering at 101% of the Group's balance sheet expectation at Dec-23. This strong performance was underpinned by the resilience in the UK region, the Group's largest region with respect to Debt Purchase, which reported collection performance of 104%.

The Group's Cash EBITDA margin grew to 63% in 2023 vs 59% for 2022. This reflected the benefit from the acceleration of collections on assets through the Group's Balance Sheet Velocity programme, offset by headwinds with increased Collection Activity costs and Other Expenses. Collection Activity costs increased reflected the onboarding of portfolio acquisitions following record levels of capital deployment in 2022 coupled with the integration of the Hoist UK assets. Further, Other Expenses were subject to inflationary pressures seen across the industry. Control and mitigation of these costs have been a key focus in 2023 and the Group announced specific cost reduction exercises to further grow margin through both collection efficiency, and run-rate reduction of c.£25m – the benefits of both will be seen as it moves through 2024.

FINANCIAL PERFORMANCE (continued)

Group overview (continued)

As part of the Group's Balance Sheet Velocity programme it completed a number of transactions in 2023 to further diversify and strengthen its funding sources.

In March 2023 the Group announced it had entered into an agreement to sell a selection of Swedish portfolios to Hoist Finance AB for SEK 1.2bn, comprising over 100,000 accounts with c.£155m of 120-month ERC as at Dec-22. The divestment further strengthened the relationship with Hoist Finance AB and demonstrated the Group's ability to crystallise returns earlier in the investment lifecycle. Lowell continues to service the portfolios.

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

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

In December 2023 the Group announced its third securitisation as part of the programme, further strengthening its funding and liquidity position. The securitisation, through Wolf Receivables Financing 3 plc, comprised c.235,000 accounts which had been acquired as part of the Hoist UK acquisition in 2022 and had 120m ERC of c.£225m. The transaction raised proceeds of c.£135m via the issuance of Senior and Junior Notes.

The group sold 88% of the senior notes and 95% junior notes in Wolf III, resulting in the SPV being de-recognised from an accounting perspective, with both the debt and the assets supporting the structure moving 'off balance sheet'.

The Senior Notes were rated A+(sf) and A(h)(sf) by Scope and DBRS, respectively. As part of the evolution of the maturity of the programme the Notes were also listed on a public exchange, the Irish Stock Exchange, providing access to more investors and diversifying the funding base.

The securitisations are a clear demonstration of Lowell's strength in rehabilitating consumer accounts from non-paying to generating stable reperforming cash flows which support investment grade Notes. Such activity allows Lowell to recycle capital from assets held on the balance sheet at a faster rate, allowing capital generated to by deployed into new assets.

Further to these, the Group was able to announce the increase and extension of one of its securitisation warehouse facilities lines by a further £150m and two years respectively. This increase helps to provide continued funding and liquidity diversification for the Group.

Regional focus

The Group's collection performance on owned assets against its Dec-22 static pool was 101% for 2023. This reflected varying levels of performance across the three regions:

In the UK which is the Groups largest in terms of debt purchase, the Group delivered robust and resilient performance at 104% across 2023 when comparing to its balance sheet expectation at Dec-22;

In DACH, performance across 2023 reflected increased phasing than what was initially expected post recovery from the Cyber incident in 2022. Collections in this region totalled 93% of Dec-22 expectation, but with an encouraging improvement in performance towards the end of the year with Q4 performance reported at 109%; and

The Nordics collection performance continues to provide consistent and reliable, delivering another year in line with balance sheet expectation at 100%.

FINANCIAL PERFORMANCE (continued)

Regional focus (continued)

Alongside the impressive backbook performance in the group, new assets purchased across 2023 also delivered ahead of initial pricing expectation.

Financial Analysis

Performance in 2023 was strong and resilient with the Group committed to de-leveraging whilst growing the business. Increasingly strong collections performance has enabled 2023 to be ahead of balance sheet expectations. Cash EBITDA has grown through a combination of underlying collection performance and the acceleration of value through Balance Sheet Velocity initiatives.

The Group continued to deploy capital across a variety of sectors during 2023 including home retail, telecommunications, retail and with the majority of spend being on assets originating from the financial services sector.

As at 31 December 2023, 120-month ERC was £3.8bn, a decrease of 13% on 31 December 2022 (120-month ERC: £4.3bn).

Our diversified service offering also continues to facilitate the further embedding of strategic client relationships through the management of collection of debt on behalf of over 350 clients through our 3PC offering.

Total income for the year was £580.6m (2022: £626.5m). Net Portfolio write-down of £16.5m was lower compared with prior year write-up of £72.1m. This was mainly driven by the change in FY22 to the useful economic life of portfolio investments in UK increasing from 84 to 120 months.

The Group made an operating loss of £247.1m in the year ended 31 December 2023 (2022: operating profit of £57.8m) and after interest, related to the Group's funding structure, taxation and impairment in goodwill of £283.6m (2022: £100m), the loss for the year ended 31 December 2023 was £475.9m (2022: £108.2m).

The UK region holds the largest proportion of the Group's total portfolio investments. The UK region reported an operating profit of £146.2m (2022: £161.0m) with consistent performance across the majority of channels. The back book has performed at 104% of static pool and the front book has been very strong, delivering above priced expectation. This collection performance and the continued margin control has helped deliver a solid base for year on year EBITDA improvement.

The DACH region made an operating loss of £349.1m in the year ended 31 December 2023, compared with an operating loss of £102.4m in the prior period. The current period includes an impairment charge to goodwill of £283.6m (2022: £100m). Excluding this, the region made an operating loss of £65.5m (2022: £2.4m).

The Nordics region achieved an operating profit of £24.2m in the year ended 31 December 2023, down from the prior period operating profit of £48.6m. This reduction reflects the reduced portfolio assets held in the region following a sale of portfolios in Sweden and the Group's second off-balance sheet ABS transaction in Denmark.

At 31 December 2023 the Group had £377.7m drawn on its RCF (31 December 2022: £363.4m) and an unutilised amount of £16.9m (31 December 2022: £39.1m). The Group had £397.8m drawn on its securitisation facilities at 31 December 2023 (31 December 2022: £523.8m). The Group continues to monitor and manage its liquidity as disclosed in note 1.

FINANCIAL PERFORMANCE (continued)

Financial analysis (continued)

The Group benefits from its ability to generate strong cash flows from operating activities before portfolio acquisitions. In the year to 31 December 2023, the Group generated £799.0m of cash from operating activities before portfolio acquisitions, with these cash flows available to service or pay down debt, pay income taxes and discretional deployment of capital into new portfolio acquisitions for growth. Largely due to the decrease in purchases in 2023 compared to the prior period, the Group's net cash used in operating activities, after portfolio purchases and paying income taxes, increased to £439.0m (2022: £42.2m).

ERC and Cash EBITDA are non-IFRS financial measures but are widely used by investors to measure a company's asset base, ability to generate cash flow and operating performance. Analysts and investors use ERC and Cash EBITDA as supplemental measures to evaluate the overall operating performance of companies in our industry. Both measures are used by management to understand business performance and indeed are key required disclosures under the terms of the Group's Notes. Cash EBITDA is reconciled to operating profit on page 82.

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 2023 was £771.9m, compared to £569.2m for the year ended 31 December 2022.

The Group benefits from good cash flow visibility. The Group's ERC forecast has historically been highly accurate, and forecasts future collections from portfolios currently owned of £3,792m for the 120 months from 31 December 2023 (31 December 2022: £4,345m) for the combined UK, DACH and Nordic businesses. Of this, some £685m and £586m are forecast to be collected across the next 12 and 24 months respectively, before accounting for collections from portfolio purchases made across these future periods.

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

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

OUTLOOK

During 2023 the Group continued to demonstrate its financial and operational resilience, whilst deploying capital to acquire NPLs to support the ongoing and future sustainable growth of the Group. During 2024 the Group expects to deploy around £300m of capital on NPL acquisitions which is more closely aligned to its calculated Group ERC Replacement Rate. The Group also expects to continue its focus on cost control, with ambition to improve collection efficiency whilst leveraging its overhead base further to reduce or maintain costs as the topline grows.

Focus on balance sheet strength remains a key priority and the Group aims to maintain leverage at a sustainable level through capturing attractive portfolio returns on levels of spend supported from cash generated alongside increasing margin efficiency. These actions, together with the Group's expectations and track record of delivery on collections, strongly position Lowell for sustainable and balanced growth.

The Group intends to continue to develop all of its regions and service lines, leveraging its competitive advantage with regards to diversification of origination, scale of data assets and use of forward flow arrangements. In a regional context, the Group expects growth in all of its core markets, investing in-line with its calculated ERC replacement rate, on-boarding new servicing clients and increasing its share of wallet with existing clients.

FINANCIAL PERFORMANCE (continued)

OUTLOOK (continued)

On a regional basis the Group expects to reduce its focus on debt purchase in the DACH region. This decision has been taken as the Group looks to capture the more attractive returns on debt purchase available in its other regions and focus on the growth in its well respected servicing franchise in the DACH region.

The Group anticipates the continuation of the strong inflow in volume of DP opportunities across the UK and Nordics, consistent with wider macro developments. This continuation of flow alongside wider market conditions provides a healthy backdrop to the DP market where the Group is able to deploy capital at returns it believes are both attractive and accretive to the business.

Originators continue to manage balance sheets tightly owing to regulatory and liquidity pressures and as a trusted CMS partner, Lowell is well placed across Europe’s largest credit markets to provide CMS solutions and participate in any anticipated significant market flows.

The Group expects to maintain its market leading positions across its geographies and continue to develop the business for the long-term and in the best interests of all its stakeholders.

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

- Macroeconomic impact from sustained high inflation and cost of living pressures on consumers across Europe. This is expected to lead to an increase in consumer defaults, alongside a growing consumer finance should drive an increase in NPLs brought to market from originators.
- Structural change in the landscape of financial services whereby new offerings for financial products are coming to market from non-traditional financial services providers using digital and innovative distribution channels and who regularly outsource their debt servicing to service providers like Lowell. This structural change already serves as a growth driver for our business and will continue to do so as the new entrants win market share in a growing market.
- Regulatory changes, together with credit originators viewing credit management as a non-core activity, will increase pressure to outsource or sell to trusted partners. This will lead to increased use of debt management and debt purchase services.

In January 2024 the Group entered into an agreement to sell a small pool of portfolio assets in Germany to a European Credit Investor. Net proceeds from the transaction totalled c.€50m for the assets which had an associated 120m ERC of c.€140m at Dec-23. The selected portfolios were principally more aged and slower liquidating than the rest of the assets held in DACH and the transaction allowed the Group to release capital from backbook assets as the Group pivots to a servicing led offering in the DACH region.

KEY PERFORMANCE INDICATORS (KPIs)

	31 December 2023	31 December 2022
Amortised cost portfolio investments acquired	£332.5m	£473.0m
Fair value portfolio investments acquired (1)	£17.3m	£12.5m
Gross collections (in total)	£2,193.4m	£1,798.7m
Gross collections (DP)	£1,092.5m	£844.6m
Gross collections (3PC)	£1,100.9m	£954.1m
Service Revenue	£143.6m	£126.1m
Yield income from portfolio investments	£446.1m	£425.4m
Fair value gain	£5.7m	£1.2m
Cash income	£1,232.7m	£970.7m
Cash EBITDA(2)	£771.9m	£569.2m
UK	£475.9m	£360.8m
DACH	£99.2m	£84.5m
Nordics	£252.2m	£157.1m
Holding companies	£(55.4)m	£(33.2)m
Operating (loss)/ profit	£(247.1)m	£57.8m
Loss for the year(3)	£(481.8)m	£(108.2)m
120-month ERC	£3,792m	£4,345m

(1) Fair value portfolio investments acquired is the net acquisition amount (acquisitions less disposals).

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

(2) Excluding the effect of the £283.6m goodwill impairment charge for the DACH region, the loss for the year is £198.2m

PRINCIPAL RISKS AND UNCERTAINTIES

As a result of its normal business activities, the Group has exposure to the principal risks outlined below. For further detail on the financial risks, as well as mitigation and controls, please refer to note 30.

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

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

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

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

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

Governance and risk oversight are provided across the Group through legal entity Boards with shareholder oversight through the Investor Board and its Board sub-committees: (i) Group Risk Committee, (ii) Group Audit Committee and (iii) Group Remuneration Committee. In 2023, the Group has established a new Board sub-committee for Sustainability.

