Garfunkelux Holdco 2 S.A.
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Report
September 6, 2017

FORWARD-LOOKING STATEMENTS

This report includes forward-looking statements within the meaning of the securities laws of certain applicable jurisdictions. These forward-looking statements include, but are not limited to, all statements other than statements of historical facts contained in this report, including, without limitation, those regarding our future financial position and results of operations, our strategy, plans, objectives, goals and targets, future developments in the markets in which we participate or are seeking to participate or anticipated regulatory changes in the markets in which we operate or intend to operate. In some cases, you can identify forward-looking statements by terminology such as ''aim,'' ''anticipate,'' ''believe,'' ''continue,'' ''could,'' ''estimate,'' ''expect,'' ''forecast,'' ''guidance,'' ''intend,'' ''may,'' ''plan,'' ''potential,'' ''predict,'' ''projected,'' ''should,'' or ''will'' or the negative of such terms or other comparable terminology.

By their nature, forward-looking statements involve known and unknown risks, uncertainties and other factors because they relate to events and depend on circumstances that may or may not occur in the future. We caution you that forward-looking statements are not guarantees of future performance and are based on numerous assumptions and that our actual results of operations, including our financial condition and liquidity and the development of the industry in which we operate, may differ materially from (and be more negative than) those made in, or suggested by, the forward-looking statements contained in this report. In addition, even if our results of operations, including our financial condition and liquidity and the development of the industry in which we operate, are consistent with the forward-looking statements contained in this report, those results or developments may not be indicative of results or developments in subsequent periods.

The risks described in the ''*Risk Factors Related to Our Business and Industry*'' section of this report are not exhaustive. Other sections of this report describe additional factors that could adversely affect our business, financial condition and results of operations. New risks emerge from time to time and it is not possible for us to predict all such risks, nor can we assess the impact of all such risks on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

We undertake no obligation, and do not intend, to update or revise any forward-looking statement or risk factors, whether as a result of new information, future events or developments or otherwise. All subsequent written and oral forward-looking statements attributable to us or to persons acting on our behalf are expressly qualified in their entirety by the cautionary statements referred to above and contained elsewhere in this report.

CURRENCY PRESENTATION AND DEFINITIONS

In this report, all references to ''**GBP**,'' ''**pound**,'' ''**pound sterling**,'' ''**UK pound**'' or ''**£**'' are to the lawful currency of the United Kingdom, all references to ''**C$**'' are to the lawful currency of Canada, all references to ''**euro**,'' ''**EUR**'' or ''**€**'' are to the single currency of the participating member states of the European Monetary Union of the Treaty Establishing the European Community, as amended from time to time, and all references to ''**U.S. dollars**,'' ''**US$**'' and ''**$**'' are to the lawful currency of the United States of America.

Definitions

Unless otherwise specified or the context requires otherwise in this report:

- ''Amended and Restated RCF Agreement'' means the Revolving Credit Facility Agreement, as amended and restated on August 18, 2015 pursuant to, and in accordance with the amendment and restatement agreement among, *inter alios*, the Issuer, the Parent, Simon Bidco, Simon Midco, Simon Holdco, Citibank N.A., London Branch, Credit Suisse AG, London Branch, Goldman Sachs Bank USA, ING Bank, a Branch of ING-DiBa AG and JPMorgan Chase Bank N.A., London Branch;
- ''Apontas'' means Apontas GmbH & Co. KG and its subsidiaries, acquired by the Group on October 10, 2016;
- ''CAGR'' means compound annual growth rate;
- ''Combined Business'' means our UK Division and our DACH Division on a combined basis;
- ''DACH'' means the region in which our DACH Division operates, which, as of the date of this report, is comprised of Germany, Austria, Switzerland, Croatia and Slovenia; however, in the years 2014 and 2015, operations of the DACH Division were in Germany only (except for some operations in Spain, which were sold as well as liquidated in December 2014);
- ''DACH Division'' means GFKL Holdco and its consolidated direct and indirect subsidiaries from time to time;
- ''DMA'' means Deutsche Multiauskunftei GmbH, an operating subsidiary of GFKL Holdco;
- ''E&Y Germany'' means Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft;
- ''E&Y Luxembourg'' means Ernst & Young, Société Anonyme;
- ''ERC'' means estimated remaining collections, which are the future collections projected to be received on all of our purchased debt portfolios based on our forecasting models. As of today, our internal models forecast collections over a 120-month period for our UK Division and over a 180-month period for our DACH Division (in each case, except as otherwise specified). ERC is presented here for illustrative purposes only and can be different from the forecasts used to calculate the carrying value of our purchased debt portfolios as recognized in our consolidated financial statements. Any references to ERC in this report are references to gross ERC (which includes estimated gross collections in respect of the principal balance, costs, service costs and fees). While the underlying methodologies our UK Division and our DACH Division use to calculate ERC are generally consistent, no effort has been undertaken to harmonize these metrics and as a result, the ERC results for our UK Division and our DACH Division may not be directly comparable, and the interpretability of the Group ERC, which is derived from the combination of these two metrics, may be affected as a result See ''*Presentation of Financial and Other Information—Non-Financial Operating Data*;''
- ''Existing 2021 Additional Proceeds Loan'' means the loan made on or about April 21, 2017 and documented under the Existing 2021 Additional Proceeds Loan Agreement;
- ''Existing 2021 Additional Proceeds Loan Agreement'' means the proceeds loan agreement under which the on-lending by the Issuer on or about April 21, 2017 of the additional €175 million aggregate principal amount of the Existing 2021 Euro Notes issued on April 21, 2017 to Simon Bidco Limited was documented, which was further on-lent to Lowell Portfolio I Limited, on or about April 21, 2017. The Existing 2021 Additional Proceeds Loan Agreement may be amended and restated on or about the Issue Date pursuant to the Proceeds Loan Amendment and Restatement;

- ''Existing 2021 Euro Notes'' means collectively the €230 million aggregate principal amount of Floating Rate Senior Secured Notes due 2021 issued by the Issuer on September 28, 2016 pursuant to the September 2016 Senior Secured Notes Indenture and the additional €175 million aggregate principal amount of Floating Rate Senior Secured Notes due 2021 issued by the Issuer on April 21, 2017 pursuant to the September 2016 Senior Secured Notes Indenture;
- ''Existing 2021 Initial Proceeds Loan'' means the loan made under the Existing 2021 Initial Proceeds Loan Agreement;
- ''Existing 2021 Initial Proceeds Loan Agreement'' means the proceeds loan agreement under which the Issuer was deemed to have on-lent the €230 million aggregate principal amount of the Existing 2021 Euro Notes issued on September 28, 2016 to GFKL Holdco;
- ''Existing 2021 Proceeds Loans'' means the Existing 2021 Initial Proceeds Loan and the Existing 2021 Additional Proceeds Loan;
- ''Existing 2022 Euro Notes'' means the €365 million aggregate principal amount of 7.500% Senior Secured Notes due 2022 issued by the Issuer on July 23, 2015 pursuant to the July 2015 Senior Secured Notes Indenture;
- ''Existing 2022 Proceeds Loan'' means the loan made under the Existing 2022 Proceeds Loan Agreement;
- ''Existing 2022 Proceeds Loan Agreement'' means the proceeds loan agreement under which the Issuer was deemed to have on-lent the aggregate principal amount of the Existing 2022 Euro Notes to Lowell Holding on the GFKL Acquisition Completion Date;
- ''Existing 2022 Sterling Notes'' means the £565 million aggregate principal amount of 8.500% Senior Secured Notes due 2022 issued by the Issuer on October 19, 2015 pursuant to the October 2015 Senior Secured Notes Indenture;
- ''Existing Indentures'' means, collectively, the July 2015 Senior Secured Notes Indenture, the October 2015 Senior Secured Notes Indenture, the October 2015 Senior Notes Indenture and the September 2016 Senior Secured Notes Indenture;
- ''Existing Notes'' means, collectively, the Existing 2021 Euro Notes, the Existing 2022 Euro Notes, the Existing 2022 Sterling Notes and the Existing Senior Notes;
- ''Existing Senior Notes'' means the £230 million aggregate principal amount of 11.000% Senior Notes due 2023 issued by the Parent on October 19, 2015 pursuant to the October 2015 Senior Notes Indenture;
- ''Existing Senior Secured Notes'' means, collectively, the Existing 2021 Euro Notes, the Existing 2022 Euro Notes and the Existing 2022 Sterling Notes;
- ''Existing Sterling Notes'' means, collectively, the Existing 2022 Sterling Notes and the Existing Senior Notes;
- ''FRN Proceeds Loans'' means, collectively, the FRN Proceeds Loan 1 and (if made) the FRN Proceeds Loan 2;
- ''FRN Proceeds Loan 1'' means the loan made under the FRN Proceeds Loan 1 Agreement;
- ''FRN Proceeds Loan 1 Agreement'' means the proceeds loan agreement to be entered into on the Issue Date between the Issuer, as lender, and GFKL Holdco, as borrower, pursuant to which the Issuer will loan a portion of the gross proceeds of the Offering to GFKL Holdco;
- ''FRN Proceeds Loan 2'' means the loan (if any) made under the FRN Proceeds Loan 2 Agreement;
- ''FRN Proceeds Loan 2 Agreement'' means the proceeds loan agreement to be entered into on the Issue Date (to the extent the Proceeds Loan Amendment and Restatement does not occur) between the Issuer, as lender, and Simon Bidco Limited, as borrower, pursuant to which the Issuer will loan a portion of the gross proceeds of the Offering to Simon Bidco Limited;
- ''GCG'' means GFKL Collections GmbH, formerly known as SNT Inkasso & Forderungsmanagement GmbH, an operating subsidiary of GFKL Holdco;

- ''GFKL Acquisition'' means the acquisition by Lowell Holding of Carl Holding GmbH (prior to its merger into Lowell Holding);
- ''GFKL Acquisition Completion Date'' means June 30, 2015, the date on which the GFKL Acquisition (other than the acquisition of certain additional shares in GFKL Holdco following the squeeze-out of minority shareholders pursuant to Sections 327a *et seq*. of the German Stock Companies Act) (*Aktiengesetz*)) was consummated;
- ''GFKL Holdco'' means GFKL Financial Services GmbH (to be renamed Lowell Financial Services GmbH; formerly GFKL Financial Services Aktiengesellschaft);
- ''GPP'' means GFKL PayProtect GmbH (formerly known as Domnowski Inkasso GmbH), an operating subsidiary of GFKL Holdco;
- ''Group,'' ''we,'' ''us'' or ''our'' refer to the Parent and its consolidated subsidiaries from time to time, or, as the context requires with regards to historical acquisitions, our DACH Division or UK Division prior to the GFKL Acquisition Completion Date and the Lowell Acquisition Completion Date, respectively;
- ''Group ERC'' means the ERC projections for the Combined Business. Group ERC is calculated by adding our UK Division's ERC (based on a 120-month period) to our DACH Division's ERC (based on a 180-month period) translated into pounds sterling at the applicable rate. Group ERC is presented here for illustrative purposes only and can be different from the forecasts used to calculate the carrying value of our purchased debt portfolios as recognized in our consolidated financial statements. Any references to Group ERC in this report are references to a gross Group ERC calculation (which includes estimated gross collections in respect of the principal balance, costs, service costs and fees). While the underlying methodologies our UK Division and our DACH Division use to calculate ERC are generally consistent, no effort has been undertaken to harmonize these metrics and as a result, the ERC results for our UK Division and our DACH Division may not be directly comparable. Future results for our Combined Business may vary significantly from the Group ERC presented herein. See ''*Presentation of Financial and Other Information—Non-Financial Operating Data*;''
- ''IBW'' means INKASSO BECKER WUPPERTAL GmbH & Co. KG, an operating subsidiary of GFKL Holdco;
- ''IBW Verwaltungs'' means IBW Verwaltungs- und Beteiligungs GmbH, a subsidiary of GFKL Holdco.
- ''IFRS'' means the International Financial Reporting Standards, as adopted by the European Union;
- ''Intercreditor Agreement'' means the intercreditor agreement dated June 29, 2015, originally among, *inter alios*, the Issuer, the lenders under the Revolving Credit Facility Agreement, each obligor in respect of the Revolving Credit Facility and the Security Agent and acceded to by, *inter alios*, the Trustee in its role as trustee for the Existing 2022 Sterling Notes and the Existing Senior Notes on October 19, 2015, as amended or supplemented from time to time.
- ''Investment Company Act'' means the United States Investment Company Act of 1940, as amended;
- ''IS Inkasso Service'' means IS Group Management GmbH (together with its subsidiaries);
- ''ITT'' means intratech GmbH, an operating subsidiary of GFKL Holdco;
- ''July 2015 Senior Secured Notes Indenture'' means the indenture dated July 23, 2015 governing the Existing 2022 Euro Notes by and among, *inter alios*, the Issuer, Lowell Holding and the Trustee, as amended or supplemented from time to time;
- ''KPMG Luxembourg'' means KPMG Luxembourg, *Société coopérative*;
- ''KPMG UK'' means KPMG LLP;
- ''Lowell Acquisition'' means the acquisition of the shares (except T-Shares) of Metis Bidco Limited by Simon Bidco pursuant to a sale and purchase agreement dated August 7, 2015 between, *inter alios*, the previous majority shareholder of Metis Bidco Limited and Simon Bidco and a share purchase agreement dated August 7, 2015 between, *inter alios*, certain employee shareholders of Metis Bidco Limited and Simon Bidco;