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

Its sub-committees provide oversight and advice to the Investor Board within their specific remits respectively for the Group Risk Committee on risk exposure, adherence to risk appetite and effectiveness of the risk management framework; for the Group Audit Committee on accounting policies, financial reporting and the internal control framework in conjunction with the Group Risk Committee; and for the Group Remuneration Committee on remuneration policies designed to support long term business strategy and promote effective risk management.

Executive Management further strengthens the overall oversight through key management committees; nominally the Regional Risk Committees & the Group Asset & Liability Committee ("ALCO").

Strategic risk

There is a risk to earnings resulting from poor or lack of clear strategy and execution, adverse business decisions, and inadequate anticipation of emerging changes in the broader business, economic, regulatory and political environment, including changing competitive threats and disruptive innovations.

The Group continues to pursue its growth and change agenda but is also mindful of the existing economic conditions that require an increased focus on maintaining collection performance and financial discipline. There remains a risk that the Group will not be able to execute on these strategies and a failure to do so could place it at a competitive disadvantage to its peers.

Whilst the Group has chosen to operate within markets that it believes to be economically stable, the global impact of inflation and rising base rates has created volatility in both customer affordability and capital markets.

PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)

Strategic risk (continued)

Whilst Group analysis shows no evident correlation between individual economic trends and collections performance, there remains a risk that significant collective economic and societal stresses can impact collection performance.

The Group recognises that whilst the Group hybrid working model is now well established, there remain broader economic and social trends that have led to tight labour markets and some skill shortages. Alongside the impact of high inflation, this may create emerging risks, such as employee engagement and retention, which the Group continues to monitor.

The Group has chosen to operate in well-regulated and mature credit markets as it believes this fosters good practices and portfolio stability, as well as barriers to entry. 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 and/or refinance at a reasonable cost; from decisions made based on incorrect models, and economic loss, from changes in market risk factors such as interest rates, foreign currency exchange rates, credit ratings, counter-parties, market liquidity dynamics (including a lack of liquidity sufficient to allow for new investment) and other potential impacts to solvency.

The Group funding model requires continuing access to the capital markets in order to refinance and issue debt instruments. Whilst any refinancing risk is not considered material in the near-term, given the nearest debt maturity horizon is 2025, it is recognised that available capital is both more expensive and more scarce.

Consequently, there remains a risk the Group may not be able to access such capital markets in the medium term if it fails to deliver on its strategic objectives, deploys significant capital ineffectively or if its financial performance deteriorates materially.

The Group continues to monitor its funding requirements and has established alternative funding initiatives such as securitisations to build wider diversification of options. Alongside this, capital allocation, underwriting discipline and ongoing portfolio reviews continue to maintain a strong focus on portfolio profitability & returns.

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

Compliance risk

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

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

There is a risk that as governments consider their legislative agenda in a period where affordability and inflationary pressures are evident, then there may be changes to laws or regulations to help consumers deal with weaker economic circumstances, their personal debt and associated collection fees.

PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)

Compliance risk (continued)

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

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

Operational risk

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

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

The Group continues to focus on operational resilience and monitors performance and conduct of key suppliers through its third-party risk policy and associated procedures. It is recognised that digital operational resilience will have an increased focus given the forthcoming implementation of the EU DORA and a potential UK equivalent.

While operational performance has not been materially impacted through third party performance weaknesses or failures, there remains the risk that the Group's processes do not prove resilient or third party processes fail and expose the Group to a failure in business continuity or operational losses.

Information and data risk

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

The information and data risks are greatest in the case of a security or privacy breach as well as a failure to comply with GDPR or similar regulations.

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

Whilst the Group has recovered operations from the cyber-attack in DACH in March 2022, this had a notable impact on the timing of the DACH collections during the period and although the Group continues to strengthen its cyber and information security protection and detection capabilities and technologies, there remains the risk of future attacks which could penetrate defences and cause financial, operational and commercial losses.

RISK MANAGEMENT

The Group has an active risk management programme 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.

PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)

RISK MANAGEMENT (continued)

Risk management in the Group is intended to:

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

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

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

Governance & Oversight

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

Investor Board: Group oversight and strategy is provided by an Investor Board that comprises our Chairman, Executive Directors and Non-Executive Directors and our ultimate equity holders. Beneath this Board sit Group Risk and Audit Committees, the Group Remuneration Committee, and a Group Executive Committee. The Investor Board has overall accountability for risk management.

Group Risk Committee: The Group Risk Committee provides oversight and advice to the Investor Board in relation to: (i) current and potential future risk exposures of the Group and future risk strategy, including determination of risk appetite and tolerance; and (ii) the effectiveness of the risk management framework and, in conjunction with the Group Audit Committee, internal controls required to manage risk.

Furthermore, the Group Risk Committee assists on such other matters as may be referred to it by the Investor Board and promotes a risk awareness culture across the Group. The Group Risk Committee meets quarterly.

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

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

PRINCIPAL RISKS AND UNCERTAINTIES (CONTINUED)

RESEARCH AND DEVELOPMENT

Development costs capitalised during the year total £101.0m, which includes work on internally generated software (31 December 2022: £38.7m).

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

DocuSigned by:

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Cédric Pedoni
Director
30 May 2024

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REPORT OF THE REVISEUR D'ENTREPRISES AGREE

Report on the audit of the consolidated financial statements

Qualified 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 2023, 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 material accounting policy information and other explanatory information.

In our opinion, except for the possible effects of the matter described in the *Basis for Qualified Opinion* section of our report the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2023 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS Accounting Standards as adopted by the European Union.

Basis for Qualified Opinion

In 2022, the Group has experienced a significant amount of change in terms of both the volume of corporate activity and business change; it continued also in 2023. This has increased both the complexity of the accounting in the Group, the volume of transactional activity and financial reporting considerations. Also, the Group was subject to a cyber-attack in the DACH region (being the Lowell Financial Services GmbH company and its subsidiaries) in March 2022, which resulted in a temporary pause in the access to accounting and transactional records for approximately four to six months which the Group was still recovering from in 2023.

These are circumstances which, combined with time constraints related to the financial reporting, prevented management from compiling all required information to support balances in the consolidated financial statements. This in turn prevented us from obtaining sufficient appropriate evidence over the below financial statement captions included in the consolidated financial statements for the year ended 31 December 2023, namely:

- Collections in the year from DP business (DACH region) in amount of GBP 33.3 million for the year then ended that impact *Portfolio investments* (non-current and current) as at 31 December 2023 for the same amount, *Income from portfolio investments* and *Net portfolio write up* in amount of GBP 20.1 million and GBP 3.8 million respectively for the year then ended;

- *Trade and other receivables* in amount of GBP 69.1 million as at 31 December 2023;
- *Trade and other payables* in amount of GBP 27.6 million as at 31 December 2023;
- *3PC income* (DACH region) in amount of GBP 6.1 million for the year ended 31 December 2023; and
- *Operating expenses – Litigation costs* (DACH region) in amount of GBP 6.7 million for the year ended 31 December 2023.

We were also unable to confirm or verify the above amounts and related tax impacts, if any, by alternative means.

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 qualified 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.

As described in the "Basis for Qualified Opinion" section above, we were unable to obtain sufficient appropriate evidence regarding the amounts shown in the consolidated financial statements as at and for the year ended 31 December 2023 for *Portfolio investments, Income from portfolio investments, Net portfolio write up, Trade and other receivables, Trade and other payables, 3PC income and Operating expenses – Litigation costs,* as a result of the matter described in this section. Accordingly, we are unable to conclude whether or not the other information is materially misstated with respect to this matter.

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 IFRS Accounting Standards as adopted by the European Union, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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.

- 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, 30 May 2024

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

R. Tumanshin
Partner

GARFUNKELUX HOLDCO 2 S.A.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
YEAR ENDED 31 DECEMBER 2023

	Note	Year ended 31 December 2023 £000	Year ended 31 December 2022 £000
Profit or (loss)			
Income			
Income from portfolio investments	15	446,148	425,421
Net portfolio write (down)/up	15	(16,492)	72,083
Fair value gain	15	5,678	1,161
Portfolio fair value release	15	-	(381)
Service revenue		143,572	126,098
Other revenue		832	1,736
Other income		825	370
Total income		**580,563**	**626,488**
Operating expenses			
Collection activity costs		(313,377)	(251,109)
Other expenses	5	(230,603)	(217,603)
Goodwill impairment	10	(283,634)	(100,000)
Total operating expenses		**(827,614)**	**(568,712)**
Operating (loss)/profit		**(247,051)**	**57,776**
Finance income	6	17,464	1,824
Finance costs	7	(311,325)	(187,436)
Loss for the year, before tax		**(540,912)**	**(127,836)**
Tax credit	8	65,033	19,678
Loss for the year		**(475,879)**	**(108,158)**
Other comprehensive income/(expenditure)			
Items that will not be reclassified to profit or loss			
Actuarial (losses)/gains on pension plans	33	(1,474)	3,036
Deferred tax on actuarial (gains)/losses on pension plans		(24)	-
		(1,498)	**3,036**
Items that will or may be reclassified subsequently to profit or loss			
Foreign operations – foreign currency translation differences		46,005	(79,402)
Other comprehensive expenditure net of tax		**44,507**	**(76,366)**
Total comprehensive expenditure for the year		**(431,372)**	**(184,524)**

The notes on pages 21 to 81 form part of these consolidated financial statements.

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GARFUNKELUX HOLDCO 2 S.A.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2023

	Note	31 December 2023 £000	31 December 2022 £000
Assets			
Non-current assets			
Goodwill	10	865,314	1,154,758
Intangible assets	11	99,267	118,519
Property, plant and equipment	12	49,527	57,477
Portfolio investments – amortised cost	15	1,129,504	1,496,252
Portfolio investments – fair value	15	35,457	12,958
Other financial assets	19	22,888	2,761
Deferred tax assets	9	147,963	81,751
Total non-current assets		**2,349,920**	**2,924,476**
Current assets			
Portfolio investments – amortised cost	15	512,367	676,631
Trade and other receivables	18	101,398	90,804
Other financial assets	19	14,743	9,758
Derivatives	30	7,759	16,177
Assets for current tax		2,398	3,513
Cash and cash equivalents	20	143,083	133,499
Assets classified as held for sale	21	181,742	-
Total current assets		**963,490**	**930,382**
Total assets		**3,313,410**	**3,854,858**
Equity			
Share capital	26	4,385	4,385
Share premium and similar premiums		1,109,586	1,109,586
Reserves		(136,170)	(180,678)
Retained deficit		(986,012)	(510,133)
Total equity		**(8,211)**	**423,160**
Liabilities			
Non-current liabilities			
Borrowings	22	2,461,701	2,687,338
Provisions for pension	33	7,241	6,547
Provisions	24	7,084	5,838
Other financial liabilities	25	39,738	51,470
Deferred tax liabilities	9	30,146	37,286
Total non-current liabilities		**2,545,910**	**2,788,479**
Current Liabilities			
Trade and other payables	23	120,135	174,227
Provisions	24	15,217	7,208
Borrowings	22	585,586	427,351
Other financial liabilities	25	35,450	15,108
Current tax liabilities		19,323	19,325
Total current liabilities		**775,711**	**643,219**
Total equity and liabilities		**3,313,410**	**3,854,858**

The notes on pages 21 to 81 form part of these consolidated financial statements.

GARFUNKELUX HOLDCO 2 S.A.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
YEAR ENDED 31 DECEMBER 2023

	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 2022	**4,385**	**1,109,586**	**(8,291)**	**(113,626)**	**(968)**	**(401,975)**	**589,111**
Loss for the year	-	-	-	-	-	(108,158)	(108,158)
Actuarial gain on pension	-	-	-	-	3,036	-	3,036
Exchange differences	-	-	-	(60,829)	-	-	(60,829)
Total comprehensive income/(expenditure) for the year	**-**	**-**	**-**	**(60,829)**	**3,036**	**(108,158)**	**(165,951)**
Balance at 31 December 2022	**4,385**	**1,109,586**	**(8,291)**	**(174,455)**	**2,068**	**(510,133)**	**423,160**
Loss for the year	-	-	-	-	-	(475,879)	(475,879)
Actuarial loss on pension	-	-	-	-	(1,474)	-	(1,474)
Exchange differences	-	-	-	46,006		-	46,006
Deferred tax on pension	-	-	-	-	(24)	-	(24)
Total comprehensive income/(expenditure) for the year	**-**	**-**	**-**	**46,006**	**(1,498)**	**(475,879)**	**(431,371)**
Balance at 31 December 2023	**4,385**	**1,109,586**	**(8,291)**	**(128,449)**	**570**	**(986,012)**	**(8,211)**

The notes on pages 21 to 81 form part of these consolidated financial statements.