- ''Lowell Holding'' means Lowell Holding GmbH (previously Garfunkel Holding GmbH);
- ''Milla Securitization'' means the securitization program by which GFKL Holdco, PCS and IBW sold certain NPLs to Milla Securitisation (No. 1) Limited, a special purpose company established in Jersey;''
- ''New Luxco'' means Garfunkelux PBA S.à r.l., a private limited company (*société à responsabilité limitée*) incorporated and existing under the laws of Luxembourg with its registered office at 488, route de Longwy, L-1940 Luxembourg, Grand Duchy of Luxembourg and registered with the Luxembourg Trade and Companies Register (*Registre de Commerce et des Sociétés, Luxembourg*) under number B 200.498;
- ''October 2015 Indentures'' means, collectively, the October 2015 Senior Notes Indenture and the October 2015 Senior Secured Notes Indenture;
- ''October 2015 Senior Notes Indenture'' means the indenture dated October 19, 2015 governing the Existing Senior Notes by and among, *inter alios*, the Parent as issuer, the Issuer as an initial guarantor and the Trustee as trustee and security agent, as amended or supplemented from time to time;
- ''October 2015 Senior Secured Notes Indenture'' means the indenture dated October 19, 2015 governing the Existing 2022 Sterling Notes by and among, *inter alios*, the Parent as initial guarantor, the Issuer as issuer and the Trustee as trustee and security agent, as amended or supplemented from time to time;
- ''PCS'' means Proceed Collection Services GmbH, an operating subsidiary of GFKL Holdco;
- ''Parent'' means Garfunkelux Holdco 2 S.A., a public limited liability company (*société anonyme*) incorporated and existing under the laws of Luxembourg;
- ''PayProtect Services'' means our historical risk management service offered to e-commerce clients in the DACH Division, which provides credit checks and creditworthiness information as well as purchases certain debt at face value and which is no longer marketed;
- ''Person'' means an individual, corporation (including a business trust), company, partnership, joint venture, association, joint stock company, trust (including any beneficiary thereof), unincorporated association or government or any agency or political subdivision thereof;
- ''Proceeds Loan Amendment and Restatement'' means the prospective amendment and restatement of the Existing 2021 Additional Proceeds Loan Agreement on or about the Issue Date to amend certain terms thereof, including to update certain references to the Existing 2021 Euro Notes (and related documentation) to refer to the Notes (and related documentation) and to extend the maturity of the Existing 2021 Additional Proceeds Loan to the maturity date of the Notes;
- ''Qualified Purchaser'' or ''QP'' means a Person who is a ''qualified purchaser'' as defined in Section 2(a)(51)(A) of the Investment Company Act;
- ''Revolving Credit Facility'' means the revolving credit facility of €200 million made available under the Amended and Restated RCF Agreement;
- ''Revolving Credit Facility Agreement'' means the revolving credit facility agreement originally dated June 29, 2015, among, *inter alios*, Lowell Holding, as borrower, and Goldman Sachs Bank USA, Citigroup N.A. London Branch, Credit Suisse AG, London Branch, ING Bank, a Branch of ING-DiBa AG and JP Morgan Chase Bank N.A., London Branch, as arrangers, which was amended and restated on August 18, 2015 pursuant to, and in accordance with the terms of, the amendment and restatement agreement among, *inter alios*, the Issuer, the Parent, Simon Bidco, Simon Midco, Simon Holdco, Citibank N.A., London Branch, Credit Suisse AG, London Branch, Goldman Sachs Bank USA, ING Bank, a Branch of ING-DiBa AG and JPMorgan Chase Bank N.A., London Branch, and as may be further amended and/or restated from time to time;
- ''September 2016 Senior Secured Notes Indenture'' means the indenture dated September 28, 2016 governing the Existing 2021 Sterling Notes by and among, *inter alios* the Issuer as issuer and the Trustee as trustee and security agent, as amended or supplemented from time to time;

- ''Simon Bidco'' means Simon Bidco Limited, a company incorporated under the laws of England and Wales (Registration Number: 09709443) that is a direct subsidiary of Simon Midco, together with its successors and assigns;
- ''Simon Holdco'' means Simon Holdco Limited, a company incorporated under the laws of Jersey (Registration Number 119216) that is a direct subsidiary of the Issuer, together with its successors and assigns;
- ''Simon Midco'' means Simon Midco Limited, a company incorporated under the laws of England and Wales (Registration Number: 09722126) that is a direct subsidiary of Simon Holdco, together with its successors and assigns;
- ''SIR'' means Sirius Inkasso GmbH, an operating subsidiary of GFKL Holdco;
- ''T-Shares'' means shares or beneficiary units in certain Group entities, namely units in the Parent and the Issuer and shares (''PBA Shares'') in Lowell Holding, GFKL Holdco, Simon Holdco, Simon Midco and Simon Bidco, that entitle the holder to nominal or no dividends and will carry certain voting rights, which the holder thereof has agreed to vote in accordance with the shareholders' agreement governing Garfunkelux Holdco 1 S.à r.l. (the ''Shareholders Agreement'');
- ''Tesch'' means DC Holding GmbH, a limited liability company incorporated under the laws of Germany, registered in the Commercial Register of the local court of Cologne under HRB 76434;
- ''Tesch Group'' means Tesch and its direct and indirect subsidiaries;
- ''Trustee'' means Citibank, N.A., London Branch in its capacity as trustee under the terms of the Indenture and the Existing Indentures, as applicable, and any successor trustee under any or all of the Existing Indentures or the Indenture;
- ''UK Division'' means Metis Bidco Limited and its consolidated direct and indirect subsidiaries;
- ''UK Division Financial Year 2014'' means the 12-month period from October 1, 2013, to September 30, 2014, corresponding to the consolidated financial statements of Metis Bidco Limited as of September 30, 2014, and for such 12-month period;
- ''UK Division Financial Year 2015'' means the 15-month period from October 1, 2014 to December 31, 2015 corresponding to the consolidated financial statements of Metis Bidco Limited as of December 31, 2015 and for such 15-month period;
- ''UK GAAP'' means accounting principles generally accepted in the United Kingdom; and
- ''ZYK'' means ZYKLOP INKASSO DEUTSCHLAND GmbH, an operating subsidiary of GFKL Holdco.

GLOSSARY OF SELECTED TERMS

Term	Definition
''3PC''	third-party collection services business or third-party collection
''Backbook''	all of the debt portfolios owned by the Group, as indicated by context, at a given time
''BPO''	business process outsourcing, which refers to the practice by which a business contracts out certain operations to a third-party service provider
''CCA''	Consumer Credit Act 1974, as amended
''CMS''	credit management services
''complaint ratio''	the ratio of the number of complaints filed divided by the number of accounts
''Credit File''	a consumer's credit history held by a credit bureau
''crossover rate''	the proportion of accounts in a debt portfolio being reviewed for purchase that can be matched to consumer data already held
''CSA''	UK Credit Services Association
''consumer''	a person who has defaulted on a credit account that subsequently became the subject of third-party debt collection efforts or was sold to a debt purchaser
''DCA''	a debt collection agency
''DP''	debt purchase
''DPA''	Data Protection Authority
''Dual Bureau''	a facility for making a search with a second credit bureau
''EIR''	effective interest rate
''FCA''	UK Financial Conduct Authority
''financial services''	means the banking and non-retail home credit sectors in relation to the UK Division and, in relation to the DACH Division, the banking sector (comprising ''credit'' banks, ''savings'' banks and ''cooperative'' banks), as described in ''*Industry and Market Data—Overview of Key Market Sectors*''
''FOS''	UK Financial Ombudsman Service
''FTE''	full-time equivalent employee
''GRC''	Governance, Risk and Compliance Cockpit, a risk management and reporting tool employed by GFKL Holdco for compliance management
''Gross Collections''	actual amounts collected from purchased debt portfolios including put-backs and consideration received for the sale of our own portfolios and, in the case of our DACH Division, after tax payments for VAT and insurance. Gross Collections are only from unsecured portfolios unless otherwise specified
''Gross Money Multiple'' . .	The sum of Gross Collections and the respective ERC from our UK Division's or our DACH Division's purchased debt portfolios divided by the purchase price of the relevant purchased debt portfolios. In the case of our DACH Division, the Gross Collections used to calculate Gross Money Multiple include only collections from unsecured portfolios
''ICO''	UK Information Commissioner's Office
''IRR''	internal rate of return is the discount rate used to calculate the value of purchased debt portfolios for our DACH Division

Term	Definition
"IVR"	interactive voice response, a technology associated with communications systems that allows for automated processing of a caller's spoken input
"large, well-known companies"	large, well-known companies are companies that have in excess of €50 million (in relation to the DACH consumer credit market) or £50 million (in relation to the UK consumer credit market) in annual revenue and are well-known beyond their region of operation
"LIMA"	the consumer intelligence and automated tracing system used by our UK Division.
"Net Promoter Score" . . .	the metric produced by a standardized survey, the Net Promoter Score Survey, which measures the strength of a company's consumer relationships
"NPLs"	non-performing loans and receivables
"OFCOM"	UK Office of Communications Services
"OFT"	UK Office of Fair Trading
"originators," "debt originators," "vendors" or "clients"	financial institutions or other initial suppliers of credit to consumers, certain of which entities choose to sell or outsource collections on non-performing accounts receivables related thereto to receivables management companies
"paying consumer"	a paying consumer is one who has made a payment (any payment) within the last 90 days. That payment could have been made to the original creditor, a debt collection agency or a debt management company. In this context, "any payment" includes one-off payments and set-up payments; the important qualifier is that the consumer has demonstrated a proclivity to pay
"PPI"	payment protection insurance, an insurance product (often sold at the time of debt origination) that enables the person assuming the debt to ensure its payment despite impairment of his or her ability to pay due to various circumstances enumerated in the policy
"put-backs" or "recourse"	consumer accounts that differ from the characteristics specified in a purchase contract and that we typically sell back to the debt originator at the purchase price or, depending on the contractual arrangement, at a subsequently negotiated price
"restricted cash"	restricted cash means payment transfer obligations out of the 3PC business that existed as of the respective balance sheet dates
"retail"	the home retail credit sector in relation to our UK Division and e-commerce and retail sectors in relation to our DACH Division, as described in *"Industry and Market Data—Overview of Key Market Sectors"*
"SCOR"	UK Steering Committee on Reciprocity
"SMEs"	small and medium-sized enterprises
"timing difference"	the difference between the amount of portfolio purchases reported for a period and the amount of cash payments made in relation to portfolio purchases in such period, unless otherwise indicated or where the context otherwise requires
"trace" or "tracing"	the action of attempting to find the correct contact details of a consumer who owes a debt. Tracing is based on significant information analysis. It can be done manually or using multiple raw data sources and automated logic sequences

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Non-IFRS Financial Measures

The Group

This report contains non-IFRS measures and ratios for the Group, including Adjusted EBITDA and cash flow conversion, that are not required by, or presented in accordance with, IFRS. These non-IFRS measures are defined by us as set out below.

We define ''**Adjusted EBITDA**'' as cash collections on acquired portfolios plus other turnover, less collection activity costs and other expenses (which, together, equals servicing costs) and before exceptional items, depreciation and amortization.

We define ''**Cash flow conversion**'' as cash flow before interest, portfolio purchases, tax expense and capital expenditure as a percentage of Adjusted EBITDA for the period.

We define ''**Cash flow before interest, portfolio purchases, tax expenses and capital expenditure**'' as Adjusted EBITDA less working capital movement but excluding portfolio purchases in the period.

We define ''**cash income**'' as the total revenue for the period adding back portfolio amortization and portfolio fair value release and deducting portfolio write up, lawyer service revenue and other revenue.

We define ''**Gross Collections**'' as actual amounts collected from purchased debt portfolios including put backs and consideration received for the sale of our own portfolios and, in the case of our DACH Division, after tax payments for VAT and insurance. Gross Collections are only from unsecured portfolios unless otherwise specified.

We define ''**net adjusted debt**'' as third-party debt less cash and cash equivalents excluding subordinated shareholder instruments included in the ''Non-current liabilities'' line item of the balance sheet and excluding restricted cash.

We define ''**other turnover**'' as income deriving from 3PC services.

We define ''**total revenue**'' as Gross Collections and other turnover.

We define ''**working capital**'' as the movement in trade and other receivables, trade and other payables and other net assets, including inventories, derivatives and provisions.

For reconciliations of the Group's collections on owned portfolios plus other turnover to Adjusted EBITDA and the Group's operating profit to Adjusted EBITDA, see ''*Summary—Summary Consolidated Financial and Other Information of the Group*.''

General

We present non-IFRS measures because we believe that they are widely used by certain investors, securities analysts and other interested parties as supplemental measures of performance and liquidity. The non-IFRS measures may not be comparable to other similarly titled measures of other companies and should not be considered in isolation or be used as a substitute for an analysis of our operating results as reported under IFRS. Non-IFRS measures and ratios are not measurements of our performance or liquidity under IFRS and should not be considered as alternatives to consolidated profit/loss for the year or any other performance measures derived in accordance with IFRS or any other generally accepted accounting principles or as alternatives to cash flow from operating, investing or financing activities. The non-IFRS measures have limitations as analytical tools. Some of these limitations are:

- they do not reflect our cash expenditures or future requirements for capital expenditures or contractual commitments;
- they do not reflect changes in, or cash requirements for, our working capital needs;
- they do not reflect the significant interest expense, or the cash requirements necessary, to service interest or principal payments, on our debts;
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often need to be replaced in the future and certain of these non-IFRS measures do not reflect any cash requirements that would be required for such replacements; and

- some of the exceptional items that we eliminate in calculating Adjusted EBITDA, DACH Pro Forma Normalized Adjusted EBITDA and *Pro Forma* Adjusted EBITDA reflect cash payments that were made, or will in the future be made.

Adjusted EBITDA as used in this report are not calculated in the same manner as ''Consolidated EBITDA'' is calculated pursuant to the Existing Indentures governing Existing Notes or for purposes of any of our other indebtedness.