GARFUNKELUX HOLDCO 2 S.A.
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED 31 DECEMBER 2023

	Note	Year ended 31 December 2023 £000	Year ended 31 December 2022 £000
Net cash generated by operating activities	31	**438,978**	**42,217**
Investing activities			
Purchase of property, plant and equipment	12	(17,499)	(1,263)
Purchase of intangible assets	11	(22,535)	(43,134)
Proceeds from disposal of property, plant and equipment	12	7,016	(237)
Proceeds from disposal of intangible assets	11	(14,832)	(206)
Acquisition of subsidiaries, net of cash acquired		-	(338,840)
Net cash used in investing activities		**(47,850)**	**(383,679)**
Financing activities			
Proceeds from loans and borrowings	32	2,057,030	2,477,075
Transaction costs related to loans and borrowings	32	-	(5,304)
Repayment of borrowings	32	(2,209,575)	(1,928,242)
De-recognition of borrowings		-	(70,217)
Payment of lease liabilities	13	(8,774)	(11,549)
Derivative settlement		(428)	(4,478)
Interest paid		(218,252)	(143,735)
Net cash from/ (used in) financing activities		**(379,998)**	**313,550**
Net increase / (decrease) in cash and cash equivalents		**11,130**	**(27,912)**
Cash and cash equivalents at beginning of period		133,499	155,889
Effect of movements in exchange rates on cash held		(1,546)	5,522
Cash and cash equivalents at end of period*	20	**143,083**	**133,499**

*Cash and cash equivalents at 31 December 2023 contains £75.1m of restricted cash (31 December 2022: £70.9m). See note 20 for further details.

The notes on pages 21 to 81 form part of these consolidated financial statements.

1. Material accounting policies

Corporate information

The consolidated financial statements of Garfunkelux Holdco 2 S.A. ("the Company") and its subsidiaries (together "The Group") for the year ended 31 December 2023 were authorised for issue in accordance with a resolution of Directors on 30 May 2024. Under Luxembourg Law, the consolidated financial statements are approved by the shareholder at the Annual General Meeting. Garfunkelux Holdco 2 S.A. (the Company or the parent) is incorporated as an S.A. (Société Anonyme) and domiciled in Luxembourg. The registered office is located at 488 Route de Longwy, L-1940 Luxembourg.

The Group is principally engaged in the provision of credit management services. Information regarding the Group structure is presented in note 14. Information on other related party transactions is presented in note 34.

General information and basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The consolidated financial statements have been prepared on a historical cost basis except for derivative financial instruments, certain portfolio investments that have been measured at fair value and assets held for sale that have been measured at the lower of their carrying value and fair value less costs to sell. Those standards have been applied consistently to the historical periods. The financial year is the calendar year.

Basis of consolidation

The Group consolidated financial statements consolidate the financial statements of Garfunkelux Holdco 2 S.A. and all its subsidiary undertakings for the year ended 31 December 2023.

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. Material 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 17 and 18 respectively. In addition, note 30 to these consolidated financial statements includes the Group's financial risk management objectives; details of its financial instruments and hedging activities and its exposures to credit risk and liquidity risk.

The Group's result for the year ended 31 December 2023 was an operating loss of £247.1m (year ended 31 December 2022: operating profit of £57.8m) and a net liability position of £14.1m at 31 December 2023 (31 December 2022: net asset position of £423.2m). Taking finance income and costs into consideration the Group's loss before tax for the year ended 31 December 2023 was £540.9m (31 December 2022: loss £127.8m). Removing the goodwill impairment charge of £283.6m (2022: £100m) for the year, the loss before tax in 2023 was £257.3m (2022: loss £27.8m).

The business as a whole is cash generative before portfolio acquisitions, interest and tax, generating cash of £792.1m in the year to 31 December 2023 (year ended 31 December 2022: £561.7m), with operating cash flow after portfolio acquisitions and tax being £410.2m (year ended 31 December 2022 £42.2m). The Group continually monitors its cash flow requirements to ensure that enough cash is available to meet its commitments.

The Group expects the business to continue to grow overall during the next 12 months, with further sustainable levels of portfolio purchases maintaining moderate growth in the size of the balance sheet and a focus on driving both collections performance and cost efficiencies, with regional variations are expected following the DACH portfolio sale. Consequently, operating cash flow generation is expected to be stable during this period. If required, management also have significant control over the Group's cash flow principally relating to control over the level of portfolio acquisitions, together with cost mitigations, delaying a number of change projects and reducing other discretionary expenditure.

In assessing whether the going concern basis is appropriate to adopt, the Directors have undertaken a review of forecast cash flow models and both severe but plausible scenarios and a reverse stress test scenario, for a period in excess of 12 months from the date of approval of these financial statements. The severe but plausible scenarios have taken into account both the Group's historical performance through periods of stress and external events, for example the cost of living crisis, which may negatively impact a customer's ability to pay. The scenarios consider the impact of cash flow reductions of 15% across all regions, a reduction in purchases of 10% in the UK and 20% in DACH and the Nordics, and a combination of both with the Group maintaining c.£290m of liquidity in the next 18 months under the most severe scenario considered. The scenarios are considered to be severe but plausible by management and, both before and after taking Management actions as required, the Group maintains sufficient liquidity and cash reserves to continue as a going concern.

In May 2023, c.£58m was raised and in December 2023, c.£135m was raised through the issuance of publicly rated ABS issuance senior notes.

1. Material accounting policies (continued)

Going concern (continued)

As a result of the new securitisation facilities during the period, the Group now has three main sources of funding at 31 December 2023. €630m, £440m and €795m, of Senior Secured notes ("notes"), a €455m Revolving Credit Facility ("RCF") and three securitisation facilities, with options to reset to £225m, £175m and £170m respectively. As detailed in note 22, at 31 December 2023, £378m was drawn on the RCF and there were £398m of outstanding borrowings in total across the three securitisation facilities. Covenants are detailed in note 22. No covenants have been breached, or are expected to be breached, during the going concern forecast period. The earliest debt maturity horizon is July 2025 and the latest is October 2027, being the existing and new securitisation facilities respectively. The Group's notes all mature in either 2025 or 2026. The Group continues to monitor its funding requirements and the Directors believe, given the debt maturity horizon following the recent financing activity, there is sufficient time to consider the extension or re-negotiation of existing facilities, or exploration of new funding arrangements as appropriate.

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

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

Foreign currency

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

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

1. Material accounting policies (continued)

Business combinations

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

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition date fair value. Changes in fair value or measurement period adjustments may change the fair value of the assets recognised (see below).

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

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

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

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

Goodwill

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

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

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

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

1. Material accounting policies (continued)

Revenue recognition and effective interest rate method

Income from portfolio investments held at amortised cost

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

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

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

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

The portfolio fair value release represents the unwinding of this fair value uplift (see note 15). This uplift is being unwound in line with the standard profile of a gross ERC curve of these portfolios.

Fair value gains on acquired portfolio investments at Fair Value Through Profit and Loss ("FVTPL")

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

Service revenue

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

Impairment of acquired portfolio investments

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

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

1. Material accounting policies (continued)

Financial instruments

Recognition

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

On initial recognition, a financial asset is classified at amortised cost, fair value through profit or loss ("FVTPL"), or fair value through other comprehensive income ("FVOCI").

Classification

Amortised cost financial assets

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

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

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

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

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

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

Financial assets and liabilities at fair value through profit or loss

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

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

The Group classified non-current assets as held for sale when their carrying amounts will be recovered principally through sale rather than through continuing use. To be classified as held for sale, the non-current asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sale of such assets, and the sale must be highly probable. For a sale to be highly probable, the appropriate level of management must be committed to a plan to sell the assets and an active programme to locate a buyer and complete the plan must have been initiated. Further, the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify as a completed sale within one year from the date of classification and actions required to complete the plan should indicate it is unlikely that significant changes to the plan will be made.

1. Material accounting policies (continued)

Financial instruments (continued)

Non-current assets held for sale

Held for sale assets are measured at the lower of their carrying value and fair value less costs to sell. If the carrying value of the non-current asset is greater than the fair value les costs to sell, an impairment loss for any initial or subsequent write-down is recognised. Any such impairment loss is first allocated against the non-current assets that are in scope of IFRS 5 for measurement.

Management judgement is required in determining whether the IFRS 5 held for sale criteria are met, including whether a sale is highly probable and expected to complete within one year of classification.

Impairment of financial assets

Financial assets, other than those held at fair value through profit or loss or fair value through other comprehensive income, are required to have an ECL allowance recognised at initial recognition. ELCs are calculated as an unbiased and probability-weighted estimate using an appropriate probability of default, adjusted to take into account a range of possible future economic scenarios, and applying this to the estimated exposure of the Group at the point of default after taking into account the value of any collateral held, repayments, or other mitigants of loss and including the impact of discounting using the effective interest rate.

At initial recognition of the financial asset, an allowance is made for expected credit losses resulting from default events that are possible within the next 12 months (12-month expected credit losses). In the event of a significant increase in credit risk since origination, an allowance is made for expected credit losses resulting from all possible default events over the expected life of the financial instrument (lifetime expected credit losses). Financial assets where 12-month expected credit losses are recognised are considered to be Stage 1; financial assets which are considered to have experienced a significant increase in credit risk since initial recognition are in Stage 2; and financial assets which have defaulted or are otherwise considered to be credit-impaired are allocated to Stage 3. An assessment of whether credit risk has increased significantly since initial recognition considers the change in the risk of default occurring over the remaining expected life of the financial instrument. Should an asset be deemed unrecoverable, it would be written-off to the P&L as an impairment.

The Group does not have a large exposure to non-POCI amortised cost instruments and the ECL model is proportionate to its requirements.

Other 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.

Financial assets that are purchased or originated at a deep discount that reflects the incurred credit losses are considered to be POCI. The only material assets in this category are the portfolio investments held at amortised cost. The lifetime ECL is incorporated into the estimated future cash flows on initial recognition, therefore it is not possible to separate this from a 'gross carrying amount' of these assets. As such, although ECL is incorporated into the carrying amount, a separate loss allowance is not held for POCI financial assets.

Derecognition of financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the financial asset to another entity. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the

1. Material accounting policies (continued)

portion of the asset derecognised) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognised in Other Comprehensive Income ("OCI") is recognised in profit or loss.

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

If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises collateralised borrowings for the proceeds received.

During the year, the Group met the criteria to derecognise two portfolios of financial assets. Refer to Note 17 for further details.

Financial liabilities and equity

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

Financial liabilities

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

Derivative financial instruments

The Group does not hold derivative instruments for trading purposes.

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

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

Fair value measurements

The fair value of financial instruments is determined in accordance with IFRS 13 (Fair Value Measurement), as described in note 30.

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.

1. Material accounting policies (continued)

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

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

Pensions

Defined benefit pensions

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

Defined contribution pensions

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

Taxation

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

Current tax

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

Deferred tax

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

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

1. Material accounting policies (continued)

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

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

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

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

VAT

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

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

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

Collection activity costs

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

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.

1. Material accounting policies (continued)

A liability is current when:

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

The Group classifies all other liabilities as non-current. Deferred tax assets and liabilities are classified as non-current assets and liabilities respectively.

Investment in subsidiaries

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

Securitisation vehicles

Securitisation vehicles in which the Group holds an economic interest are usually operated according to predetermined criteria that are part of the initial design of the vehicles. The Group is exposed to variability of returns from the vehicles through its holding of various securities in the vehicles. Outside the day-to-day servicing of the receivables (which may be carried out by the Group under a servicing contract), key decisions are usually required only when the intent of the participants regarding the design of the economic structure or the strategy for the collection of the underlying assets changes.

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

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

Unconsolidated securitisation vehicles

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

1. Material accounting policies (continued)

Share-based Payments

Some employees (including senior executives) of the Group receive remuneration in the form of share-based payments settled by the main shareholder of the Group as described in note 29.