Non-Financial Operating Data

Certain key performance indicators and other non-financial operating data included in this report are derived from management estimates, are not part of our financial statements or financial accounting records, and have not been audited by outside auditors, consultants or experts. Our use or computation of these terms may not be comparable to the use or computation of similarly titled measures reported by other companies. Any or all of these terms should not be considered in isolation or as an alternative measure of performance under IFRS.

For certain of these key performance indicators and other non-financial operating data, for the year ended December 31, 2015, the data from our UK Division and our DACH Division were combined, without adjustment, assuming the Lowell Acquisition and the GFKL Acquisition had occurred on January 1, 2015 and does not include any data from IS Inkasso Service, Tesch or any other subsequent acquisition. This combined data is presented for illustrative purposes only. It does not purport to indicate what the performance of our Combined Business would have been had the Lowell Acquisition and the GFKL Acquisition taken place on January 1, 2015, nor is it intended to be a projection of future results. Future results may vary significantly from the results reflected in the following tables because of various factors, including those discussed in ''*Risk Factors Related to Our Business and Industry*.''

Our UK Division's accounting records and non-financial operating data are denominated in pounds sterling whereas our DACH Division's accounting records and non-financial operating data are denominated in euro. Unless the relevant DACH Division data had already been reported by the Group in pounds sterling as part of its regular reporting, these data were translated from euros to pounds sterling to facilitate calculation of the pound sterling-denominated combined non-financial operating data that appear in this report. For DACH Division data that had already been reported by the Group in pounds sterling, the conversion rates used at the time of translation were the applicable monthly reference rate based on the European Central Bank euro foreign exchange reference rates. For the remaining DACH Division data, the rate used was the applicable rate specified in the section entitled ''*Exchange Rate Information*'' unless otherwise indicated.

The key performance indicators and other non-financial operating data included in this report are defined as follows:

We define Estimated Remaining Collections (''**ERC**'') as the expected future collections projected to be received on all of our purchased debt portfolios based on our forecasting models. As of today, our internal models forecast collections over a 120-month period for our UK Division and over a 180-month period for our DACH Division (in each case, except as otherwise specified). ERC projections for the Combined Business (the ''**Group ERC**'') were calculated by adding our UK Division's ERC (based on a 120-month period) to our DACH Division's ERC (based on a 180-month period) translated into pounds sterling at the applicable rate. While the underlying methodologies our UK Division and our DACH Division use to calculate ERC are generally consistent, no effort has been undertaken to harmonize these metrics and as a result, the ERC results for our UK Division and our DACH Division may not be directly comparable. These projections were prepared for illustrative purposes only and may differ from the forecast we use to calculate the carrying value of our acquired debt portfolios as recognized in the UK Division Consolidated Financial Statements and the DACH Division Consolidated Financial Statements. We believe that ERC and Group ERC represent important supplemental measures to compare our cash generating capacity with other companies in the receivables management industry, even though we can provide no assurance that we will achieve such collections within the specified time period, or at all.

We define ''**purchased debt**'' as all of our portfolios of non-performing unsecured loans and receivables acquired for settlement, including (i) those portfolios in respect of which we have the right to receive all future collections as a success fee and (ii) all portfolios included in the Milla Securitization, which we also recognize on the balance sheet.

Unaudited *Pro Forma* Condensed Consolidated Financial Information

As part of this report, we present unaudited *pro forma* consolidated income statements of the Group for the year ended December 31, 2015, the six months ended June 30, 2015 and the twelve months ended June 30, 2016 that give effect to the Lowell Acquisition, the GFKL Acquisition and the issuance of the Existing Sterling Notes and the Existing Euro 2022 Notes in connection therewith as if they had been consummated on January 1, 2015 (together, including the pro forma notes, the ''**Unaudited *Pro Forma* Condensed Consolidated Financial Information**''). The Unaudited *Pro Forma* Condensed Consolidated Financial Information was prepared on September 8, 2016 in connection with the offering of the Existing 2021 Euro Notes and has not been updated for any changes in assumptions. Pro forma financial information usually covers only a current interim period and the last completed financial year, at most, whereas the Unaudited *Pro Forma* Condensed Consolidated Financial Information included in this report presents periods beyond the prior period as of the current date. The adjustments made in order to present the Unaudited *Pro Forma* Condensed Consolidated Financial Information have been made based on available information and assumptions that our management believes are reasonable. The Unaudited *Pro Forma* Condensed Consolidated Financial Information is for informational purposes only and does not necessarily present what our results would actually have been had the Lowell Acquisition and the GFKL Acquisition occurred on January 1, 2015, nor should it be used as the basis of projections of our results of operations or financial condition for any future period. The Unaudited *Pro Forma* Condensed Consolidated Financial Information has not been prepared in accordance with the rules or regulations of the SEC, and is not in compliance therewith or with any other comprehensive basis of preparation. Any reliance you place on this information should fully take this into consideration.

General

Certain numerical figures set out in this report, including financial information presented in millions or thousands and percentages describing market shares, have been subject to rounding adjustments and, as a result, the totals of the data in this report may vary slightly from the actual arithmetic totals of such information. With respect to financial information set out in this report, a dash (''—'') signifies that the relevant figure is not available or not applicable, while a zero (''0.0'') signifies that the relevant figure is available but is or has been rounded to zero.

PRESENTATION OF INDUSTRY AND MARKET DATA

In this report, we rely on and refer to information regarding our business and the markets in which we operate and compete. Certain economic and industry data, market data and market forecasts set forth in this report were extracted from market research, governmental and other publicly available information, independent industry publications and reports prepared by industry consultants. These external sources include publicly available information about the consumer credit market and include, for instance, reports by PricewaterhouseCoopers and KPMG.

Industry publications, surveys and forecasts generally state that the information contained therein has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information is not guaranteed. While we believe that these industry publications, surveys and forecasts are reliable, we have not independently verified them and cannot guarantee their accuracy or completeness.

While we accept responsibility for accurately summarizing the information from these external sources, and as far as we are aware and able to ascertain no facts have been omitted which would render this information inaccurate or misleading, we accept no further responsibility in respect of such information.

Certain information in this report, including without limitation, statements regarding the industry in which we operate, our position in the industry, our market share and the market shares of various industry participants, are based on our internal estimates and analyses and based in part on third-party sources.

We cannot assure you that our estimates or any of the assumptions underlying our estimates are accurate or correctly reflect our position in the industry. None of our internal surveys or information has been verified by any independent sources. Neither we nor the Initial Purchasers make any representation or warranty as to the accuracy or completeness of this information. All of the information set forth in this report relating to the operations, financial results or market share of our competitors has been obtained from publicly available information or independent research. Neither we nor the Initial Purchasers have independently verified this information and cannot guarantee its accuracy.

Certain market share information and other statements presented herein regarding our position relative to our competitors are not based on published statistical data or information obtained from independent third parties, but reflects our best estimates. We have based these estimates upon information obtained from our clients, trade and business organizations and associations and other contacts in our industry.

In this report, we refer to market positions based on our and our competitors' revenue. These claims are based on information we received from the aforementioned external sources or estimated internally based on the information available from the aforementioned external and other sources. Revenue recognition policies may differ among receivables management service companies and therefore the revenue figures may not be comparable. In addition, our competitors' businesses are subject to various legal requirements that may not be applicable to us and the rules and regulations we follow on revenue recognition may not apply to our competitors. We have not independently verified the accuracy or comparability of our competitors' revenue figures or our estimates thereof and potential investors should exercise caution with respect to comparative revenue figures presented in this report. See ''*Industry and Market Data*.''

EXCHANGE RATE INFORMATION

The following table sets forth, for the periods indicated below, the high, low, average and period end Bloomberg Composite Rate (London) expressed as U.S. dollars per £1.00.

	Period end	Average	High	Low
		U.S. dollars per £1.00		
Year				
2012	1.6242	1.5852	1.6276	1.5295
2013	1.6566	1.5646	1.6566	1.4858
2014	1.5581	1.6474	1.7165	1.5515
2015	1.4734	1.5282	1.5872	1.4654
2016	1.2345	1.3549	1.4810	1.2158
2017 (through September 5)	1.3018	1.2696	1.3238	1.2068
Month				
March 2017	1.2319	1.2343	1.2563	1.2153
April 2017	1.2950	1.2637	1.2950	1.2385
May 2017	1.2890	1.2923	1.3023	1.2796
June 2017	1.3008	1.2807	1.3008	1.2625
July 2017	1.3190	1.2994	1.3190	1.2849
August 2017	1.2894	1.2955	1.3238	1.2790
September 2017 (through September 5)	1.3018	1.2965	1.3018	1.2919

The following table sets forth, for the periods indicated below, the high, low, average and period end Bloomberg Composite Rate (London) expressed as euros per £1.00.

	Period end	Average	High	Low
		euro per £1.00		
Year				
2012	1.2307	1.2333	1.2863	1.1789
2013	1.2014	1.1777	1.2328	1.1431
2014	1.2874	1.2411	1.2874	1.1912
2015	1.3559	1.3775	1.4399	1.2726
2016	1.1703	1.2202	1.3645	1.0983
2017 (through September 5)	1.0936	1.1487	1.1968	1.0758
Month				
March 2017	1.1724	1.1554	1.1724	1.1406
April 2017	1.1879	1.1797	1.1968	1.1662
May 2017	1.1471	1.1692	1.1907	1.1448
June 2017	1.1397	1.1399	1.1540	1.1297
July 2017	1.1168	1.1278	1.1415	1.1125
August 2017	1.0853	1.1497	1.1942	1.0758
September 2017 (through September 5)	1.0936	1.0910	1.0936	1.0866

The average rate for a year means the average of the daily Bloomberg Composite Rates (London) during that year. The average rate for a month, or for any shorter period, means the average of the daily Bloomberg Composite Rates (London) during that month, or shorter period, as the case may be.

The Bloomberg Composite Rate is a ''best market'' calculation, in which, at any point in time, the bid rate is equal to the highest bid rate of all contributing bank indications and the ask rate is set to the lowest ask rate offered by these banks. The Bloomberg Composite Rate is a mid-value rate between the applied highest bid rate and the lowest ask rate.

For the purposes of converting certain DACH Division operating data from euro to pounds sterling, rates used for 2003 to 2009 have been sourced from Capital iQ, rates used for 2010 through 2014 are based on Bloomberg Composite (London) rates and the rates used for 2015, 2016, the six months ended

June 30, 2016, the 12 months ended June 30, 2017 and for the six months ended June 30, 2017 are derived from the European Central Bank euro foreign exchange reference rates.

Year	Period End	Average
	euro per £1.00	
2003	1.415	1.445
2004	1.415	1.473
2005	1.451	1.462
2006	1.484	1.466
2007	1.361	1.461
2008	1.042	1.257
2009	1.127	1.122
2010	1.166	1.166
2011	1.196	1.152
2012	1.230	1.233
2013	1.201	1.177
2014	1.287	1.241
2015	1.356	1.377
2016	1.168	1.220
Six months ended June 30, 2016	1.209	1.285
12 months ended June 30, 2017	1.138	1.164
Six months ended June 30, 2017	1.138	1.163

The rates present the actual rates used in the preparation of the Group Consolidated Financial Statements and other financial information appearing in this report. Neither we nor the Initial Purchasers represent that the pound sterling amounts referred to in the tables above could be or could have been converted into euro or, in the case of euro amounts, pounds sterling at any particular rate indicated or any other rate.

SUMMARY

This summary highlights certain information about us described elsewhere in this report. You should read the entire report carefully to understand our business, including, without limitation, the risks discussed under the captions ''Risk Factors'' and ''Forward-Looking Statements.''

Overview

We are one of the largest receivables management businesses in Europe by revenue and ERC on purchased debt portfolios and current outstanding face value of debt portfolios managed on behalf of third parties. We believe we are well positioned to expand into other European consumer credit markets and we believe our Group has strong growth prospects in the two largest European consumer credit markets (the UK and Germany). These growth prospects are supported by our clear core competencies: (i) longstanding and multifaceted client relationships built on differentiated strategies for originating new business; (ii) a broad business model that is diversified across product offerings, markets and sectors; (iii) a strong track record of return on capital and reliable portfolio pricing; (iv) a cash-generation capability featuring high predictability and visibility into future cash flows; and (v) a robust governance framework with a focus on reputation and compliance that we believe is embedded in our operational activity.

With respect to our debt purchase business, as of June 30, 2017, we had invested a total of £1.7 billion in the acquisition of 1,869 debt portfolios with an aggregate face value of £22.9 billion. As of June 30, 2017, the Gross Money Multiple for our purchased debt portfolios was 2.4x in our UK Division and 3.2x in our DACH Division (which is currently comprised of Germany, Austria, Switzerland, Croatia and Slovenia). We generated total revenue of £511.7 million, operating profit of £128.0 million and *Pro Forma* Adjusted EBITDA of £287.1 million for the twelve months ended June 30, 2017, which has consistently increased since 2015. For the year ended December 31, 2016, we generated total revenue of £454.2 million and operating profit of £109.8 million. Our Group ERC was approximately £2.0 billion as of June 30, 2017 (representing a consistent increase since 2015). We generated revenue from debt purchases of £334.0 million and from third-party collections (''**3PC**'') of £104.7 million for the twelve months ended June 30, 2017, excluding lawyer service revenue. For the year ended December 31, 2016, our revenue from debt purchases was £291.3 million and from 3PC was £82.9 million, excluding lawyer service revenue. As of June 30, 2017, we had £10.0 billion (as of June 30, 2016 £8.1 billion) in face value of third-party debt under management.

We enjoy a leading position in the UK and Germany, our two core markets, built on the key capabilities of our UK Division and DACH Division, respectively. Following our acquisition of IS Group Management GmbH (''**IS Inkasso Service**'') in May 2016 and the Tesch Group in September 2016, we now also enjoy a leading position in Austria in 3PC services and benefit from a strong position in 3PC services in Germany, including a leading position in the utilities sector. We have built our reputation in the UK as a preeminent debt purchaser as a result of advanced decision science, the unique insights we derive from our comprehensive consumer information databases and our highly efficient operational platform. Best practices relating to our sophisticated pricing, decision science and cost-optimization experience are continuously shared across our business.