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

Cash and cash equivalents

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

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

Property, plant and equipment

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

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

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

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

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

1. Material accounting policies (continued)

Intangible assets

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

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

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

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

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

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

Leases 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.

1. Material accounting policies (continued)

Leases and Right-of-use assets (continued)

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

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

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

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

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

2. Significant accounting estimates and judgements

Portfolio investment valuation

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

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

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

The ERC of the portfolio investments has been assessed at the period-end on a regional basis. Management have considered the observable information available in forming judgements for each region.

UK

At 31 December 2023, management has re-evaluated its underlying portfolio-level ERC in line with the Group's revaluation policy to assess the future collections expectation in relation to timing of collections and quantum of collections and concluded that the portfolio investments carrying value is appropriate.

DACH

Performance against the back-book ERC balance curves improves steadily throughout the year.

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

Nordics

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

This key judgement and the associated assumptions regarding cash flow forecasts are management's best estimate of future performance based on current market and customer information available. Management continues to monitor collections performance and customer behaviour in light of cost of living pressures and other macroeconomic factors.

An uplift or reduction in expected future cash flows of 1% would increase or decrease the closing carrying value of portfolio investments at 31 December 2023 by £16.7m (31 December 2022: £21.9m).

2. Significant accounting estimates and judgements (continued)

Portfolio investment valuation (continued)

Non-current assets held for sale classification

During 2023, management reviewed the portfolios within the DACH region and determined its intention to sell a large amount of the book during H124. Management has determined that the remaining portion will be retained by Lowell.

In January 2024 the Group entered into an agreement to sell a small pool of assets portfolio assets in Germany to a European Credit Investor. Net proceeds from the transaction totalled c.€50m for the assets which had an associated 120m ERC of c.€140m at Dec-23. The selected portfolios were principally more aged and slower liquidating than the rest of the assets held in DACH and the transaction allowed the Group to release capital from backbook assets as the Group pivots to a servicing led offering in the DACH region.

Consolidation of subsidiaries

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

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

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

Securitisation vehicles in which the Group holds an economic interest are usually operated according to predetermined criteria that are part of the initial design of the vehicles. The Group is exposed to variability of returns from the vehicles through its holding of various securities in the vehicles. Outside the day-to-day servicing of the receivables (which may be carried out by the Group under a servicing contract), key decisions are usually required only when the intent of the participants regarding the design of the economic structure or the strategy for the collection of the underlying assets changes.

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

Information about the Group's structured entities is set out in note 14.

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

2. Significant accounting estimates and judgements (continued)

Derecognition – Financial Assets

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

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

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

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

During the year, the Group's investment in Lowell Portfolio Investment DK and Wolf Receivables 3 Financing Plc were derecognised following the Group determining it was no longer substantially exposed to the risks and rewards of the financial assets following the transfer of the contractual cashflows to a third party.

Goodwill and valuation of intangible assets

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

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

Determining whether goodwill is impaired requires an estimation of the value in use of the CGUs to which goodwill has been allocated. Calculation of the value in use requires an estimate of future cash flows expected to arise from each CGU after a suitable discount rate has been applied to calculate present value. This inherently involves a number of judgements in that cash flow forecasts are prepared for periods that are beyond the normal requirement of management reporting, and the appropriate discount rate relevant to the business is an estimate. Additional sensitivities of key metrics is presented in Note 10.

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

Based on the CGU's value in use, a consistent increase in the forecast portfolio acquisitions across the entire forecast period of 111% would result in an impairment at 31 December 2023 in the UK region, and 142% in the Nordic region would result in an impairment.

2. Significant accounting estimates and judgements (continued)

Goodwill and valuation of intangible assets (continued)

During the year, as a result of impairment tests applied to the DACH region, goodwill in that region was impaired by a further £283.6m following the £100m in prior year. See note 10 for further details.

While management has confidence over the Group's forecasts and the supply of Non-Performing Loans ("NPLs") to the market, future conditions are never certain and the Group may not always acquire portfolios in line with its expectations.

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

Deferred Tax

During the year, the Group recognised an additional £71m of Deferred Taxes, totalling £118m which are recoverable over a nine year period. Included in this is £143k of losses which do not have an expiry date.

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 2023

	UK	DACH	Nordics	Holding companies	Total
	£000	£000	£000	£000	£000
Total income	325,691	106,221	149,275	(624)[1]	580,563
Collection activity costs	(139,947)	(101,075)	(72,355)	-	(313,377)
Other operating expenses	(30,588)	(47,374)	(36,701)	(67,662)[2]	(182,325)
Operating profit before depreciation, amortisation and impairment	**155,156**	**(42,228)**	**40,219**	**(68,286)**	**84,861**
Depreciation, amortisation and asset impairment	(9,003)	(23,231)	(16,044)	-	(48,278)
Goodwill impairment	-	(283,634)	-	-	(283,634)
Operating profit / (loss)	**146,153**	**(349,093)**	**24,175**	**(68,286)**	**(247,051)**
Finance income					17,464
Finance costs					(311,324)
Loss before tax					**(540,912)**
Income tax					65,033
Loss for the year					**(475,879)**

[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. Segmental reporting (continued)

Segmental results (continued)

Year ended 31 December 2022

	UK	DACH	Nordics	Holding companies	Total
	£000	£000	£000	£000	£000
Total income	321,372	137,861	167,636	(381)[1]	626,488
Collection activity costs	(106,259)	(80,191)	(64,659)	-	(251,109)
Other operating expenses	(49,345)	(40,489)	(37,613)	(42,593)[2]	(170,040)
Operating profit before depreciation, amortisation and impairment	**165,768**	**17,181**	**65,364**	**(42,974)**	**205,339**
Depreciation and amortisation	(4,744)	(19,537)	(16,738)	(6,545)[3]	(47,564)
Goodwill impairment	-	(100,000)	-	-	(100,000)
Operating profit / (loss)	**161,024**	**(102,356)**	**48,626**	**(49,519)**	**57,775**
Finance income					1,824
Finance costs					(187,436)
Loss before tax					**(127,837)**
Income tax					19,678
Loss for the year					**(108,159)**

[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 tradename assets recognised on acquisition of the UK region.

	At 31 December 2023	At 31 December 2022
	£000	£000
Non-current assets		
UK	645,709	640,122
DACH[1]	123,385	434,347
Nordics	245,014	255,462
Total non-current assets	**1,014,108**	**1,329,931**

[1] DACH portfolio assets have reduced by £283m following the goodwill impairment charge in the year. Refer to Note 10 for further details.

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 2023 £000	Year ended 31 December 2022 £000
Income		
DP	435,334	498,284
Service Revenue	143,572	126,027
Lawyer service revenue	-	72
Other	1,657	2,105
Total income	**580,563**	**626,488**

4. Loss before tax

Loss for the period is after charging:	Year ended 31 December 2023 £000	Year ended 31 December 2022 £000
Depreciation and impairment of property, plant and equipment (note 12 & 13)	17,811	11,668
Amortisation and impairment of intangible assets (note 11)	30,467	29,956
Staff costs (note 5c)	203,040	194,656

5. Staff costs and other operating expenses

a) Other operating expenses

	Year ended 31 December 2023 £000	Year ended 31 December 2022 £000
Staff costs (note 5c)	92,425	88,011
Depreciation of property, plant and equipment (note 12 & 13)	12,793	11,668
Amortisation of intangible assets (note 11)	30,467	29,956
Impairment of assets	5,018	-
Loss on disposal of property, plant and equipment and intangible assets	-	30,039
Non-recurring acquisition costs	-	5,167
Licences and maintenance for IT equipment	22,551	24,485
Building and facility costs	4,412	6,285
Other operating expenses	62,938	21,992
Total other operating expenses	**230,603**	**217,603**

Other operating expenses include 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 2023 £000	Year ended 31 December 2022 £000
Audit fees of Parent Company and consolidated financial statements	688	290
Audit fees of financial statements of subsidiaries	4,823	1,743
Other services	54	82
Total auditor's remuneration	**5,565**	**2,115**

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 2023 £000	Year ended 31 December 2022 £000
Collection activity costs	110,615	106,645
Other expenses	92,425	88,011
Total staff costs	**203,040**	**194,656**

	Year ended 31 December 2023 £000	Year ended 31 December 2022 £000
Wages and salaries	169,638	167,118
Social security costs	24,071	19,273
Pension costs to defined contribution schemes	8,345	8,193
Pension costs to defined benefit schemes	986	72
Total staff costs	**203,040**	**194,656**

The average number of employees during the period was:

	Year ended 31 December 2023 Number	Year ended 31 December 2022 Number
Operational staff	2,684	2,533
Business support	1,143	1,057
Total average number of employees	**3,827**	**3,590**

The period end number of employees was:

	31 December 2023 Number	31 December 2022 Number
Operational staff	2,728	2,582
Business support	1,087	1,099
Total number of employees at period end	**3,815**	**3,681**

5. Staff costs and other operating expenses (continued)

d) Directors' remuneration

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

Emoluments paid to other key employees who are not Directors of this Company but are Directors of subsidiaries of the Company are detailed in note 34. Seven employees are paid by subsidiary undertakings of the Company for their services as Directors to the Group.

6. Finance income

	Year ended 31 December 2023 £000	Year ended 31 December 2022 £000
Bank interest receivable	15,619	1,632
Other interest income	1,845	-
Foreign exchange gain	-	192
Total finance income	**17,464**	**1,824**

7. Finance costs

	Year ended 31 December 2023 £000	Year ended 31 December 2022 £000
Interest payable on the Senior Secured Notes	132,868	104,218
Fees payable on borrowings	14,449	5,853
Interest and fees payable on Revolving Credit Facility	28,106	7,004
Interest payable on shareholder loan	52,644	43,123
Interest payable on securitisation	50,537	21,612
Fees payable on other finance structures	-	768
Other interest payable	4,092	3,324
Interest expense from lease liabilities	2,630	1,390
Net loss on financial instruments designated as FVTPL	8,388	144
Foreign exchange loss	17,610	-
Total finance costs	**311,325**	**187,436**

8. Income tax

a) Amounts recognised in the Statement of Comprehensive Income

	Year ended 31 December 2023 £000	Year ended 31 December 2022 £000
Current taxation		
Corporation tax	5,732	4,631
Adjustment in respect of previous periods	-	(18)
Total current tax charge	**5,732**	**4,613**
Deferred tax		
Origination and reversal of temporary differences	(70,765)	(27,927)
Change in estimate of recoverable deferred tax	-	(1,443)
Impact of change in tax rate	-	5,079
Total deferred tax credit (note 9)	**(70,765)**	**(24,291)**
Total tax credit	**(65,033)**	**(19,678)**

b) Reconciliation of effective tax rate

The standard average effective rate of corporation tax in Luxembourg is 24.94%. However, as the Group is located in different countries, the standard average effective rate of corporation tax for the Group is 22% (2022: 22%). The tax credit assessed for the period is lower than this and the differences are explained below:

	Year ended 31 December 2023 £000	Year ended 31 December 2022 £000
Loss on ordinary activities before tax	**(540,912)**	**(127,836)**
Tax credit on loss on ordinary activities at a combined countries rate of 22% (2022: 22%)	(119,000)	(28,124)
Effects of:		
Permanent differences	-	31,333
Net of expenses not deductible and income not taxable	67,033	(6,021)
Adjustment in respect of prior years deferred taxes	-	5,079
Impact of tax losses carried forward	-	(5,751)
Adjustment in respect of prior years current taxes	-	(17)
Tax rate differences	(13,066)	(16,807)
Other	-	630
Total tax credit	**(65,033)**	**(19,678)**

9. Deferred tax

Deferred tax assets and liabilities are attributable to the following as at 31 December 2023 and 31 December 2022.

	31 December 2023 £000	31 December 2022 £000
Recognised in profit or loss		
Intangible assets	(23,469)	(23,469)
Portfolio investments	(24,663)	(24,663)
Tax losses carried forward	143,451	83,530
Other	22,498	9,068
Net tax assets	**117,817**	**44,465**

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 2023 £000	Year ended 31 December 2022 £000
SCI effect	70,765	27,928
Equity effect	-	(5,079)
Exchange rate differences	-	1,443
Movement in the period	**70,765**	**24,292**

	31 December 2023 £000	31 December 2022 £000
Deferred tax asset	147,963	81,751
Deferred tax liability	(30,146)	(37,286)
Net deferred tax asset	**117,817**	**44,465**

At 31 December 2023 deferred tax assets of £13.0m (31 December 2022: £13.0m) have not been recognised in respect of tax losses because it is not probable that future taxable profit will be available against which the losses can be utilised. Tax losses recognised are expected to be offset against future taxable profits.