We believe the competitive advantages and competencies of each of our divisions represent industry best practice, allowing us to maintain our position as a preeminent player in the European receivables management services sector. As our combined business continues to develop, we expect to further capitalize on our strengths by: (i) delivering a multi-product, multi-service and pan-regional offering while maintaining clear pricing discipline; (ii) establishing an industry benchmark for operational excellence through investments in our one-stop service offering; (iii) maintaining our reputation for pioneering insights by continuously improving our IT, data and collection platforms through innovations and investment; (iv) continuing to take a best practices approach to our client relationships; and (v) continuing to invest in our employees and corporate culture.

Our Key Strengths

Leading Positions in Europe's Two Largest Consumer Credit Markets

The UK Division and DACH Division, our two market-leading and complementary operational divisions, operate primarily in the two largest consumer credit markets in Europe, the UK and Germany. The UK had approximately £201 billion and Germany had approximately £166 billion of consumer credit

outstanding as of June 2017, according to the Bank of England and the European Central Bank, respectively. In addition, both the UK and Germany experienced increasing amounts of new consumer credit origination annually, with £260 billion and £84 billion in new flows, respectively, in 2016, according to Bank of England and Deutsche Bundesbank, respectively. In the UK, we are a leading purchaser of defaulted consumer debt portfolios as measured by purchased receivables under management. In the twelve months ended June 30, 2017, we invested £230.2 million to purchase debt portfolios with an aggregate face value of £1.5 billion in the UK. According to management estimates, we believe this investment represented approximately 30% of total debt portfolio purchases (including recessionary delayed sales) in the UK.

In addition, we believe that by focusing on a broad range of sectors, we are able to address a greater portion of all consumer credit volumes generated annually in the UK and Germany than we would be able to address with a less comprehensive approach. We are a market leader and a pioneer in servicing debt originators across multiple sectors. In the UK, for the twelve months ended June 30, 2017, we believe we had a market-leading share of debt portfolio purchases in each of the telecommunications sector, the retail sector and the low-balance segment of the financial services sector of the UK debt purchase market, as well as a top-tier position in the public sector of the UK third-party collection services market. In Germany, we believe we are the number three receivables management company by revenue. Additionally, we believe we hold market-leading positions in the insurance and fitness sectors and top-five positions in the financial services, telecommunications and utilities and top-ten positions in public and retail sectors according to management estimates. We have a strong track record of successfully entering new market sectors and gaining high market shares in those sectors, such as the telecommunications, retail and public sectors in the UK and the insurance and fitness sectors in Germany.

We believe our scale provides key benefits critical to our success. For example, we believe we are able to develop and maintain a superior operating platform, with highly skilled talent, customized IT systems and sophisticated analytical and data capabilities that drive pricing and debt-collection efficiencies. We believe our scale also enables us to absorb costs associated with legal obligations and regulatory oversight. Further, we believe our scale allows us to provide our clients with a comprehensive service offering capable of addressing our clients' needs throughout the debt recovery cycle. Due to our ability to provide a one-stop service offering, we believe we are able to better maintain and develop relationships with large debt originators than our smaller peers in the UK and DACH markets, and as a result, are better positioned, including with respect to the number of our owned consumer accounts, than our smaller peers for rapid growth in the consolidating UK and DACH markets.

Attractive Market Dynamics Supporting Growth and Profitability

We believe that the characteristics of the two core markets in which we operate are conducive to sustainable growth and profitability for our combined Group. Both the UK and Germany have historically benefited from stable macroeconomic conditions, including real GDP growth, low inflation, low interest rates and low unemployment levels. Although Brexit has caused uncertainty and we expect this uncertainty to persist over the short to medium term, we believe that the UK will continue to benefit from overall stable macroeconomic conditions. In addition, we believe that the legal and regulatory environment in each jurisdiction is strong and stable, which, in our view, fosters market stability. We believe that, despite any short-term uncertainty following Brexit, the UK will continue to have a stable legal and regulatory environment as it applies to our business. We also believe that the demanding nature of regulatory compliance in both the UK and Germany can be burdensome to small businesses and may therefore increase consolidation opportunities for large players in the receivables management market. In addition, we believe that Austria largely benefits from similar business and macroeconomic conditions as Germany.

Moreover, the markets in which we operate comprise a diverse range of sectors in which consumer debt is originated (*e.g.*, the financial services, insurance, retail, telecommunications, public and utilities sectors, among others). We believe we are able to develop business in this broad range of sectors in part because receivables management companies such as ours can provide certain benefits to debt originators across sectors, including consumer insights and cost reductions due to reduced administrative and labor costs, improved collection rates and a more professional approach to debt collection. Further, debt originators' outsourcing of the debt collection process yields the additional benefit for the debt originator of reducing management time devoted to what is typically a non-core

activity, while also providing additional consistency in debt handling with a more robustly documented audit trail.

We expect loan sale activity to continue for the remainder of 2017. We believe that the consumer credit market in the UK has several distinctive features that make it attractive to receivables management companies like us. We believe that the UK is the largest consumer credit market in Europe with an estimated £201 billion of outstanding debt as of June 2017 according to the Bank of England. In addition, we believe that the UK has the largest consumer NPL markets in Europe by face value of defaulted debt sold annually. We believe that the UK consumer NPL market is consolidating around a small number of sophisticated and large-scale players, such as our UK business, which we believe are competitively advantaged to grow more quickly, and at higher levels of profitability, than their smaller peers. We believe such players have a number of structural advantages, including, for example, an ability to exploit more extensive consumer databases, a heightened capacity to absorb the burdens of an increasingly demanding compliance environment and an ability to more readily develop a comprehensive service offering for their clients. Moreover, management has observed a growing propensity on the part of UK debt originators to sell debt portfolios earlier in the recovery process, and we believe that their demand for other receivables management services throughout the credit cycle is likely to increase.

The consumer credit market in Germany is also distinguished by several features that, in our view, make it attractive to receivables management companies. We believe that Germany is the second largest consumer credit market in Europe, with an estimated £166 billion of outstanding debt as of June 2017 according to the European Central Bank. In addition, Germany boasts a large stock of overall defaulted debt and is also one of the largest consumer NPL markets in Europe by flow of newly created unsecured consumer defaulted debt. A diverse range of German businesses, from sectors such as financial services, fitness, retail and telecommunications, originates consumer credit from a diverse consumer base. These businesses use a varied set of collection methods to support the debt recovery process and typically outsource the majority of their receivables collections. Moreover, management has observed demand among German debt originators for BPO services and a willingness on the part of German debt originators to outsource collection in the early stages of the recovery process (for example, by as early as 45 days after the original payment due date). Since the German receivables management market is highly fragmented, with approximately 600 to 900 players, we believe that large players, such as the Group, have a competitive advantage due to their scale and the breadth of their client relationships. In addition, we believe that Germany has both a strong repayment culture and creditor-friendly laws and regulations, and that together these features create a favorable environment for debt collection. Creditors in Germany benefit from a long enforcement period against consumers, since the statutory limitation period in Germany for applying for and obtaining an enforcement title against consumers is generally three years and, once obtained, the enforcement title is valid for 30 years. Further, under German law, creditors are generally entitled to charge additional amounts to the consumer as damage caused by delayed payment, including default interest, the costs of third-party collection services and legal costs. Each of these factors has, in our view, helped to drive up the profitability of debt collection in Germany.

A Balanced Business Model with Significant Diversification Benefits

We operate a balanced and diversified business model in the two largest European consumer credit markets, with 81% and 19% of cash income in the twelve months ended June 30, 2017 generated from our debt purchase businesses and third-party collection services, respectively. For the year ended December 31, 2016, 83% and 17% of cash income was generated from our debt purchase businesses and third-party collection, respectively. During the twelve months ended June 30, 2017, we earned revenue from a wide client base with 62 different originators (excluding a one-off secondary purchase) for our debt purchasing business and 85 different originators for our third-party collection services. In addition, our client base encompasses clients in the financial services, insurance, retail, telecommunications, fitness, public and utilities sectors, among others. We believe we have the most diversified industry mix among our peers. For the twelve months ended June 30, 2017, our debt purchase gross collections split by industry was financial services (43%), retail (29%), telecommunications (24%), fitness (2%) and other (2%). As of June 30, 2017, our Group 120-month ERC split by industry was financial services (47%), retail (26%), telecommunications (23%), fitness (1%) and other (3%) (UK Division ERC split: 50% for non-financial services and 50% for financial services; DACH Division ERC split: 62% for non-financial services and 38% for financial services). As of June 30, 2017,

our Group NPL acquisitions split by industry was financial services (39%), retail (36%), telecommunications (20%) and other (5%). We are able to provide these clients with a one-stop service offering that includes third-party collection services, risk management and BPO services. We believe this one-stop service offering helps us both to build strategic partnerships and to embed ourselves further in our clients' credit-management processes. For example, management has observed that our provision of third-party debt collection services can lead to debt purchases and help improve our debt portfolio modeling.

In addition to diversification, we believe our UK Division and DACH Division allow us to realize a number of key benefits that we expect will provide us with key competitive advantages. For the twelve months ended June 30, 2017, our UK and DACH Divisions contributed 62% and 38%, respectively, to our cash income. Since we make our investment decisions at the Group level, we believe we may have increased flexibility with respect to both originating new business and allocating capital across markets, sectors and clients to wherever the returns are most attractive. We believe that this increased flexibility enhances our adaptability and resilience in changing market trends and economic cycles. Moreover, since we have a higher volume of accounts, spread across a more diverse array of sectors and debt originators, we believe we are advantaged in our pricing accuracy and our ability to enhance the efficiency of our collection processes. Furthermore, we also enjoy a market leading position in Austria, as well as a meaningful presence in Switzerland, Croatia and Slovenia.

A Consumer-Centric Approach at the Core of our Business

Our collection rate is dependent on our ability to both understand consumers and to treat them fairly and with respect. We believe that by treating our consumers in this manner, and by ensuring regulatory compliance and maintaining a strong risk management discipline within our Group, we are able to maintain and foster a positive reputation. We believe that having a positive reputation is a key factor to our success as a debt servicing company.

Our UK Division has received numerous accolades for its strong track record with respect to the quality of its customer service. In addition, in 2016 and 2017, respectively, our UK Division received a Net Promoter Score of +39 and +47. We believe that this score demonstrates that our approach of working with consumers to agree on a mutually acceptable payment plan tailored to the consumer's personal circumstances results in positive consumer relationships. Our 2016 and 2017 Net Promoter Score is much stronger than that of many other financial services companies, which often fail to achieve a positive Net Promoter Score. Our Net Promoter Score also exceeded the scores received by most well-known retail banks in the UK, which we believe is particularly remarkable given our consumers do not choose to have their debt managed by the Group. This has been followed by a 'Gold Award' in 2017 (previous 'star' ratings have been replaced with bronze, silver and gold awards and Lowell was the first company to receive the Gold Award). Our DACH Division has also been recognized for its consumer service. We received the highest S&P Servicer Rating among German receivables management service providers in 2015.

These achievements are a product of our focus on risk management. Our risk management framework is grounded in our management structure, our processes and a ''three lines of defense'' risk-management that we believe mirrors the highest risk-management standards in the financial services markets in which we operate. We have implemented our risk-management approach with oversight from our Group's internal audit function. Compliance is at the heart of our Group's operations. We believe that we have a strong track record with respect to consumer complaints in both the UK and Germany. For example, for the twelve months ended June 30, 2017, the FOS-filed complaint ratio in our UK Division was low, with 25.5 cases filed per one million active financial services accounts. In our DACH Division (excluding the Tesch Group), we received, on average, only 0.00273% new consumer complaints per year as a percentage of active accounts for the six months ended June 30, 2017.

We believe the decision science that underlies our collection techniques contributes to our ability to manage compliance and reputational risk. We further believe that our focus on and extensive experience in compliance and risk management resonate well with debt originators and provide us with a competitive advantage in the UK and DACH regulatory environments, which, though different in their particular legal frameworks and regulations, are similarly well-developed, robust and stable. It is our view that the well-developed nature of such environments provides us with a competitive advantage and favors strong market participants, such as our Group, which has the scale and experience necessary to meet demanding compliance requirements.

Competitive Advantage Embedded in Sophisticated Data Analytics

The Group is supported by what we believe to be industry-leading IT and data platforms in our markets, which we are continuously investing in to build a scalable platform. Through our consumer database, which we believe to also be industry-leading (we currently hold data on one in five UK Division consumers over the age of 18, and one in seven German consumers), we have developed proprietary behavioral and asset valuation models, custom software applications and a variety of other business tools. Our systems are technologically sophisticated, highly automated and driven by data derived from our databases of owned and serviced consumer portfolios in the UK and DACH markets, and we believe that we have the largest databases in each of the UK and Germany. As of June 30, 2017, our systems held data derived from the transactional records of some 27.4 million consumer accounts contained in 1,869 NPL portfolios. Since we have historically favored low-balance consumer accounts, we believe we have been able to accumulate a higher volume of consumer accounts per portfolio purchased than competitors that favor consumer accounts with higher balances. Moreover, we believe that our data systems benefit from a virtuous circle that further strengthens our informational advantage relative to that of our competitors: in our experience, the more debt portfolios we service or purchase, the more data and collection experience we derive and the more accurate our tracing and pricing systems become. We also believe that our systems' increasing sophistication has the additional benefit of making them increasingly difficult to replicate.

Our IT and data platforms are subject to an ongoing process of improvement and innovation, which we support with ongoing investment. We believe that our sophisticated and scalable IT and data platforms, in which we have made robust investments, provide significant competitive advantages. In our experience, our automated pricing models and tracing systems have helped to increase the accuracy with which we price both debt portfolios and third-party collection service contracts, thereby increasing our chance to win a bid at the right price while reducing our downside risk on the purchased debt portfolio or signed contract. We believe that our data platforms enable us to pursue more sophisticated collection strategies, which in turn lead to increased collection efficiency and reduced collection costs. Further, we believe our sophisticated IT and data platforms allow us to compete effectively in sectors in which our peers struggle to generate sufficient returns, in particular in low-balance sectors such as retail, telecommunications and utilities.

Strong Track Record of Return on Capital and Portfolio Pricing Through the Cycle

We believe that we have a track record of strong and stable return on capital supported by continuous improvement in decision science and the use of feedback from our collection operations. Our aggregate Gross Money Multiple on portfolios purchased as of June 30, 2017 was 2.4x in our UK Division and 3.2x in our DACH Division, and our Gross Money Multiples, other than in the financial services sector, often exceed these aggregate figures. Moreover, since we make investment decisions at the Group level, we believe that we are able to deploy our capital across our UK Division and DACH Division to wherever returns are most promising, which we believe contributes to our ability to maintain high returns on capital. We believe that continuous improvement in decision science and leveraging feedback from collection operations have helped our UK Division and DACH Division strengthen their underwriting, resulting in a narrower disparity between forecasted and actual returns. Our historical actual collections compared to forecast collections demonstrates our accurate and disciplined yet prudent forecasting. Even during more challenging economic environments, such as the 2007 to 2010 financial crisis, our actual collections exceeded our forecasted collections. Our Group's actual collections were 100% of our forecasted collections for the twelve months ended December 31, 2015 and 104% of our forecasted collections for the twelve months ended December 31, 2016. Our Group's actual collections were 105% of our forecasted collections for the six months ended June 30, 2017.

We believe that our disciplined approach to portfolio pricing has helped us to avoid overbidding on debt portfolios. Our portfolio pricing process begins with a rigorous and extensive due diligence and valuation exercise, which may involve, among other things, building a synthetic debt portfolio with actual performance data and similar consumer characteristics and/or performing on-site file testing to assess the underlying quality of the debt portfolio before submitting our final bid. Our due diligence and valuation methods benefit from the market-leading scale of our data, our sophisticated and automated data systems and our experienced and skilled portfolio pricing specialists. Our ability to leverage our own data and our specific expertise and databases from comparable portfolios across many sectors minimizes risk and helps to ensure accurate pricing bolstered by strong in-house analytical capabilities. Upon the successful completion of due diligence, a debt portfolio is subject to a clear and systematic

internal review and approval process culminating in a decision to either approve or reject the proposed portfolio investment.

High Visibility into Future Cash Flow Generation

Our debt portfolio purchase business provides excellent visibility into future earnings, as well as substantial cash-flow generation backed by a significant asset base. Although our ERC metrics extend for 120 months and 180 months for the UK Division and DACH Division, respectively, a majority of our collections occur within the first 48 months. We expect approximately 38% of our Group 120-month ERC to be generated within the next 24 months and approximately 62% to be generated within the 48-month period. As of June 30, 2017, we owned 1,869 debt portfolios and our Group ERC was £1,973.1 million. To date we have invested £1.7 billion in defaulted debt portfolios, resulting in an aggregate Gross Money Multiple on portfolios purchased as of June 30, 2017 of 2.4x for our UK Division and 3.2x for our DACH Division. In addition, we believe that our Group ERC forecast is reliable and resilient, a significant proportion of our future collections is tied to long-term repayment plans across a diverse range of portfolios. We believe we take a cautious approach to repayment by attempting to establish recurring payment methods with lower rates of default, such as direct debits and continuous payment authorizations on debit and credit cards.

In addition, we believe that the multi-year nature of our forward flow agreements helps to provide us with visibility into new business origination and expected returns. In the twelve months ended June 30, 2017, 44% by total purchase price for our UK Division's debt portfolio purchases came from forward flow agreements, which were entered into with 14 debt originators and carried fixed terms for up to five years. As of June 30, 2017, we had sight of forward flow agreements that are at least £275 million for the next five years. In the four years ended June 30, 2017, 50% of our UK Division's re-tendered forward flow agreements have been renewed at least once. Forward flow agreements accounted for 45% of our DACH Division's debt portfolio purchases by total purchase price in the twelve months ended June 30, 2017, and on Group level, our forward flow purchases for the twelve months ended June 30, 2017 have increased as compared to the twelve months ended June 30, 2016.

In addition, we believe that the volume of debt portfolios we purchase from repeat clients (*i.e.*, clients with which we previously concluded a spot purchase or forward flow agreement) helps to strengthen our visibility into new business and future cash flow generation. Repeat clients accounted for approximately 82% of the total price paid for our UK Division's purchased debt portfolios and 82% of the total price paid for our DACH Division's purchased debt portfolios in the twelve months ended June 30, 2017. In addition, our portfolio purchases for the twelve months ended June 30, 2017 have increased as compared to the twelve months ended June 30, 2016. We believe that our significant asset base of debt portfolios is capable of continuing to yield predictable cash flows. Most of the payments on our portfolios are made through payment plans.

Our DACH Division's third-party collection services business is also cash generative and typically enables us to scale our business without requiring significant incremental investments. We believe that the contractual arrangements in our DACH Division's third-party collection services business, which are both stable and of increasing durations (notably for contracts with large, well-known clients), provide visibility into future collections, the fees we derive from them as well as associated cash-flow generation. As a Group, our third-party collections for the twelve months ended June 30, 2017 have increased as compared to the twelve months ended June 30, 2016.

Our Adjusted EBITDA was £284.4 million for the twelve months ended June 30, 2017, and our operating profit was £109.8 million for the year ended December 31, 2016. For more information regarding Adjusted EBITDA and cash conversion, see ''*Presentation of Financial and Other Information—Non-IFRS Measures*.''

Management Team Supported by Skilled and High-Quality Business Professionals

We are managed by a strong executive team, which comprises individuals with many years of relevant experience and provides leadership across all functional areas of our business. In particular, we believe that our combined business will have one of the most experienced senior management teams among European receivables management companies. For example, our CEO served as CEO of our UK business since it was established in 2004, and our CFO has over 21 years of relevant senior management experience in financial services.

In addition, strong teams of qualified professionals, who are drawn from the wider financial services industry and other large corporate entities involved in consumer outreach, support our senior management team by performing central business functions and assisting in the execution of our strategy. These skilled managers are supported by a workforce of approximately 2,890 FTEs as of June 30, 2017. We continuously invest in our employees with sustained efforts to create an inclusive and staff-friendly work environment and to provide meaningful career-development opportunities.

Our combined corporate governance structure is intended to provide strong oversight and to support decision-making while retaining the entrepreneurial spirit and market specific knowledge required to extend our strong track record of growth and profitability. Our executive teams have established compliance frameworks, operational procedures and governance structures, supported by a number of proprietary systems, to enable us to conduct business in accordance with applicable rules, regulations and guidance.

Our Strategy

Develop Sustainable Competitive Advantage in Chosen Markets Facilitate Continued Growth

Our strategy is ultimately to become the leading multi-product and multi-service provider of receivables management services in our chosen markets. We believe that we have proven that the separate but complementary sets of competitive advantages possessed by our two core divisions are essential to helping us achieve this objective. Our UK Division is a leader in the UK receivables management market and possesses one of the most sophisticated debt purchase platforms in Europe. Our DACH Division is a leading player in the DACH debt purchase and third-party collection services markets and provides our clients with a diversified service offering that harnesses our expertise in a range of receivables management services, including BPO and risk-management services. By sharing best practices within the Group and utilizing our complementary competencies in debt purchasing and outsourced credit services, we believe the strength of each of our UK Division and DACH Division enables us seize new opportunities to help us expand our offering both geographically and throughout several key market sectors.

Our pricing discipline and systematic, objective pricing processes remain an integral part of our strategy and lay the foundation for us to build a sustainable competitive advantage. We believe that as a result of our pricing discipline, among other factors, we have been able to grow our asset base and profits, notwithstanding the changing economic environment, and have maintained stable, strong and predictable overall return on capital across our sectors. We plan to continue to invest in our pricing methodologies and capitalize on the virtuous circle by which the consumer profiles and collections data we gather each month continuously add to the accuracy and sophistication of our systems and models. Moreover, since we make investment decisions at the Group level, we believe we are able to deploy our capital across our UK Division and DACH Division to wherever returns are most promising, which we believe contributes to our ability to maintain high returns on capital.

Establish an Industry Benchmark for Operational Excellence Through a Diversified One-Stop Offering

We believe that debt originators are increasingly seeking a holistic, cost-efficient and fully compliant approach to receivables management. To address this growing need, we aim to continue to develop our one-stop service offering, a differentiated services offering that addresses each step of the debt recovery cycle and thereby helps us to further embed our operations within those of our clients. We intend to diversify our one-stop service offering in a number of ways, including, for example, by further capitalizing on our DACH Division's experience in BPO and carve-out transactions. Moreover, we have a strong track record of opening new sectors to the receivables management market, and we seek to continue to build relationships with entities that have not previously sold debt portfolios or purchased receivables management services. For example, Interlaken, our third-party collection services platform in the UK, has enabled us to enter the public sector market, since it is one of a select group of debt collection agencies chosen by HM Revenue & Customs, the UK's tax and customs authority, to provide collection services for central government departments. We currently operate primarily in the UK, Germany and Austria, with a meaningful presence in Switzerland, Croatia and Slovenia. Our geographic diversity means that we are in a position to fully leverage our geographic footprint by launching products which have been successful in one market into our other markets. Our longstanding client relationships and high volumes of data in our core UK and DACH markets, along with our meaningful presence throughout

our other markets, contribute to our ability to anticipate our clients' changing needs while identifying new market opportunities.

Our strategy is focused on building our current share of the receivables management markets in the UK and the DACH region by continuing to work closely with the main debt originators in each of our key sectors. We have adopted a proactive approach to managing our relationships with debt originators, with an emphasis on transparency and building longstanding professional relationships based on a granular understanding of a debt originator's business and receivables management services requirements. This local, specialized approach to our client relationships allows us to provide specialized offerings that have been tailored to reflect the consumer's individual needs.

Maintain Our Reputation for Pioneering Insights by Continuously Improving our IT, Data Analytics, Data Science and Collection Platforms through Innovations and Investment

We are continuously looking to improve our IT, data analytics, data science and collection platforms and processes and harmonize our core applications in order to strengthen our services offering and operate more efficiently. We aim to extend our strong track record of implementing incremental technological and collection process improvements, which have contributed to enhanced performance and increased efficiency throughout our business. For example, in the UK we are actively deploying technology, including the BLAZE software platform that allows us to pursue more customizable strategies, through which we are able to more closely tailor our contact to the consumer's unique circumstances. In addition, on a Group-wide basis we are implementing a multi-channel digital strategy to better connect with our consumers. We believe these initiatives will improve the efficiency of our operations platform through cost reductions, increased collections or a combination of these two effects. Sophisticated data analytics underpin our disciplined approach to pricing and investment decisions, which we believe are an integral part of our strategy and which differentiate us from our competition.

Consumer Focus and Relationships that Provide Long-Term Value Creation

We aim to continue our discipline of operating ethically, transparently and in compliance with all applicable rules, regulations and guidance. We intend to focus on providing a fair, understanding and consumer centric approach to our debt collection services. To that end, we intend to work with each consumer to develop a realistic and sustainable payment plan that is tailor-made to the consumer's circumstances and allows the consumer to restore his or her financial standing and continue to access mainstream credit products. To maintain and enhance this individualized approach to our consumers, we intend to continue to leverage our decision science capabilities in order to help ensure that the consumer profiles we build are as accurate and up-to-date as possible. We aim to communicate closely, clearly and transparently with the consumer and strive to understand their situation and circumstances. We believe that clear communication will enable us to have visibility with regard to the timing and profile of future collections.

As the legal and regulatory environments in which we operate continue to evolve, we intend to adapt our culture, practices and policies appropriately, while always seeking to be the model that others look to for compliance standards and best practices. Compliance is an increasingly important differentiating factor in our industry and in the markets in which we operate. We believe that our focus on compliance reassures our clients that their customers and reputations are in safe hands, and thus will give us a key competitive advantage going forward.

Continue to Invest in Our Employees and Corporate Culture

Our reputation is extremely important to us, both among our clients and among our employees. We search for people with enthusiasm, passion and commitment and when we find them, we invest in them heavily in order to deliver on our promises of connection, communication, development, involvement, recognition and reward. They create the culture that defines our business, protects our reputation and drives our performance, and they constitute the primary component of our consumers' experience. We strive to build a unique corporate culture in which our people are imbued with a sense of engagement and belonging. We believe that our focus on our people and our efforts to build a unique corporate culture help to drive our collection performance and contribute to our ability to provide an enhanced consumer experience.

Participate Opportunistically in Consolidation of our Industry when Accretive Opportunities Exist

We have a strong track record of selective and accretive expansion in the UK and Germany, as demonstrated by our acquisition of Interlaken in 2013, our acquisitions of ITT and DMA in 2014, our acquisition of IS Inkasso Service in May 2016, the Tesch Group in September 2016 and Apontas in October 2016. As our business continues to develop, we intend to continue to participate opportunistically in the consolidation of the European receivables management industry in order to build scale, address untapped consumer segments and create new relationships with debt originators. We intend to strategically pursue further carve-out transactions with current clients and credit-accretive bolt-on acquisitions. We will continue to apply our strong and disciplined approach to valuation in connection with these potential acquisitions.