10. Goodwill

	Year ended 31 December 2023 £000	Year ended 31 December 2022 £000
Cost		
Opening balance	1,254,758	1,178,491
Addition on acquisition of subsidiary	-	47,256
Effect of currency translation	(5,810)	29,011
At period end	**1,248,948**	**1,254,758**
Accumulated impairment		
Opening balance	(100,000)	-
Impairment charge	(283,634)	(100,000)
At end of year	**(383,634)**	**(100,000)**
Net book value		
At period end	**865,314**	**1,154,758**

The FY 22 and 23 impairment loss on goodwill related to the DACH CGU and was booked into Goodwill impairment on the Income Statement for year ended 31 December 2023 and 31 December 2022. Further sensitivity analysis is provided below.

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

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

Impairment testing

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

The recoverable amount of the CGUs is determined as the higher of fair value less cost to sell and value in use. The Group's goodwill impairment review at 31 December 2023 determines value in use as the CGUs recoverable amount. The most significant assumptions for the value in use calculation are the level of portfolio acquisitions during the forecast period and the discount rate applied. Other key assumptions are those regarding the growth rates and expected changes to collections and direct costs during the forecast period. The Group uses cash flow forecasts from the latest budgets, prepared for the next two years and extrapolates these forecasts to an appropriate period to reflect the CGU's business model. A terminal value is calculated into perpetuity, using the following growth rates:

	31 December 2023	31 December 2022
UK CGU	2.0%	1.5%
DACH CGU	1.5%	1.5%
Nordics CGU	2.0%	1.5%

10. Goodwill (continued)

Impairment testing (continued)

Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The forecast cash flows for each of the CGU's are discounted using a rate specific to that CGU's weighted average cost of capital and using inputs from sector peers and the broader market, as set out in the table below:

	31 December 2023	31 December 2022
UK CGU	9.9%	9.6%
DACH CGU	14.5%	11.7%
Nordics CGU	9.2%	8.4%

The Group prepares cash flow forecasts derived from the latest budget, as approved by the Board of Directors in January 2024. The forecasts assume growth rates in acquisitions which in turn drive the forecast collections and cost figures.

The Group has conducted a sensitivity analysis on the impairment test of the CGU's carrying value. Each sensitivity has been performed independently, keeping other parameters constant. Each sensitivity has assessed execution risk of collections performance and cost initiatives.

UK CGU

The CGU has a carrying value of £1,641m. The CGU's recoverable amount exceeds its carrying amount by £141m. Based on the value in use a fall in the forecast cash flows to 92%, an increase in WACC of 0.6 percentage points to 10.5%, or a sustained increase in portfolio acquisitions of 111% would result in an impairment as at 31 December 2023.

DACH CGU

The CGU has a carrying value of £70m following an impairment and allocation of assets held for sale. The CGU's carrying amount exceeded its recoverable amount resulting in an impairment loss of £283.6m during 2023 (2022: £100m). This impairment charge was fully allocated to goodwill and included in 'Goodwill impairment'. The goodwill impairment was driven by the decrease in the value in use of the DP business as the portfolios are sold, and the business converts to a 3PC model in 2024. A 10% increase in WACC of 145bps, a decrease in cash flows of 10% or a sustained increase in portfolio acquisitions of 10% would result in further impairment charges of £101m, £34m and £1m respectively.

Nordics CGU

The CGU has a carrying value of £667m. The CGU's recoverable amount exceeds its carrying amount by £99m. The decrease in headroom from £735m in the prior year was driven by the increase in WACC rate resulting in a decrease of £250m and a drop in DP purchases in 2024 and 2025 decreasing the value in use calculations by £385m.

Based on the value in use a fall in the forecast cash flows to 89%, or an increase in WACC of 0.6 percentage points to 9.8% or a sustained increase in portfolio acquisitions of 115% would result in an impairment at 31 December 2023.

11. Intangible assets

	Software and licences £000	Development costs £000	Customer relationships £000	Trademarks £000	Total £000
Cost					
At 1 January 2023	55,330	41,738	183,449	17,784	298,301
Additions	3,962	101,016	-	1	104,979
Reclassification	-	(37,302)	37,302	-	-
Currency exchange differences	(1,905)	1,385	(792)	(38)	(1,350)
Disposals	(6,579)	(19,677)	(139,839)	(8,013)	(174,108)
At 31 December 2023	**50,808**	**87,160**	**80,120**	**9,734**	**227,822**
Accumulated amortisation					
At 1 January 2023	(46,501)	(11,828)	(108,544)	(12,909)	(179,782)
Charge for the year	(3,245)	(9,411)	(17,191)	(620)	(30,467)
Reclassification	-	(37,302)	37,302	-	-
Disposals	750	11,498	59,997	7,995	80,240
Currency exchange differences	844	433	140	37	1,454
At 31 December 2023	**(48,152)**	**(46,610)**	**(28,296)**	**(5,497)**	**(128,555)**
Net book value					
At 31 December 2023	**2,656**	**40,550**	**51,824**	**4,237**	**99,267**
At 31 December 2022	**8,829**	**29,910**	**74,905**	**4,875**	**118,519**

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.

12. Property, plant and equipment

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

	31 December 2023 £000	31 December 2022 £000
Assets owned by the Group	11,888	6,097
Right-of-use assets (note 13a)	37,638	51,380
Total	**49,527**	**57,477**

Assets owned by the Group

	Leasehold improvements £000	Hardware £000	Office Equipment £000	Total £000
Cost				
At 1 January 2023	2,562	5,312	13,218	21,092
Additions	2,129	2,910	12,460	17,499
Reclassification	(19)	2,319	(2,300)	-
Currency exchange differences	(52)	(5)	(212)	(269)
Disposals	(3,238)	(3,648)	(1,409)	(8,295)
At 31 December 2023	**1,382**	**6,888**	**21,757**	**30,027**
Accumulated depreciation				
At 1 January 2023	(2,049)	(3,970)	(8,976)	(14,995)
Charge for the year	(604)	(1,130)	(1,546)	(3,280)
Disposals	2,707	2,758	1,261	6,726
Currency exchange differences	(1,102)	(1,854)	(3,634)	(6,590)
At 31 December 2023	**(1,048)**	**(4,196)**	**(12,895)**	**(18,139)**
Net book value				
At 31 December 2023	**334**	**2,692**	**8,862**	**11,888**
At 31 December 2022	**513**	**1,342**	**4,242**	**6,097**

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

13. 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.

During the year, the UK moved to a new property and used the termination provision in November 2023 for the old property lease, which commenced on 9 December 2013, and included an option to break, free of charge, in November 2023.

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. During 2023, one of the leasehold properties was no longer required. Negotiations to exit the lease with the landlord were unsuccessful. Accordingly, this lease along with certain office equipment within the office were impaired. See note 13a) below.

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 2023 £000	31 December 2022 £000
Leasehold Property	35,124	45,822
Cars	38	296
Office equipment	2,476	5,262
Total	**37,638**	**51,380**

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

Additions to right-of-use assets during the 2023 financial year were zero (2022: £24.9m).

During 2023 there were total impairments of £5m relating to leasehold properties and office equipment, primarily in relation to one office in Germany, where an onerous lease commitment has been recognised. The right-of-use of the assets in relation to this office no longer provide any economic benefit to The Group. As a result, these assets have been impaired.

b) Lease liabilities

	31 December 2023 £000	31 December 2022 £000
Non-current	39,738	44,758
Current	6,922	8,128
Total	**46,660**	**52,886**

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

13. Leases (continued)

c) Amounts recognised in the consolidated statement of comprehensive income

Depreciation and impairment charge for right-of-use assets	31 December 2023 £000	31 December 2022 £000
Leasehold Property	12,259	5,989
Cars	274	926
Other office equipment	1,998	1,740
Total	**14,531**	**8,655**

	31 December 2023 £000	31 December 2022 £000
Finance costs		
Interest expense	2,630	1,390
Other expenses		
Expense relating to short-term leases (included in other expenses)	246	229
Expense relating to leases of low-value assets that are not short-term leases (included in other expenses)	26	5
Expense relating to variable lease payments not included in lease liabilities (included in other expenses)	362	1

The total cash outflow for leases in 2023 was £8.8m (2022: £12.6m) of which £2.6m (2022: £1.4m) relates to interest expense and £6.2m (2022: £11.2m) relates to the payment of lease liabilities.

d) Other commitments

For 2023, a provision for the remaining element of the onerous contract relating to the Germany office no longer in use, as noted above, has been included in Provisions for £0.7m (2022: £ Nil) (see note 24). Other than this and the information noted above for leases, the Group has no other outstanding commitments at 31 December 2023 (31 December 2022: none).

14. Group structure

The Group includes the following subsidiary undertakings. All subsidiaries, except for Wolf Receivables Financing Plc, Wolf Financing Receivables 3 Plc in the UK and Lowell Portfolio Investment DK in Luxembourg are included in the consolidation:

Name	Country of incorporation	Ordinary share holding % as at 31 December 2023	Ordinary share holding % as at 31 December 2022
Garfunkelux Holdco 3 S.A.	Luxembourg	100	100
Lowell Holding GmbH	Germany	100	100
Lowell Financial Services GmbH	Germany	100	100
Zyklop Inkasso Deutschland GmbH	Germany	100	100
GFKL PayProtect GmbH	Germany	100	100
GFKL Collections GmbH	Germany	100	100
Deutsche Multiauskunftei GmbH	Germany	100	100
Lowell Service Center GmbH	Germany	100	100
Proceed Collection Services GmbH	Germany	100	100
Sirius Inkasso GmbH	Germany	100	100
Inkasso Becker Wuppertal Gmbh & Co. KG	Germany	100	100
IBW Verwaltungsund - und Beteiligungs GmbH	Germany	100	100
debifact Factoring GmbH & Co. KG	Germany	100	100
debifact Verwaltungs GmbH	Germany	100	100
Simon Holdco Limited	Jersey	100	100
Simon Midco Limited	UK	100	100
Simon Bidco Limited	UK	100	100
Hansa Holdco Limited	UK	100	100
Metis Bidco Limited	UK	100	100
Lowell Finance Holdings Limited[1]	UK	100	100
Lowell Group Financing Plc[1]	UK	100	100
Lowell Group Limited	UK	100	100
Lowell Funding Limited[1]	UK	100	100
Lowell Acquisitions Limited[1]	UK	100	100
Lowell Holdings Limited[1]	UK	100	100
Lowell Finance Limited[1]	UK	100	100
Lowell Financial Limited	UK	100	100
Lowell Portfolio I Limited	UK	100	100
Tocatto Limited[1]	UK	100	100
Lowell UK Shared Services	UK	100	100
Lowell Portfolio III Limited[1]	UK	100	100
Lowell Group Shared Services Limited	UK	100	100
Lowell Portfolio IV Limited	UK	100	100
Lowell Solicitors Limited	UK	100	100
Interlaken Group Limited[1]	UK	100	100
Fredrickson International Limited	UK	100	100
SRJ Debt Recoveries Limited[1]	UK	100	100
Lowell Receivables Financing 1 Limited	UK	100	100
Overdales Legal Limited	UK	100	100
Wolf Receivables Financing Plc	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

14. Group structure (continued)

Name	Country of incorporation	Ordinary share holding % as at 31 December 2023	Ordinary share holding % as at 31 December 2022
DC Portfolien GmbH	Germany	100	100
Tesch Inkasso Finance GmbH	Germany	100	100
Apontas GmbH & Co KG	Germany	100	100
Apontas Verwaltungs GmbH	Germany	100	100
Lowell Investment GmbH	Germany	100	100
Lowell Service GmbH	Germany	100	100
Lowell Nordics Oy	Finland	100	100
Lowell Sverige AB	Sweden	100	100
Lowell AS	Norway	100	100
Lowell Norge AS	Norway	100	100
Lowell Finans AS	Norway	100	100
Lowell Danmark A/S	Denmark	100	100
Lowell Finans A/S	Denmark	100	100
Aktieselskabet af 18. Maj 2018 A/S	Denmark	100	100
Lowell Suomi Oy	Finland	100	100
Lowell Treasury Co. Limited	UK	100	100
Lowell Receivables Financing 2 Limited	UK	100	100
Lowell Receivables Financing 3 Limited	UK	100	100
Hoist Finance UK Limited	UK	100	100
Hoist Finance UK Holdings 1 Limited	UK	100	100
Hoist Finance UK Holdings 2 Limited	UK	100	100
Hoist Finance UK Holdings 3 Limited	UK	100	100
CL Finance Limited	UK	100	100
Robinson Way Limited	UK	100	100
MKDP Limited	UK	100	100
Lowell Portfolio Investment DK[2]	Luxembourg	100	-
Wolf Receivables Financing 3 Plc[3]	UK	100	-

[1]Certain non trading entities are currently going through a voluntary members liquidation initiated on 18 December 2019.
[2]Lowell Portfolio Investment DK was incorporated on 15 May 2023
[3]Wolf Receivables Financing 3 Plc was incorporated on 15 August 2023.