SUMMARY CONSOLIDATED FINANCIAL AND OTHER INFORMATION OF THE GROUP

The following tables summarize the Group's historical consolidated financial data as of and for the twelve months ended June 30, 2017, the six months ended June 30, 2017, the six months ended June 30, 2016 and the year ended December 31, 2016. In addition, the following tables present summary unaudited pro forma condensed consolidated financial information and other data from the Unaudited Pro Forma Condensed Consolidated Financial Information as of and for the year ended December 31, 2015 that give effect to the Lowell Acquisition, the GFKL Acquisition and the issuance of the Existing Sterling Notes and the Existing 2022 Euro Notes in connection therewith as if they had been consummated on January 1, 2015. This data has been prepared solely for the purpose of this report, is not prepared in the ordinary course of our financial reporting and has not been audited. Pro forma financial information usually covers only a current interim period and the last completed financial year, at most, whereas the Unaudited Pro Forma Condensed Consolidated Financial Information included in this report presents periods beyond the prior period as of the current date.

The following summary unaudited pro forma condensed consolidated financial information is for illustrative purposes only and does not purport to indicate the financial results of our combined business had the above mentioned events taken place on January 1, 2015 and is not intended to be a projection of future results. Future results may vary significantly from the results reflected because of various factors, including those discussed in ''Risk Factors Related to Our Business and Industry.''

In May 2016, our DACH Division acquired IS Group Management GmbH (together with its subsidiaries), and its results have been consolidated with the Group's beginning June 1, 2016. In September 2016, our DACH Division acquired Tesch, and its results have been consolidated with the Group's beginning October 1, 2016. In October 2016 our DACH Division acquired Apontas, and its results have been consolidated with the Group's beginning October 1, 2016. As a result, the financial results for the year ended December 31, 2016 are not directly comparable to those for prior years.

We present below certain non-IFRS measures and ratios that are not required by or presented in accordance with IFRS, including Adjusted EBITDA and ERC, among others. There can be no assurance that items we have identified for adjustment as non-recurring will not recur in the future or that similar items will not be incurred in the future. The non-IFRS measures are not measurements of financial performance under IFRS and should not be considered as alternatives to other indicators of our operating performance, cash flows or any other measure of performance derived in accordance with IFRS. The non-IFRS measures as presented in this report may differ from and may not be comparable to similarly titled measures used by other companies, and Adjusted EBITDA may differ from ''Consolidated EBITDA'' as defined in the Existing Indentures. The calculations for the non-IFRS measures are based on various assumptions. This information is inherently subject to risks and uncertainties. It may not give an accurate or complete picture of our financial condition or results of operations for the periods presented and should not be relied upon when making an investment decision. See ''Presentation of Financial and Other Information.''

Historical results are not necessarily indicative of future expected results.

Summary Group Consolidated Statement of Comprehensive Income

	For the period from June 1, 2015 (date of incorporation) to December 31, 2015 (audited)	For the Year ended December 31, Pro Forma 2015[(1)] (unaudited)	For the Year ended December 31, 2016 (audited)	For the Six Months Ended June 30, 2016 (unaudited)	For the Six Months Ended June 30, 2017 (unaudited)	For the twelve months ended June 30, 2017 (unaudited)
	(in £ millions)					
Continuing operations						
Revenue						
Income from portfolio investments	52.5	172.1	199.3	93.2	116.0	222.1
Portfolio write up	20.7	56.1	95.4	37.9	57.4	114.9
Portfolio fair value release	(0.6)	(3.3)	(3.4)	(1.7)	(1.3)	(3.0)
Service revenue	65.8	138.1	160.0	71.6	86.0	174.4
Other revenue	1.7	2.8	2.9	1.3	1.6	3.2
Total revenue	**140.2**	**365.7**	**454.2**	**202.2**	**259.7**	**511.7**
Other income	1.9	5.1	4.1	1.7	0.6	3.0
Operating expenses						
Collection activity costs	(68.5)	(152.8)	(181.4)	(84.0)	(91.2)	(188.6)
Other expenses[(2)]	(73.5)	(151.5)	(167.2)	(69.4)	(100.2)	(198.0)
Total operating expenses	**(142.0)**	**(304.3)**	**(348.6)**	**(153.4)**	**(191.4)**	**(386.6)**
Operating profit	0.1	66.5	109.8	50.6	68.9	128.1
Interest income	3.3	3.7	0.7	2.3	0.3	(1.3)
Finance costs[(3)]	(77.4)	(169.2)	(138.7)	(67.8)	(82.1)	(153.0)
Loss before tax	**(74.0)**	**(99.0)**	**(28.2)**	**(15.0)**	**(12.9)**	**(26.1)**
Income tax (expense) / credit	5.5	7.1	(3.0)	(3.7)	3.3	4.0
Loss for the period	**(68.5)**	**(91.8)**	**(31.2)**	**(18.8)**	**(9.6)**	**(22.1)**
Other comprehensive loss						
Gains / (losses) on pension plans	0.4		(1.0)	—	—	(1.0)
Deferred tax on gains / (losses) on pension plans	(0.1)		0.3	—	—	0.3
Foreign operations—foreign currency translation differences	(6.0)		(5.9)	(5.9)	(2.9)	(3.0)
Total comprehensive loss for the period attributable to equity shareholders	(74.3)		(37.8)	(24.7)	(12.6)	(26.0)

(1) Prepared on a *pro forma* basis as if the Lowell Acquisition and the GFKL Acquisition and the offering of the Existing Sterling Notes and the Existing 2022 Euro Notes in connection therewith had been completed on January 1, 2015. See ''*Presentation of Financial and Other Information*'' and ''*Unaudited Pro Forma Condensed Consolidated Financial Information*.''

(2) Other expenses in the year ended December 31, 2016 included a tradename impairment expense of £6.2 million and acquisition costs of £1.2 million. In the year ended December 31, 2015, other expenses included acquisition costs for Metis Bidco Limited and GFKL Holdco of £12.2 million and £11.8 million, respectively. Other expenses in the twelve months ended June 30, 2017 included a tradename impairment expense of £6.2 million and acquisition costs of £1.1 million.

(3) Finance costs for the year ended December 31, 2015 included debt redemption fees for Metis Bidco Limited and GFKL Holdco of £38.2 million and £1.5 million, respectively.

Summary Group Consolidated Statement of Financial Position

	As of December 31,		As of June 30,	
	2015	2016	2016	2017
	(in £ millions) (audited)			
Assets				
Non-current assets				
Goodwill	861.4	1,005.9	912.4	1,018.1
Intangible assets	76.1	124.1	90.7	119.3
Property, plant and equipment	6.3	10.1	7.6	10.2
Portfolio investments	345.7	491.4	394.1	522.8
Other financial assets	5.0	2.1	3.2	4.8
Deferred tax assets	0.8	—	—	—
Total non-current assets	**1,295.2**	**1,633.7**	**1,408.0**	**1,675.1**
Current assets				
Portfolio investments	270.8	340.3	294.0	363.9
Trade and other receivables	26.8	28.9	40.0	42.5
Assets for current tax	4.2	1.1	0.9	0.6
Other financial assets	10.0	8.3	10.9	8.0
Cash and cash equivalents	106.9	98.1	61.0	92.1
Total current assets	**418.9**	**476.7**	**406.8**	**507.2**
Total assets	**1,714.0**	**2,110.5**	**1,814.8**	**2,182.3**
Equity				
Share capital	3.7	3.7	3.7	3.7
Share premium and similar premiums	357.2	400.4	397.3	400.4
Reserves	(14.2)	(20.5)	(20.1)	(23.4)
Retained deficit	(68.6)	(99.7)	(87.3)	(109.3)
Total Equity attributable to equity holders of the parent	**278.2**	**284.0**	**293.7**	**271.4**
Non-controlling interests	0.5	—	0.4	—
Total Equity	**278.7**	**284.0**	**294.1**	**271.4**
Liabilities				
Non-current liabilities				
Borrowings	1,221.1	1,531.3	1,312.8	1,723.6
Provisions for pensions	3.5	5.1	4.0	5.3
Provisions	0.6	1.8	1.4	1.8
Derivatives	0.5	0.2	0.4	—
Other financial liabilities	55.6	0.1	0.1	0.1
Deferred tax liabilities	27.4	47.3	33.1	43.3
Total non-current liabilities	**1,308.8**	**1,585.8**	**1,351.6**	**1,774.2**
Current liabilities				
Trade and other payables	60.7	101.7	63.0	70.7
Provisions	10.6	14.5	12.5	15.0
Borrowings	34.0	100.3	70.9	27.8
Derivatives	0.3	0.3	0.3	—
Other financial liabilities	6.9	6.5	6.2	6.8
Current tax liabilities	14.0	17.3	16.1	16.5
Total current liabilities	**126.5**	**240.6**	**169.0**	**136.7**
Total equity and liabilities	**1,714.0**	**2,110.5**	**1,814.8**	**2,182.3**

Summary Group Consolidated Statement of Cash Flows

	For the Year ended December 31, 2016	For the Six Months Ended June 30, 2016	2017
	(in £ millions) (audited)		
Consolidated cash flow statement:			
Net cash used in / from operating activities	**(21.5)**	**(15.7)**	**(22.6)**
Investing activities			
Interest received	0.2	0.3	0.1
Proceeds from sale of subsidiary	0.2	0.5	—
Purchase of property, plant and equipment	(4.8)	(1.8)	(1.1)
Proceeds of intangible assets	(5.0)	(2.8)	(0.8)
Acquisition of subsidiary, net of cash acquired	(133.8)	(17.1)	—
Net cash from investing activities	**(143.2)**	**(21.0)**	**(1.8)**
Financing activities			
Proceeds from loans and borrowings	263.0	38.0	156.0
Transaction costs related to loans and borrowings	(11.0)	—	(0.8)
Repayment of borrowings	(0.7)	—	(82.5)
Interest paid	(102.0)	(51.6)	(55.9)
Net cash from financing activities	**149.3**	**(13.6)**	**16.7**
Net increase/(decrease) from cash and cash equivalents	(15.4)	(50.3)	(7.6)
Cash and cash equivalents at the beginning of the period	**106.9**	**106.9**	**98.1**
Effect of movements in exchange rate on cash held	6.5	4.4	1.7
Cash and cash equivalents at the end of the period	**98.1**	**61.0**	**92.1**

Other Group Financial and Operating Data

	As of and for the Year ended December 31, 2016	As of and for the Six Months Ended June 30, 2016	2017	As of and for the Twelve Months Ended June 30, 2017
		(unaudited)		
Other financial, operating and pro forma data:				
Cash generative asset backing:				
ERC[(1)]	1,834.5	1,569.2	1,973.1	1,973.1
Portfolio purchases[(2)]	306.5	115.2	109.0	300.3
Number of accounts (in millions)[(3)]	25.9	23.9	27.4	27.4
Number of owned debt portfolios[(4)]	1,729	1,537	1,869	1,869
Net adjusted debt[(5)]	1,281.3	1,084.2	1,379.7	1,379.7
Cash generation:				
Collections on owned portfolios[(6)]	399.7	185.1	234.1	448.8
Adjusted EBITDA[(7)]	254.5	119.2	149.3	284.4
Cash flow before interest, portfolio purchases, tax expenses and capital expenditures[(8)]	269.4	101.6	89.0	256.8
Cash flow conversion[(9)]	105.9%	85.2%	59.6%	90.3%

(1) ''ERC'' means estimated remaining collections, which are the future collections projected to be received on all of the Group's purchased debt portfolios based on its forecasting models. Group ERC (as a combined metric) as of June 30, 2017 was calculated, without adjustment, by adding our UK Division's ERC (based on a 120-month period) to our DACH Division's ERC (based on a 180-month period) translated into pounds sterling at the applicable rate, and is presented for illustrative purposes only. Group ERC is not intended to be a projection of future results. Future results may vary significantly from the results reflected in the above table because of various factors, including those discussed in *''Risk Factors.''*

(2) ''Portfolio purchases'' represents the value of purchases through actual spend for the relevant financial period.

(3) ''Number of accounts'' represents the total number of individual consumer debts that the Group owns as of the date specified.

(4) ''Number of owned debt portfolios'' represents the number of individual portfolios of accounts that the Group owns as of the date specified.

(5) ''Net adjusted debt'' represents third-party debt less cash and cash equivalents and excludes subordinated shareholder instruments included in the ''Non-current liabilities'' line item of the balance sheet.

(6) ''Collections on owned portfolios'' represents Gross Collections.

(7) Adjusted EBITDA represents cash collections on acquired portfolios plus other turnover, less collection activity costs and other expenses (which, together, equals servicing costs) and before exceptional items, depreciation and amortization. We use Adjusted EBITDA as a measure of operating cash flow generation and the liquidity of our business. For additional information, see ''*Presentation of Financial and Other Information—Non-Financial Operating Data*.'' The following tables provide an analysis of Adjusted EBITDA.

The table below sets out the reconciliation of cash collections on acquired portfolios to Adjusted EBITDA.

	For the Year ended December 31,	For the Six Months Ended June 30,		For the Twelve Months Ended June 30,
(in £ millions)	**2016**	**2016**	**2017**	**2017**
		(unaudited)		
Cash collections on acquired portfolios[(a)]	399.7	185.1	234.1	448.7
Other turnover[(b)]	167.0	74.6	88.2	180.6
Servicing costs[(c)]	(348.6)	(153.4)	(191.4)	(386.6)
Revaluations in operating expenses and direct write-down of portfolios	8.9	4.8	1.4	5.5
Depreciation, amortization and impairment[(d)]	20.5	5.6	9.6	24.6
Exceptional projects and related professional fees	5.4	2.3	3.9	7.0
Exceptional compensation, redundancy and restructuring costs	2.6	0.5	3.4	5.5
Other[(e)]	(1.2)	(0.3)	—	(0.9)
Adjusted EBITDA	**254.5**	**119.2**	**149.3**	**284.4**

(a) ''Cash collections on acquired portfolios'' represents Gross Collections.