15. Portfolio investments

Amortised Cost

	31 December 2023 £000	31 December 2022 £000
Non-current		
Portfolio investments – amortised cost	1,125,764	1,496,252
Portfolio investments – Asset Backed Security	3,740	-
Current		
Portfolio investments – amortised cost	510,131	676,631
Portfolio investments – Asset Backed Security	2,236	-
Total	**1,641,871**	**2,172,883**

The 31 December 2022 amortised cost value includes the £73m impact of the change in ERC in the UK from 84 months to 120 months.

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

	31 December 2023 £000	31 December 2022 £000
At start of year	**2,172,883**	**1,736,083**
Acquisition of subsidiary	-	290,292
Portfolios acquired during the year[1]	326,581	473,039
Collections in the year[2]	(1,092,466)	(844,031)
Income from portfolio investments	446,148	425,421
Net portfolio write (down)/up	(16,492)	72,083
Portfolio fair value release	-	(381)
Net foreign exchange movement	(19,017)	20,377
Reclassification of portfolio investments from amortised cost to assets held for sale[3]	(181,742)	-
At end of year	**1,635,895**	**2,172,883**

[1] Excludes £6m of Financial Investments held at amortised cost as part of the Wolf 3 transaction – see next table.
[2] Includes £60m gross accelerated debt purchase cashflows relating to the deconsolidation of the off-balance sheet ABS structure in Denmark and £135m gross accelerated debt purchase cashflows relating to the deconsolidation of the off-balance sheet ABS structure in the UK.
[3] Fair value of DACH Portfolio identified to be sold during H1 2024 and classified as Held for Sale (see note 21).

The movements in amortised cost Asset Backed Security (ABS) investments were as follows:

	31 December 2023 £000	31 December 2022 £000
At start of year	**-**	**-**
ABS acquired during the year	5,959	-
Income from ABS investment	16	-
At end of year	**5,975**	**-**

15. Portfolio investments (continued)

Fair Value

	31 December 2023 £000	31 December 2022 £000
Non-current		
Portfolio investments – fair value through PL (FVTPL)	27,207	12,958
Portfolio investments – fair value through OCI (FVOCI)	8,250	-
Total	**35,457**	**12,958**

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

Fair value through P&L:

	31 December 2023 £000	31 December 2022 £000
At start of year	**12,958**	**-**
Portfolios acquired during the year	37,584	12,497
Collections in the year	(513)	(590)
Fair value gain	5,678	1,051
Disposal	(28,500)	-
At end of year	**27,207**	**12,958**

Fair value through OCI:

	31 December 2023 £000	31 December 2022 £000
At start of year	**-**	**-**
Portfolios acquired during the year	8,228	-
Interest income from FVOCI instrument	22	-
At end of year	**8,250**	**-**

16. Involvement with Unconsolidated securitisation vehicles

Unconsolidated securitisation vehicles are all structured entities that the Group has an interest in, but does not control. The Group uses structured entities in the normal course of business to facilitate acquisitions of portfolios in accordance with local law, to allow co-investment with other parties, or to implement the financing required to acquire portfolios. Servicing activities are charged at market rates, on terms normal for the industry, and are considered to be a typical customer/supplier relationship per the meaning of this term set out in 'IFRS 12 – Disclosure of Interests in Other Entities'.

16. Involvement with Unconsolidated securitisation vehicles (continued)

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

	UK	Luxembourg
Number of entities at 31 December 2023	2	1
ABS Portfolio investments		
Amortised cost	£6.0m	-
Fair value through the P&L	£18.8m	£8.4m
Fair value through OCI	£8.2m	-
Total assets at 31 December 2023	**£33.0m**	**£8.4m**

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

17. Transfer of financial assets

In the ordinary course of business, the Group enters transactions that result in the transfer of financial assets, primarily loan receivables. In accordance with the accounting policy set out in Note 1, the transferred financial assets continue to be recognised in their entirety or to the extent of the Groups continuing involvement or are derecognised in their entirety.

The Group transfers financial assets that are not derecognised in their entirety or for which the Group has continuing involvement primarily through securitisation activities in which loan receivables are transferred to unconsolidated securitisation vehicles. As at 31 December 2023, Wolf Receivables Financing Plc and Wolf Receivables Financing 3 Plc in the UK and Lowell Portfolio Investment DK in Luxembourg were unconsolidated. The remaining three SPVs in the UK were consolidated.

Transferred financial assets that are derecognised in their entirety

Sales to unconsolidated structured entities

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

In May 2023, the Group sold certain loan receivables to a securitisation vehicle and, as part of the consideration, received 49% of the junior notes issued by the securitisation vehicle. In December 2023, the Group sold certain loan receivables to a securitisation vehicle and, as part of the consideration, received 12% of the senior notes and 5% of the junior notes issued by the securitisation vehicle. Both these transactions triggered the deconsolidation criteria of the SPV and derecognition of the sold reperforming portfolio. The Group classified the Junior Notes as measured at FVTPL. The Senior Notes are held at amortised cost.

During the year ended 31 December 2023, the group realized an accounting loss of £28m on the sale of the loan receivables to the unconsolidated securitisation vehicle. During the year ended 31 December 2023, it recognised income of £5.7m in profit and loss on its junior note holdings. Servicing contracts are discussed below.

17. Transfer of financial assets (continued)

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

Type of continuing involvement	
Notes issued by unconsolidated securitisation vehicles	£35m
31 December 2023	£35m

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

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

The servicing arrangement do not give rise to the Group having control over the securitisation vehicle and the Group therefore acts as an agent.

In 2023 the Group transferred loan receivables (whilst retaining servicing rights) to two unconsolidated securitisation vehicles. The loans sold were classified as loan receivables and measured at amortised cost. The total carrying amount of these loans at the time of transfer was £56m in May 2023 and £163m in December 2023.

The Group recognised income of £5.4m during the year ended 31 December 2023 in respect of servicing the loan receivables. The cumulative amount of such recognised income as at 31 December 2023 is £6.4m. On 31 December 2023, the fair value of the loan receivables that the Group still services amounted to £297m.

18. Trade and other receivables

	31 December 2023 £000	**31 December 2022 £000**
Trade receivables	43,583	24,410
Prepayments and accrued income	11,357	7,907
Other receivables	42,774	57,196
Tax receivable	3,684	1,291
Total	**101,398**	**90,804**

Trade receivables are primarily made up of amounts due from clients for services provided. This figure includes gross receivables of £45.8m (2022: £26.1m), and an allowance for bad debt of £2.2m (2022: £1.9m).

19. Other financial assets

	31 December 2023 £000	31 December 2022 £000
Non-current		
Receivables from affiliated companies	41	41
Other	22,847	2,720
Total non-current	**22,888**	**2,761**
Current		
Other	14,743	9,758
Total current	**14,743**	**9,758**
Total other financial assets	**37,631**	**12,519**

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.

20. Cash and cash equivalents

	31 December 2023 £000	31 December 2022 £000
Cash and bank balances	67,938	62,588
Restricted cash balances	75,145	70,911
Total cash and equivalents	**143,083**	**133,499**

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.

21. Assets and liabilities held for sale

	31 December 2023 £000	31 December 2022 £000
Fair value of assets transferred to held for sale	181,742	-
Assets held for sale	**181,742**	**-**

During 2023, management reviewed the portfolios within the DACH region and determined its intention to sell the majority of the book before the year-end. Management has determined that the remaining portion will be retained by Lowell.

In January 2024 the Group entered into an agreement to sell a small pool of assets portfolio assets in Germany to a European Credit Investor. Net proceeds from the transaction totalled c.€50m for the assets which had an associated 120m ERC of c.€140m at Dec-23. The selected portfolios were principally more aged and slower liquidating than the rest of the assets held in DACH and the transaction allowed the Group to release capital from backbook assets as the Group pivots to a servicing led offering in the DACH region.

22. Borrowings

	31 December 2023 £000	31 December 2022 £000
Non-current		
Unsecured borrowings at amortised cost		
Shareholder loan owed to Garfunkelux Holdco 1 S.à r.l.	598,969	541,380
Total unsecured	**598,969**	**541,380**
Secured borrowings at amortised cost		
Senior Secured Notes	1,662,453	1,700,933
Prepaid costs on Senior Secured borrowings	(10,561)	(18,475)
Securitisation loans	210,840	463,500
Total secured	**1,862,732**	**2,145,958**
Total borrowings due for settlement after 12 months	**2,461,701**	**2,687,338**
Current		
Unsecured borrowings at amortised cost		
Other interest payable	6,276	2,051
Total unsecured	**6,276**	**2,051**
Secured borrowings at amortised cost		
Interest on Senior Secured Notes	22,568	9,162
Prepaid costs on Senior Secured borrowings	(7,916)	(7,649)
Revolving credit facility	377,666	363,444
Securitisation loans	186,991	60,343
Total secured	**579,310**	**425,300**
Total borrowings due for settlement before 12 months	**585,585**	**427,351**

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

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

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

There are two covenant measures under the terms of the Senior Secured Notes; Fixed Charge Coverage Ratio, which must be at least 2:1 and Consolidated Senior Secured Leverage Ratio, which cannot exceed 3.75:1. These are incurrence covenants only, which would only need to be satisfied should the Group intend to raise additional senior secured financing.

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

The Group repurchased c.£17m of Senior Secured Notes in August 2023, which reduced the notionals of the notes by €4.0m, €3.3m and £10.7m.

22. Borrowings (continued)

Revolving Credit Facility ("RCF")

The Group has an RCF commitment of €455m which was extended to 4 August 2025 as part of the Group's refinancing in November 2020. The RCF commitment remains €455m. The RCF has a variable interest rate linked to SONIA/EURIBOR (subject to a 0% floor) and a quarterly commitment fee calculated on the undrawn facility. Any material company or other member of the Group, which becomes a guarantor of the RCF is required (subject to agreed security principles) to grant security over certain of its material assets and (if wholly owned by another member or members of the Group) to have its shares (or equivalent ownership interests) secured in favour of the Security Agent.

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

Securitisation Loans

On 22 November 2018 the Group entered into a £255m securitisation facility through its subsidiary Lowell Receivables Financing 1 Limited. On 11 April 2019 the facility was re-negotiated with an option to reset in future periods. On 17 June 2021 the facility was again re-negotiated. The amendments to the facility reduced the total commitment to £175m, extended the maturity to July 2025 and revised the margin to 3.28% + 1M SONIA.

On 17 June 2021 the Group entered into a £225m securitisation facility through its subsidiary Lowell Receivables Financing 2 Limited. The facility has a five year legal maturity and a margin of 3.5% + 1M SONIA.

In August 2022 the Group entered into a £170m securitisation facility through its subsidiary Lowell Receivables Financing 3 Limited. The facility has a five year legal maturity and a margin of 3.9% + 1M SONIA. In December 2023, LRF3 repaid the outstanding senior note and entered into negotiations to extend the facility.

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% (2022: 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 2023	31 December 2022
Notes	8.15%	6.97%
RCF	7.24%	3.65%
Shareholder loan owed to Garfunkelux Holdco 1 S.à r.l.	9.66%	9.66%
Securitisation loans	5.74%	4.92%

23. Trade and other payables

	31 December 2023 £000	31 December 2022 £000
Trade payables	14,195	27,270
Other taxes and social security	4,202	9,389
Accruals and deferred income	58,449	55,859
Other payables	43,289	81,709
Total	**120,135**	**174,227**

Other payables includes amounts due of £5.1m in respect of portfolios purchased but not yet paid for at 31 December 2023 (31 December 2022: £11.2m) and £23.8m of 3PC collections due to be transferred to clients (31 December 2022: £45.1m).