(b) Other turnover is defined as service revenue, other revenue and other income.

(c) Servicing costs represent the sum of ''collection activity costs'' and ''other expenses.''

(d) Depreciation represents the depreciation charge for the period for property, plant and equipment. Amortization represents the amortization charge for the period for intangible assets. Impairments are recognized where the carrying value of the asset exceeds the future economic benefit.

(e) ''Other'' includes mainly profit on the sale of a subsidiary of the DACH division.

Consistent with prior reporting and provided solely for the convenience of prospective investors, the table below sets out the reconciliation of operating profit to Adjusted EBITDA.

	For the Year Ended December 31,	For the Six Months Ended June 30,		For the Twelve Months Ended June 30,
(in £ millions)	**2016**	**2016**	**2017**	**2017**
		(unaudited)		
Operating profit	109.8	50.6	68.9	128.1
Depreciation, amortization and impairment[(a)]	20.5	5.6	9.6	24.6
Portfolio write-up/Portfolio fair value adjustments/impairment of non-performing loans	(83.1)	(31.3)	(54.7)	(106.5)
Exceptional projects and related professional fees	5.4	2.3	3.9	7.0
Exceptional compensation, redundancy and restructuring costs	2.6	0.5	3.4	5.5
Other[(b)]	(1.2)	(0.3)	—	(0.9)
Portfolio amortization[(c)]	200.4	91.9	118.2	226.7
Adjusted EBITDA	**254.5**	**119.2**	**149.3**	**284.4**

(a) Depreciation represents the depreciation charge for the period for property, plant and equipment. Amortization represents the amortization charge for the period for intangible assets. Impairments are recognized where the carrying value of the asset exceeds the future economic benefit.

(b) ''Other'' includes mainly profit on the sale of a subsidiary of the DACH division.

(c) Portfolio amortization represents the difference between the gross collections for the period and the income from portfolio investments as stated in the Statement of Comprehensive Income.

(8) Cash flow before interest, portfolio purchases, tax expenses and capital expenditure represents Adjusted EBITDA less working capital movement but excluding portfolio purchases in the period. The following table sets forth a reconciliation of increase/(decrease) in cash to cash flow before interest, portfolio purchases, tax expenses and capital expenditure.

	For the Year ended December 31,	For the Six Months ended June 30,		For the Twelve Months ended June 30,
	2016	2016	2017	2017
Net increase/(decrease) from cash and cash equivalents	(15.4)	(50.3)	(7.6)	27.3
Movement in debt	(262.3)	(38.0)	(73.5)	(297.8)
Portfolio purchases[a]	288.3	115.2	109.0	282.1
Debt servicing	101.8	51.3	55.8	106.3
Taxation servicing	2.5	2.1	2.6	3.0
Acquisition of subsidiaries, net of proceeds on sale of subsidiaries	133.6	16.6	—	117.0
Capital expenditure	9.8	4.6	1.9	7.1
Transaction costs related to loans and borrowings	11.0	—	0.8	11.8
Cash flow before interest, portfolio purchases, tax expenses and capital expenditure	**269.4**	**101.6**	**89.0**	**256.8**

(a) Portfolios purchased through the acquisition of Tesch of £18.2 million are shown in the ''Acquisition of subsidiaires, net of proceeds on sale of subsidiaires'' line in this reconciliation for the year ended December 31, 2016 and the twelve months ended June 30, 2017.

(9) Cash flow conversion is cash flow before interest, portfolio purchases, tax expenses and capital expenditure as a percentage of Adjusted EBITDA for the period.

RISKS RELATED TO OUR BUSINESS AND INDUSTRY

We are subject to UK, German and EU regulations, among others, and changes to the regulatory environment or a failure to comply with applicable laws, regulations, licenses and codes of practice may negatively affect our business.

As a business operating in the EU, we are subject to a variety of national and EU regulations, including laws and regulations regarding anti-money laundering and terrorist financing, unfair competition, and price fixing. In case of non-compliance, the relevant authorities may, *inter alia*, impose a fine, public censure and remove or restrict an entity's license. Furthermore, adverse regulatory developments under any of the laws and regulations applicable to our operations could expose us to a number of risks. Individual employees may act against our instructions and either inadvertently or deliberately violate applicable laws, including competition laws and regulations by engaging in prohibited activities such as price fixing or colluding with competitors regarding markets or clients. Such actions may harm our reputation and, if we are held responsible, the resulting fines and other sanctions could be substantial. Any of these developments could have a material adverse effect on our business, results of operations or financial condition.

Our UK Division and DACH Division are also subject to various complex laws and regulations that are more specifically related to the CMS industry.

Regulations affecting our UK Division

Our UK debt collection business is conducted through a number of subsidiaries, such that the entity conducting the collections business is not necessarily the ''creditor'' under the agreement (where under the Consumer Credit Act the ''creditor'' is the originator or the entity that has purchased the debt). On April 1, 2014, the Financial Conduct Authority (the ''**FCA**'') took over regulation of consumer credit (including debt purchase and debt collection) from the Office of Fair Trading (the ''**OFT**''). Any of our entities in the UK that collect debt due to other entities under certain types of consumer credit agreements or that have purchased debt and hold financial interests in debt due under consumer credit agreements are required to apply for, obtain and maintain authorization from the FCA or be exempt from authorization. From April 1, 2014, all firms undertaking consumer credit regulated activity that prior to April 1, 2014 had a consumer credit license from the OFT, were required to have an interim permission from the FCA to carry on their regulated activities until they received full authorization or the FCA refused to grant full authorization. All relevant UK Division companies had an interim permission and now have full FCA authorization.

Firms authorized by the FCA must be able to demonstrate that they are ''fit and proper'' to be authorized. In addition, certain individuals within the firm who exercise a ''significant influence'' in the business of the firm or who hold exercise specified functions (such as the CEO, chief compliance officer and money laundering reporting officer) must be approved by the FCA and these individuals must demonstrate that they are also fit, proper and competent to hold the position of an ''approved person.'' The FCA issues rules and guidance on how it expects firms to conduct their business and for the individuals it approves in the capacity of an ''approved person.'' In March 2016, the Approved Persons Regime was replaced with the Senior Managers and Certification Regime (''**SM&CR**'') for banks in order to implement a new accountability framework that was more focused on senior management with a view that firms should take more responsibility for making sure their employees are fit and proper coupled with the need for better standards of conduct at all levels in banks. The original legislation did not cover all FSMA authorized firms or insurers but the FCA has now confirmed in its Consultation Paper CP 17/26 that following recent changes to FSMA, the SM&CR regime will extend to all FSMA authorized firms, including the relevant subsidiaries in the UK Division. Although it is not yet known on which date this extension will take place, this is likely to be by the end of 2018.

Failure to comply with any rules or guidance issued by the FCA is likely to have serious consequences, for example:

- The FCA may take enforcement action against a firm which could result in fines, public censure, the withdrawal of regulatory licenses and/or remediation action for consumers. Any such enforcement action would be publicly known and would involve severe reputational damage, with vendors of debt portfolios and creditors outsourcing collection activity likely to remove their business from a debt purchaser or collector that is the subject of such enforcement action;

- Firms can be subject to a section 166 notice by the FCA, which may ensue where the FCA has identified issues within the firm regarding non-compliance with the FCA rules and guidance. Pursuant to a section 166 notice, the FCA either commissions, or requires the firm to commission, a ''skilled persons'' report. A ''skilled persons'' report is performed by an independent firm, usually an audit or law firm that is deemed by the FCA to have the necessary skills and expertise to review the areas of concern. The report is shared with the firm being reviewed and the FCA, which may decide to take enforcement action in relation to any weaknesses identified. Remedial action highlighted is tracked by the FCA through close liaison with the firm. Failure to remedy points raised and/or do so in sufficient time can lead to further enforcement action including fines. The cost of such a review is borne by the firm. A section 166 notice may become publicly available, and if we become subject to such a notice, originators that currently do business with us may cease to do so, and our ability to purchase debt or collect debt through our UK operations, along with our reputation, and consequently, our ability to win future business may be adversely affected. We might also be required, or otherwise decide, to introduce changes to our business practices in the UK in response to enforcement action taken against some of our competitors which highlights certain practices which are of concern to the regulator.

The FCA regards debt collection (and debt purchase) as a ''high risk'' industry and therefore dedicates special resources to more intensive monitoring of businesses in this sector. The FCA has issued rules relating to the debt collection sector and has created a sector-specific Consumer Credit Sourcebook (''**CONC**'') which applies specifically to consumer credit firms such as ours. CONC sets out detailed standards, in the form of specific rules and guidance, which businesses must satisfy and is also applicable to creditors that collect debt owed to themselves directly under consumer credit agreements. CONC also contains other guidance that is relevant to debt collection (and other consumer credit) businesses.

Our UK operations also conduct themselves in accordance with the provisions of the Lending Standards Board's Standards of Lending Practice (previously the Lending Code), which are voluntary, but widely adhered to, standards of practice applicable to banks and building societies in the UK that are relevant to lending and debt collection activities. While we are not a subscriber to the Standards of Lending Practice, a number of our clients in the UK are banks, and as such they must ensure that the third parties they use offer standards that meet the requirements of the Standards of Lending Practice. Further, we may be subject to contractual obligations to observe certain requirements to ensure that our UK operations are conducted in a way that is consistent with certain FCA rules or requirements and certain provisions of the Standards of Lending Practice, including, for example, being subject to audits by debt originators.

The FCA has investigated the lending practices relating to ''pay-day lending.'' This and future investigations may also result in tighter regulation of, and new restrictions on, debt collection as a whole.

A properly authorized debt collection (or other consumer credit) business is also affected by, or subject to, numerous detailed legislative requirements, principally contained in the CCA (and secondary legislation thereunder), Unfair Terms in Consumer Contracts Regulations 1999 (the ''**UTCCRs**'') and the Consumer Rights Act 2015 (the ''**CRA**''). These legal requirements oblige creditors to, among other things:

- provide consumers with prescribed forms of pre-contractual documentation;
- provide consumers with prescribed credit agreement documentation at the outset;
- enable consumers to obtain copies of credit agreement documentation;
- provide consumers with prescribed forms of post-contractual statements and notices;
- provide a ''fair relationship'' between themselves and the consumer; and
- ensure that their agreements do not contain unfair terms (and stipulate that any unfair terms are void).

A failure to comply with these requirements can have different consequences, but in some cases, failures can cause agreements or certain terms to be deemed unenforceable (meaning that in some cases the outstanding debt and interest cannot be collected). This could affect our ability to recover on the accounts underlying our debt portfolios in the UK. An agreement could be deemed unenforceable when we, as the debt collector or purchaser of the debt, or the originator, fail to comply with the

applicable requirements. Further, where a regulated credit agreement is entered into without the lender having the required FCA permission, the agreement is unenforceable without an order of the FCA and where an unauthorized credit broker referred the borrower to an authorized lender, the resulting regulated credit agreement between the lender and the borrower is unenforceable without an order of the FCA. It is important, therefore, that lenders who originate business through brokers ensure the brokers are appropriately authorized.

In addition, our UK debt collection (and broader consumer credit) business is subject to an obligation to act fairly, as set out in the Consumer Protection from Unfair Trading Regulations 2008. Breach of certain of these regulations is a criminal offence. From October 1, 2014 consumers have also had a right of redress for misleading or aggressive commercial practices.

Consumer protection is the principal aim of the legislation that applies to us. The UK Financial Ombudsman Service (the ''**FOS**'') acts as an independent adjudicator of the consumer complaints made to it. The FOS makes a decision based on what is fair and reasonable and good practice rather than strictly on the basis of compliance with the law. Certain claims brought before the FOS trigger a fee, which is paid by the business subject to the complaint, whether or not it successfully defends against such claims. A decision by the FOS is binding on the business, but not on the consumer.

In certain situations we outsource some of our accounts to third party DCAs. This is usually as a result of our own internal collection activity coming to an end. Generally, the use of DCAs may represent one of the more significant conduct risks faced by us, particularly in the way this part of our business model tests our controls in relation to DCAs. To the extent these third parties violate laws or other regulatory requirements in their collection efforts in the UK, it could also negatively impact our business by harming our reputation or, in some cases, resulting in penalties being directly imposed on us, as the FCA expects businesses to carefully select third parties with which they work and take responsibility for ensuring their compliance.

Changes to the UK laws and regulations that affect us, or changes in the manner in which these laws and regulations are interpreted, could also negatively affect our operations or increase our cost of regulatory compliance.

For example, in 2009, the UK government commenced a consultation process on proposals to shorten the current statute of limitations period in England, Wales, and Northern Ireland from six years to three years. The statute of limitations period is the amount of time that a business has to commence legal proceedings to enforce its debt. While the proposals were not pursued, such a reduction of the statute of limitations period would likely have severely affected the ability of debt collectors to trace consumers, successfully employ debt collection strategies and have the right to enforce debt. This change would therefore have had a serious impact on our current business model in the UK. If the statute of limitations period were to have been reduced, the value of purchased debt on our financial statements could have been reduced because the portion of amounts recovered would have decreased, leading to significant write offs. We could also have seen a reduction in the market size for debt purchase or higher marginal costs in the UK debt collection industry, as court proceedings might have been initiated earlier in the credit cycle. There can be no assurance that the statute of limitations period will not be shortened in the future.