24. Provisions

	Tax provision £000	Site restoration provision £000	Employee related provision £000	Other provision £000	Total £000
At 1 January 2023	**3,669**	**4,198**	**1,049**	**4,130**	**13,046**
Provisions made during the year	1,413	406	6,762	991	9,572
Provisions reversed during the year	-	(25)	-	(292)	(317)
At 31 December 2023	**5,082**	**4,579**	**7,811**	**4,829**	**22,301**
Non-current	-	4,579	1,810	695	7,084
Current	5,082	-	6,001	4,134	15,217
Total	**5,082**	**4,579**	**7,811**	**4,829**	**22,301**

Other provisions contain onerous contract provisions of £0.7m as at 31 December 2023 (31 December 2022: £nil).

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

25. Other financial liabilities

	31 December 2023 £000	31 December 2022 £000
Non-current		
Lease liabilities	39,738	44,758
Other financial liabilities	-	6,712
Total non-current other financial liabilities	**39,738**	**51,470**
Current		
Lease liabilities	6,922	8,129
Other financial liabilities	28,528	6,979
Total current other financial liabilities	**35,450**	**15,108**

25. Other financial liabilities (continued)

Other financial liabilities include a 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.

26. Share capital

	£000
In issue at 31 December 2022 and 31 December 2023	**4,385**

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

The rights attached to the ordinary shares are as follows:

Voting

Each Shareholder shall have one vote for every share held. Each Shareholder and Beneficiary Unit ("BU") holder (note 27, where applicable, may vote through voting forms in the manner set out in the convening notice in relation to a Shareholders' Meeting. The Shareholders and the BU holders may only use voting forms provided by the Company and which contain at least the place, date and time of the meeting, the agenda of the meeting, the proposal submitted to the decision of the meeting, as well as for each proposal three boxes allowing the Shareholder and the BU holder to vote in favour, against, or abstain from voting on each proposed resolution by ticking the appropriate box.

Return of Capital

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

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

Distributions

From net profits of the Company determined in accordance with Luxembourg Law, 5% shall be deducted and allocated to a legal reserve fund. That deduction will cease to be mandatory when the amount of the legal reserve fund reaches one tenth of the Company's nominal capital.
Subject to the provisions of Luxembourg Law, the Company Articles and any Arrangement, the Company may by Shareholders' Resolution declare distributions to Shareholders pro rata to the number of shares held by them.

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

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

27. Reserves

Capital reserve

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

	31 December 2023 £000	31 December 2022 £000
At start of year	**(8,291)**	**(8,291)**
At end of year	**(8,291)**	**(8,291)**

Beneficiary Units

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

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

At 31 December 2023 and 31 December 2022, there were 333m beneficiary units in issue and the BU reserve totalled €25,000 (£21,250).

Rights

The BUs shall not carry voting rights except that each BU carries one vote at any shareholders' meeting called upon to resolve upon the appointment or removal of Director(s) of the Company. Each holder of BUs shall be entitled to receive an annual distribution corresponding to 0.1% of the Issue Price of the BUs held (the "BU Entitlement") payable annually upon decision of the Shareholders' Meeting, at repurchase or redemption of the BUs or upon liquidation of the Company. Any BU Entitlement not paid in a year, shall continue to accrue until it is paid.

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

Translation Reserve

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

Valuation reserve

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

28. Retained deficit

	31 December 2023 £000	31 December 2022 £000
Loss attributable to equity holders of the parent	**(475,879)**	**(108,158)**

29. Share-based payments

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

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

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

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

30. Financial instruments

Categories of financial instruments

	31 December 2023 £000	31 December 2022 £000
Financial assets		
Cash and cash equivalents	143,083	133,499
Amortised Cost portfolio investments	1,635,895	2,172,883
Amortised Cost financial instruments	5,975	-
Fair value through P&L portfolio investments	27,207	12,958
Fair value through OCI portfolio investments	8,250	-
Other	139,030	103,323
Derivatives (FVTPL)	7,759	16,177
Financial liabilities		
Borrowings - Notes	1,685,021	1,710,095
Borrowings – RCF	377,666	363,444
Borrowings – Shareholder loan	598,969	541,380
Borrowings – Securitisation loan	397,832	523,843
Borrowings – other	6,276	2,051
Trade and other payables	120,135	174,227
Other financial liabilities	75,188	66,577

Material accounting policies

Details of the material 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);

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

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

- **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, and 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.

30. Financial instruments (continued)

Strategic risk management

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

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

The Group manages the unpredictability of the market through a number of financing structures. The Group has in place €630m, £440m and €795m of Senior Secured loan Notes, €455m RCF facility and securitisation facilities with an option to reset of £400m. At 31 December 2023 the UK securitisation and RCF facilities were £775m drawn (31 December 2022: £887m). 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.

Financial risk management

Credit and Counterparty risk management

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

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

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

An Investment Committee is in place which is attended by members of the Executive Committee as well as other key individuals from across the business.

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

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

30. Financial instruments (continued)

Credit and Counterparty risk management (continued)

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

The carrying value by geography is shown below:

	31 December 2023 £000	31 December 2022 £000
UK[1]	1,131,783	1,290,218
DACH[2]	83,684	302,485
Nordics	420,428	593,138
Total	**1,635,895**	**2,185,841**

[1]UK portfolio as at 31 December 2022 also included a Fair Value Through Profit and Loss instrument of £13.0m which is now presented separately. Refer to Note 15.
[2]DACH portfolio assets have reduced by £182m following the transfer to Held for Sale assets. Refer to Note 21 for further details.

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 2023, the Group had available undrawn committed borrowing facilities, including available cash at bank, of £261m (31 December 2022: £153m). See note 22 for further details on borrowings.

The following tables show the Group's gross undiscounted contractual cash flows of financial liabilities including interest payments at the Statement of Financial Position ("SFP") date:

As at 31 December 2023

	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]	8.15	1,685,021	1,956,078	67,861	68,325	1,819,892	-
RCF	7.24	377,666	377,666	377,666	-	-	-
Shareholder loan[2]	9.66	598,969	598,969	-	-	598,969	-
Securitisation loans	5.74	397,832	434,636	86,178	109,801	238,657	-
Lease liabilities	-	46,660	46,907	2,816	2,699	21,394	19,998
Total liabilities		**3,112,424**	**3,420,532**	**540,797**	**180,825**	**2,678,912**	**19,998**

30. Financial instruments (continued)

Liquidity and Capital risk management (continued)

As at 31 December 2022

	Weighted average interest rate	Carrying amount	Contractual cash flows	0-6 months	6-12 months	1-5 years	Over 5 years
	%	£000	£000	£000	£000	£000	£000
Notes[1]	6.84	1,701,062	2,054,354	56,126	56,126	1,942,102	-
RCF	3.60	363,444	363,444	363,444	-	-	-
Shareholder loan[2]	9.66	541,380	541,380	-	-	541,380	-
Securitisation loans	3.55	523,845	614,803	2,864	39,934	572,005	-
Lease liabilities	-	52,886	73,167	4,967	4,282	33,166	30,752
Other liabilities	-	2,051	2,051	2,051		-	-
Total liabilities		**3,184,668**	**3,649,199**	**429,452**	**100,342**	**3,088,653**	**30,752**

[1] Includes Loan principal outstanding and accrued interest (note 22).
[2] Interest can either be paid or capitalised on an annual basis.

Other liabilities includes "Trade and other payables", "Derivatives", "Other financial liabilities" and "Other interest payable".

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.

Group financing facilities

	31 December 2023 £000	31 December 2022 £000
RCF[1]		
Amount used	377,666	363,440
Amount unused	16,900	87,770
Total	**394,566**	**451,210**

1 RCF capacity unchanged. Movement in total is due to facilities being denominated in Euros and GBP.

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 22 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").

30. Financial instruments (continued)

Interest rate risk management

Interest rate risk is the risk to earnings, income, and 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 2023 this was £379m drawn down (31 December 2022: £364m). Interest is payable on the RCF at a maximum of 3.5% + SONIA/EURIBOR. The Group also had one floating rate note issuance in place as at 31 December 2023 with an outstanding principal of €626m following a €4m buyback during the year, 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 2023 by £29.4m (2022: £28.6m). This is attributable to the Group's exposure to interest rates on its variable rate borrowings.

Foreign exchange derivative contracts

The derivatives recognised at 31 December 2023 and 31 December 2022 relate to OTC ("Over the Counter") foreign exchange and interest rate derivatives that the Group transacts with its banking partners. In order to recognise the fair value of these derivatives, the fair value calculation performed by the Group as of the balance sheet date is used, which is based on the customary market method and is regularly compared with fair value calculations provided by the counter parties. The fair value of foreign exchange forwards is determined by discounting expected future cash flows over the residual term of the contract based on current market rates and the term structure of interest rates.

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 principal foreign currency denominated net assets are as follows:

	31 December 2023 £000	31 December 2022 £000
Net assets		
EUR	(1,900,523)	(1,444,492)
SEK	127,504	279,073
NOK	66,350	103,410
DKK	125,346	200,173
Total	**(1,581,324)**	**(861,836)**

30. Financial instruments (continued)

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.

	2023 £000	2022 £000
(Increase) / decrease in loss before tax		
EUR	(30,974)	(7,405)
SEK	(58)	1,480
NOK	(2)	(326)
DKK	(8)	310
(Decrease) / increase in Shareholders' equity		
EUR	(190,052)	(136,005)
SEK	12,750	27,907
NOK	6,635	10,341
DKK	12,535	20,017

Insurance risk management

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

Compliance risk

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

In the UK, a number of entities are regulated by the Financial Conduct Authority ("FCA"). If the FCA deems the Group's conduct and customer interaction to be poor or non-compliant it can impose a financial penalty and/or financial redress for customers. The ultimate penalty would be the withdrawal of that company's authorisation to provide financial services. The Directors are not aware of any indication that this is a possibility and seek to minimise the risk by adopting all the requirements of the Consumer Duty Regulations in the UK in providing good customer outcomes in the Group's day-to-day activity.

Separately, in the Nordic region, one entity is regulated by the Financial Supervisory Authority ("FSA"), promoting solid financial institutions with good risk awareness, management and control. In particular, the FSA supervises debt collection agencies with reference to treatment of client funds and debt collection practices. The FSA also has powers to impose financial penalties on the Group or remove the Group's licence to provide specific services.

30. Financial instruments (continued)

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.

Financial assets and liabilities

Financial assets and liabilities are classified into the following categories:

	31 December 2023 £000	31 December 2022 £000
Financial assets		
Investments and receivables[1]	1,813,235	2,292,676
Cash and cash equivalents	143,083	133,499
Derivative financial instruments	7,759	16,177
Total financial assets	**1,964,077**	**2,442,352**
Financial liabilities		
Financial liabilities measured at amortised cost	3,263,496	3,380,657
Total financial liabilities	**3,263,496**	**3,380,657**

[1] Investments and receivables includes £2.4m of Assets for current tax (31 December 2022: £3.5m)

30. Financial instruments (continued)

Derivatives with positive and negative fair values

As of 31 December 2023, foreign exchange forwards with a total negative fair value of £Nil were held (31 December 2022: £Nil). As of 31 December 2023, foreign exchange forwards with a total positive fair value of £0.7m were held (31 December 2022: £1.7m). They were not designated as hedges for hedge accounting purposes (IFRS 9).

As of 31 December 2023, interest rate caps with a total positive fair value of £10.0m were held (31 December 2022: £14.5m). 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 2023 £000	31 December 2022 £000	31 December 2023 £000	31 December 2022 £000
Financial assets				
Cash and cash equivalents	143,083	133,499	143,083	133,499
Investments and receivables:				
Portfolio investments	1,641,871	2,172,883	1,641,871	2,172,883
Other financial assets	141,428	106,835	141,428	106,835
Total financial assets	**1,926,382**	**2,413,217**	**1,926,382**	**2,413,217**
Financial liabilities				
Financial liabilities measured at amortised cost:				
Senior Secured Notes[1]	1,685,021	1,710,095	1,312,143	1,398,391
RCF	377,666	363,444	377,666	363,444
Shareholder loan	598,969	541,380	598,969	541,380
Securitisation loan	397,832	523,843	397,832	523,843
Other financial liabilities	197,732	54,937	197,732	54,937
Total financial liabilities	**3,257,220**	**3,193,699**	**2,884,342**	**2,881,995**

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

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.

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.

30. Financial instruments (continued)

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

- 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.

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 2023 £000	31 December 2022 £000
Level 2		
Non-current assets measured at fair value less costs to sell		
Assets held for sale	181,742	-
Financial assets at fair value:		
Derivatives not designated as part of a hedge relationship	7,759	16,177
Portfolio investments held at fair value through profit and loss	27,207	12,958
Portfolio investments held at fair value through OCI	8,250	-
Total	**224,958**	**29,135**

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

31. Note to the statement of cash flows

	Note	Year ended 31 December 2023 £000	Year ended 31 December 2022 £000
Loss for the year		**(475,879)**	**(108,158)**
Tax credit	8	65,033	19,678
Loss for the year, before tax		**(540,912)**	**(127,836)**
Adjustments for:			
Income on portfolio investments	15	(446,110)	(425,421)
Net portfolio write up	15	16,492	(72,083)
Portfolio fair value release	15	-	381
Fair value gain	15	(5,678)	(1,051)
Collections on owned portfolios	15	1,092,466	844,621
Depreciation and amortisation	11 & 12	43,260	41,624
Impairment of goodwill and right of use asset	10	288,652	100,000
Loss on disposal of PPE and intangible assets	5a	34,550	30,039
Finance income	6	(17,464)	(1,824)
Finance costs	7	311,324	187,436
Unrealised gain/(loss) from foreign exchange		58,439	(46,314)
(Increase) / Decrease in trade and other receivables		(14,158)	(33,003)
Decrease in trade and other payables		(106,112)	67,582
Movement in other net assets		84,275	(2,427)
Cash generated by operating activities before portfolio acquisitions		**799,024**	**561,714**
Portfolios acquired[1]		(352,838)	(509,262)
Income taxes paid		(7,208)	(10,245)
Net cash generated by operating activities		**438,978**	**42,217**

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

32. Reconciliation of movements in borrowings to financing cash flows

	Senior Notes £000	Shareholder loan £000	Prepaid costs on borrowings £000	RCF £000	Securitisation loans £000	Other £000	Total £000
Balance at 1 January 2023	**1,710,095**	**541,380**	**(26,123)**	**363,444**	**523,740**	**2,051**	**3,114,587**
Changes from financing cash flows							
Proceeds from loans and borrowings		-	-	1,982,968	74,062	-	2,057,030
Repayment of borrowings	(13,128)	-	-	(1,996,974)	(199,473)	-	(2,209,575)
Interest paid	(131,034)	-	-	(33,459)	(58,868)	(4,092)	(227,453)
Total changes from financing cash flows	**(144,162)**	**-**	**-**	**(47,465)**	**(184,279)**	**(4,092)**	**(379,998)**
The effect of changes in foreign exchange rates	**(21,512)**	**4,945**	**-**	**33,603**	**-**	**-**	**17,036**
Changes from liabilities							
Interest expense	144,474	52,644	-	28,085	58,370	8,317	291,890
Profit on bond buyback	(3,873)	-	-	-	-	-	(3,873)
Prepaid cost release	-	-	7,646	-	-	-	7,646
Total liability related changes	**140,601**	**52,644**	**7,646**	**28,085**	**58,370**	**8,317**	**295,663**
Balance at 31 December 2023	**1,685,022**	**598,969**	**(18,477)**	**377,667**	**397,831**	**6,276**	**3,047,288**

33. Employee benefits

a) Defined benefit schemes

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

	31 December 2023 £000	31 December 2022 £000
Defined benefit pension net liabilities		
DACH	4,692	3,629
Nordics	1,542	2,324
Total	**6,234**	**5,953**

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 2.9% and 3.2% (2022: 3.6% and 3.7%), 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 2.2% (2022: 1.5%), salary increases at 2.2% (2022: 5.0%), and the employee turnover rate in a range from 0.0% to 2.0% (2022: 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 2023 £000	31 December 2022 £000
Present value of unfunded defined benefit obligation	7,807	6,677
Plan assets	(3,115)	(3,049)
Net liability	**4,692**	**3,628**

33. Employee benefits (continued)

a) Defined benefit schemes (continued)

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

	31 December 2023 £000	31 December 2022 £000
Opening balance of defined benefit obligation	**6,677**	**9,442**
Interest expense	235	95
Pension payments	(248)	(233)
Current service cost	74	100
Actuarial losses/ (gains)	1,183	(2,974)
Currency translation adjustments	(114)	247
Closing balance of defined benefit obligation	**7,807**	**6,677**

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 2023 £000	31 December 2022 £000
Opening balance of plan assets	**3,049**	**2,824**
Net interest income	84	62
Contributions	109	88
Payments	(75)	(77)
Currency translation adjustments	(52)	152
Closing balance of plan assets	**3,115**	**3,049**

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 £110k (£100k at 31 December 2022).

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

	Year ended 31 December 2023 £000	Year ended 31 December 2022 £000
Opening balance	**3,629**	**6,618**
Payments arising from pension obligations	(282)	(157)
Allocation to defined benefit obligation	226	45
Actuarial (gains)/losses	1,183	(2,974)
Currency translation adjustments	(64)	97
Closing balance	**4,692**	**3,629**

33. Employee benefits (continued)

a) Defined benefit schemes (continued)

A quantitative sensitivity analysis of the key assumptions as of 31 December 2023 is as shown below:

	31 December 2023 £000
Interest rate	
Increase 0.5%	(568)
Decrease 0.5%	640
Salary trend	
Increase 0.5%	142
Decrease 0.5%	(125)
Benefits trend	
Increase 0.5%	482
Decrease 0.5%	(438)

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 2023 £000	31 December 2022 £000
Within the next 12 months	269	236
Between 1 and 5 years	1,237	1,085
Between 5 and 10 years	1,868	1,726
More than 10 years	11,494	12,077
Total expected payments	**14,868**	**15,125**

The average duration of the defined benefit obligation at the end of the reporting period is 20 years (31 December 2022: 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 2023 £000	31 December 2022 £000
Present value of unfunded defined benefit obligation	6,725	7,945
Plan assets	(5,183)	(5,621)
Net liability	**1,542**	**2,324**

33. Employee benefits (continued)

Defined benefit schemes (continued)

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

	31 December 2023 £000	31 December 2022 £000
Opening balance of defined benefit obligation	**7,945**	**7,757**
Interest expense	192	89
Pension payments	(973)	(106)
Current service cost	189	256
Payroll tax of employer	(41)	(55)
Actuarial gains	(59)	(113)
Currency translation adjustments	(528)	117
Closing balance of defined benefit obligation	**6,725**	**7,945**

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

	31 December 2023 £000	31 December 2022 £000
Opening balance of plan assets	**5,621**	**5,303**
Net interest income	142	50
Actuarial losses	(337)	(139)
Contributions	334	448
Payroll tax of employer	(41)	(55)
Payments	(106)	(106)
Currency translation adjustments	(430)	120
Closing balance of plan assets	**5,183**	**5,621**

b) Defined contribution schemes

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

The total cost charged to income of £5.4m (2022: £5.8m) represents contributions payable to these schemes by the Group at rates specified in the rules of the schemes.

As at 31 December 2023, contributions of £218k (31 December 2022: £249k) due in respect of the current reporting period had not been paid over to the schemes.

34. Related party transactions

Parent and ultimate controlling party

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

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

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

Year end balances with related parties

	31 December 2023 £000	31 December 2022 £000
Balances with immediate parent undertaking		
Shareholder loan with Garfunkelux Holdco 1 S.à r.l. (note [22])	(598,969)	(541,380)
Balances with other related parties		
Loan owed from Garfunkelux Nominee S.à r.l.	111	63
Permira Beteiliqunqsberatung GmbH (trading)	(12)	-
Klarna Bank AB (trading)	94	48
Klarna (trading)	(64)	(12)

Transactions with related parties

	31 December 2023 £000	31 December 2022 £000
Transactions with immediate parent		
Shareholder loan interest with Garfunkelux Holdco 1 S.à r.l.	(52,644)	(50,282)
Transactions with other related parties		
Loan to Garfunkelux Nominee S.à r.l.	48	(9)
Permira Beteiligungsberatung GmbH (trading)	(67)	(42)
Teamviewer GmbH (trading)	(5)	(1)
Genesys Telecommunication Laboratories B.V. (trading)	(464)	(4)
P&I Personal und Informatik AG (trading)	(2)	(7)
Klarna Bank AB (trading)	20	2,956
Klarna (trading)	(20)	352
Informatica Software Limited	(402)	-
Motus ehf	(1)	-
SonarSource SA	(5)	-

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

34. Related party transactions (continued)

Remuneration of key management personnel

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

	Year ended 31 December 2023 £000	Year ended 31 December 2022 £000
Short-term employee benefits	**3,035**	**3,367**

The above details relate to seven key management personnel (2022: eight) who are Directors and/or senior executives of subsidiary undertakings of the Company. They are paid emoluments by one subsidiary company (Lowell Group Shared Services Limited) 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 2023 and 31 December 2022, there were no loans outstanding with key management personnel.

35. Subsequent events

In January 2024 the Group entered into an agreement to sell a small pool of assets portfolio assets in Germany to a European Credit Investor. Net proceeds from the transaction totalled c.€50m for the assets which had an associated 120m ERC of c.€140m at Dec-23. The selected portfolios were principally more aged and slower liquidating than the rest of the assets held in DACH and the transaction allowed the Group to release capital from backbook assets as the Group pivots to a servicing led offering in the DACH region.

In January 2024, Lowell entered into a transaction alongside Resurs where both parties will extend term loan facilities to an SPV, with the SPV using the cash drawn to purchase a portfolio of assets from Resurs. The availability period started on 18 January 2024 and closed on 31 January 2024.

In April 2024 and May 2024, the Group concluded two portfolio sales for combined net proceeds of c.€136m. These assets had associated 120m ERC of c.€320m at Dec-23 and together with the sale in January 2024, reflected the majority of assets classified as held for sale on the Consolidated Statement of Financial Position as at 31 December 2023. These transactions form part of the Group's wider Balance Sheet Velocity programme and resulted in the acceleration of collections on assets in DACH as part of the Group's shift to an increased servicing led offering in this region.

GARFUNKELUX HOLDCO 2 S.A.
CASH EBITDA WALKS (UNAUDITED)
YEAR ENDED 31 DECEMBER 2023

Cash EBITDA Walks (Unaudited)

Cash EBITDA is a non-IFRS measure. It 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.

The three walks below show reconciliations from the IFRS balances in the accounts to the Group's Cash EBITDA number and are unaudited.

	Year ended 31 December 2023
Loss for the year to Cash EBITDA	**£000**
Loss for the year	(481,815)
Net finance costs	293,861
Taxation credit	(59,097)
Operating profit	**(247,051)**
Portfolio amortisation	645,150
Net portfolio write down	16,492
-Fair value gain	(5,678)
Non-recurring costs/exceptional items, net of exceptional income	31,069
Depreciation, amortisation and impairment	331,912
Cash EBITDA	**771,894**

	Year ended 31 December 2023
Cash collections to Cash EBITDA	**£000**
Cash collections (DP)	1,091,299
Other income	145,229
Operating expenses	(827,615)
Non-recurring costs/exceptional items, net of exceptional income	31,069
Depreciation, amortisation and impairment	331,912
Cash EBITDA	**771,894**

	Year ended 31 December 2023
Net cash flow to Cash EBITDA	**£000**
Increase in cash in the year	11,130
Movement in debt	151,339
Purchases of loan portfolios	352,838
Interest paid net of interest received	209,670
Income taxes paid	7,207
Capital expenditure and financial investment	47,850
Other comprehensive expenditure	1,498
Investment Paid	50
Derivative settlements	428
Payment of lease liabilities	8,774
Cash flow before interest, portfolio purchases, tax expenses and capital expenditure	**790,784**
Working capital adjustments	(49,959)
Non-recurring costs/exceptional items, net of exceptional income	31,069
Cash EBITDA	**771,894**