We currently outsource in the UK to DCAs on a contingent basis. Although they are subject to quality checks to monitor that fair outcomes are being achieved, the DCAs are paid a commission based on collections achieved. Any change in laws or regulations restricting or prohibiting this practice of contingent collections could result in a change in our arrangements with DCAs in the UK to less variable cost structures, such as fixed fee arrangements. This would increase our fixed cost base, thereby causing our collection costs to rise without necessarily increasing collections. Similar restrictions were introduced for independent financial advisers and other firms as part of the FSA's Retail Distribution Review. These firms can no longer earn provider-determined commissions for successful recommendations of retail investment products but must instead be paid an adviser charge, which is agreed with retail clients in advance. If a similar change of law or regulations were implemented in relation to the debt purchase and collection industries, this could negatively affect our ability to operate successfully using our current business model in the UK, which could have a material adverse effect on our financial returns and results of operations. We are not currently aware of any such proposal in relation to DCAs or other participants in the debt purchase and collection industries. In July 2017 the FCA published the findings of its thematic review of staff incentives, remuneration and performance management in the consumer credit industry (CP17/20) which proposes a new rule and guidance in

CONC, as well as non-Handbook guidance and is consulting on measures to address risks it identified that can arise from the way consumer credit firms pay or incentivize their staff. While the consultation paper does not propose to restrict the way in which firms can pay for collections activities per se, an example of there being an increased risk of consumer detriment is where remuneration is linked to the volume or value of collections achieved. Firms must implement policies and procedures to detect and manage such risks.

In December 2016, the FCA also published the findings of its thematic review into ''Early arrears management in unsecured lending'' (TR16/10). The FCA considers that the ways in which firms engage with consumers in the early stages of arrears are likely to be critical to the ultimate outcome for the consumer.

In October 2015, Lowell Solicitors Limited was granted a legal services license by the Solicitor's Regulation Authority (the ''**SRA**'') to undertake debt recovery litigation and we therefore now have a litigation firm within our UK Division which is regulated by the SRA.

The legislative and regulatory environment is also challenging for originators of consumer credit. With the move to the FCA as the regulator of consumer credit businesses, the regulatory focus, consistent with our business focus, is on requiring lenders and debt collectors to exercise ''forbearance'' in relation to consumer debt, to accept affordable repayment offers and to have regard at all times to the ''treating the customer fairly'' principle underpinning the regulatory approach, in order to achieve fair consumer outcomes. Where legislative changes have a detrimental impact on the profitability of issuing credit, we would anticipate a lower issuance of consumer credit which would in turn impact the supply of debt portfolios for sale. A reduction in debt portfolios offered for sale in the UK market may lead to increased prices and lower returns on our investments, which could have a material adverse effect on our business, results of operations or financial condition.

Regulations affecting our DACH Division

The receivables management industry could be subject to increased scrutiny due to political factors, which could lead to changes in laws and regulations in Germany or the European Union. Changes in these laws and regulations, or changes to their interpretation by the relevant supervisory authorities and courts, may reduce our DACH Division's operational flexibility and limit its ability to use its consumer data to price portfolios and create efficient debt collection strategies and regulate the fees, or potential setoffs of fees, charged to the consumer as part of a creditor's default damage (*Verzugsschaden*) for example under German law. In Germany, the regulatory framework for debt collection has been tightened by the Act Against Dubious Business Practices (*Gesetz gegen unseriöse Geschäftspraktiken*) which came into force in October 2013. Under this regulation, *inter alia*, the reimbursement of costs for debt collection is limited, and the costs may not exceed the amount a lawyer would be entitled to claim as compensation for a corresponding activity. In our current business model, our DACH Division generally attempts, in line with best practices in our industry, to achieve recovery of the full amount under the German statutory regime and applicable civil law. Depending on a variety of factors, including legal developments or reputational risks, we may alter our fee policies, which may impact the amount of fees that we can charge to our and our clients' customers in Germany. Such alterations may limit our Gross Collections and available cash and may have an adverse effect on our business. Changes in laws and regulations in particular in Germany or the European Union, or further developments in or changes to their interpretation by supervisory authorities and courts, including limits on the types and amounts of fees (including statutory fees) we and/or external lawyers can pass on to consumers (or a prohibition of such fees) and restrictions on its ability to perform services for external lawyers could also affect the permissibility of our DACH Division's business model. In particular, several of the regulations to which our DACH Division is subject and our interpretations thereof are based on a limited number of court decisions that are not all reconcilable. If court decisions in the future hold more consistently against our positions, our DACH Division's business model could be adversely affected. Any change in these regulations, court decisions, or our interpretations thereof, and any other factors mentioned above may have a material adverse effect on our operations, business or financial position.

By regulation under the German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht*), companies operating in certain industries are not allowed to sell their overdue and defaulted receivables to third parties (*e.g.*, in the insurance industry for premiums). While it is prohibited to purchase their debt, we may provide these companies with up-front payments accounted for as purchased debt, which are made after the receivables have been transferred for service

to our DACH Division. In exchange for providing up-front payment, we receive all further collections as a success fee. Such up-front payments only reflect a portion of what a similar debt portfolio may cost in an open market purchase, as our DACH Division purchases only the economic right to collect on a portfolio of debt, not full title to the underlying debt. However, it cannot be excluded that a debt servicing transaction including a third-party collection provider fee may be interpreted by the German regulator to be an illegal sale or purchase of defaulted consumer debt, which may therefore have a material adverse effect on our business, results of operations, financial condition or reputation.

Our DACH Division's debt collection business may also be adversely affected by future supervisory and regulatory restrictions or qualifications. In particular, if the German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht*) were to revise its interpretation of the relevant provision of the German Banking Act such that the ongoing purchase of receivables that are already due and payable qualifies as factoring, *i.e.*, the ongoing purchase of receivables in a commercial manner, and consequently also qualifies as the provision of financial services, our DACH Division's debt collection business could become subject to potentially costly or burdensome licensing requirements under the German Banking Act.

Furthermore, our group companies that operate in Germany are allowed to conduct our debt collection business only if they are registered under the German Legal Services Act (*Rechtsdienstleistungsgesetz*) which requires proof of aptitude and reliability, theoretical and practical expertise in the area of the legal services to be provided and professional liability insurance coverage. As of the date hereof, SIR, GPP, PCS, IBW, ZYK, GCG, ITT, Tesch Inkasso Forderungsmanagement GmbH, Tesch Inkasso Finance GmbH, Tesch mediafinanz GmbH, Apontas GmbH & Co. KG and Apontas Inkasso GmbH are registered under the German Legal Services Act. If we fail to maintain these requirements, the relevant supervising authority may temporarily prohibit the companies implicated from conducting further debt collections. The supervising authority may also entirely revoke the registration for certain reasons, *e.g.*, if our related insurance coverage is terminated or insufficient. Inability to obtain the registration would have a material adverse effect on our business.

Laws and Regulations affecting our Processing of Personal Data

Our databases contain personal data of our consumers, and our ability to obtain, retain and otherwise process such data is governed by data protection and privacy regulations and guidance issued by, among others, the European Union. Changes to these regulations or secrecy obligations could adversely affect our business.

The process for changing certain privacy regulations that affect our business is currently underway. On April 14, 2016, the EU General Data Protection Regulation (Regulation (EU) 2016/679) was adopted, and it will become effective as of May 25, 2018. On June 30, 2017, the amended German Federal Data Protection Act (*Bundesdatenschutzgesetz*), which aligns this act with the EU General Data Protection Regulation, was promulgated. The amended German Federal Data Protection Act will come into force as of May 25, 2018 and will completely replace the existing act. The UK Government announced on August 7, 2017 its plans for a new Data Protection Bill which will replace the current UK data protection law. The intention is for this Bill to be aligned with the EU General Data Protection Regulation.

The EU General Data Protection Regulation provides for a number of changes to the EU data protection regime, involving the partial replacement of the current national data protection laws by an EU regulation. Once effective, the EU General Data Protection Regulation will strengthen individuals' rights and impose stricter requirements on companies processing personal data. For example, the EU General Data Protection Regulation might limit our rights to process personal data, make it difficult to obtain credit information, lead to cost-intensive administrative processes, oblige us to provide the personal data that we record to consumers in a form that would require additional administrative processes or require substantial changes in our IT environment and organizational structure. In particular, the EU General Data Protection Regulation could impair debt collectors' ability to use consumer data, for example, by restricting their ability to create consumer profiles. The EU General Data Protection Regulation may also make it significantly more difficult to rely on consumers' consent to use their personal data. The EU General Data Protection Regulation may impose a substantially higher compliance burden on us and force us to make changes in the way we use our consumer data that could have a negative impact on our collection effort outcomes. Unfavorable decisions or judgments based on these types of claims or challenges may adversely impact our business. The increased compliance obligations and penalties for processors under the EU General Data Protection Regulation are likely to

result in an increase in the cost of data processing services. Although we are initiating several remediation measures, the exact consequences of the EU General Data Protection Regulation on our business will need to be analyzed over the next months. The EU General Data Protection Regulation also provides for significantly increased sanctions and penalties.

In addition to EU regulations, our UK and German operations must comply with national laws and regulations governing the collection, processing and use of data. In the UK, until the EU General Data Protection Regulation comes into force, the collection, processing and use of personal data is governed by the Data Protection Act 1998 and rules, regulations and guidance promulgated by the UK Information Commissioner. As noted above, the UK Government are producing a new Data Protection Bill which will replace the Data Protection Act 1998 which is intended to be aligned with the EU General Data Protection Regulation. On June 23, 2016, the people of the UK voted for the UK to leave the European Union (''**Brexit**''). On March 29, 2017, the UK government officially initiated the UK's exit from the EU. It is yet unclear what consequences Brexit will have on the data protection rules applicable to our UK operations. In Germany, the German Federal Data Protection Act (*Bundesdatenschutzgesetz*) governs such activities. GFKL Holdco's subsidiary, GPP, is registered as a credit bureau under Section 4d of the German Federal Data Protection Act (*Bundesdatenschutzgesetz*), in order to meet the reporting obligations for automated data processing set out in the German Federal Data Protection Act.

Under the German regulatory regime, consumers may challenge the validity of the transfer of purchased debt based on the infringement of data protection regulations or secrecy obligations. Unfavorable decisions or judgments based on these types of claims or challenges may adversely impact our business. Furthermore, data subjects, data protection authorities, competitors as well as consumer protection groups and other authorized associations may pursue claims against subsidiaries of GFKL Holdco for breach of the German data protection regulations. Unfavorable decisions or judgments based on these types of claims or challenges may result in:

- the institution of administrative, civil or criminal proceedings;
- sanctions and the payment of fines, penalties and damages, including potential suspension or revocation of regulatory licenses depending on the severity and scale of any regulatory issues;
- changes in personnel;
- an inability to conduct business due to the loss of our regulatory license or restrictions or conditions being placed on our activities;
- increased review and scrutiny of our services by our clients, regulatory authorities and others; and
- negative media publicity and reputational damage.

Our ability to price debt portfolios, trace consumers and develop tailored repayment plans depends on our ability to use personal data in our consumer data intelligence systems. If any of the information or consumer data that we use were to become public, including as a result of a change in governmental regulation, or if a legislator were to introduce measures that have the effect of facilitating the tracing of consumers, or if the current data processing restrictions were to change such that credit market participants could access credit information before the purchase of portfolios, or if the current data processing restrictions were to change such that we would be prohibited from using consumer data in the manner in which or to the extent it is currently used, we could lose a significant competitive advantage and our business could be negatively affected.

Compliance with this extensive and evolving regulatory framework is expensive and labor intensive. Failure to comply with applicable laws, regulations and rules could result in investigations and enforcement actions, permissions that we need to do business not being authorized or being revoked, fines or the suspension or termination of our ability to conduct collections. In addition, such failure to comply or revocation of a permission, or other actions by us that may damage the reputation of the originator would entitle the originator to terminate its forward flow agreement or entitle it to repurchase portfolios we previously purchased from it. It would also entitle a creditor that had placed accounts with us for collection to terminate the servicing contract and remove the accounts from us. Any of these developments could have a material and adverse effect on our ability to conduct business or on our financial condition, our financial returns or our results of operations.

Changes in the economic environment, in particular in the UK and Germany, may have a material adverse effect on our financial condition, financial returns and results of operations.

We operate mainly in the UK and Germany and, therefore, our business is exposed to any changes in UK or German economic, market or fiscal conditions. With the acquisition of IS Inkasso Service we are also exposed to a lesser extent to changes to the economic market or fiscal conditions in Austria, Switzerland, Croatia and Slovenia. We are also exposed to any changes in the global macroeconomic environment affecting economic conditions in the UK, Germany, Austria, Switzerland, Croatia and Slovenia. If the UK, German, Austrian, Swiss, Croatian, Slovenian or global economy suffers a prolonged, material downturn that affects the regions in which we operate by, among other things, increasing the unemployment rate, causing inflation, leading to the implementation of austerity measures (such as reductions in the relevant government's provisions of public benefits and/or public sector employment), reducing disposable income and/or impacting interest rates and the availability of credit, consumers may be unable or unwilling to continue repaying debt, and we may not be able to perform debt collection in a manner consistent with our past practice. If our consumers experience a reduced ability or willingness to pay their debt, we could face increased servicing costs and lower average payments, thereby reducing our cash generation and returns on capital, and, in turn, our ERC. Even if we are able to develop tailored payment plans for certain of the affected consumers in order to try to reduce the number of defaults, such measures may prove unsuccessful, or if the measures are successful in avoiding some defaults, total collections may be reduced or the timing of receipt of payments may be extended as a result of these measures, any of which would also impair these financial performance metrics.

Additionally, adverse economic conditions could lead to a reduction in the propensity of financial institutions or other credit institutions to lend to corporations and individuals, as was the case during the global financial crisis of 2008 - 2009. This, in turn, would lead to a reduced supply of debt available for collection or fewer opportunities for us to enter into forward flow agreements in our debt purchase business. Reduced lending by financial or other credit institutions may also negatively affect consumers by reducing disposable income levels or otherwise impairing their ability to fulfill their payment obligations. Furthermore, such a reduction in the propensity of financial institutions or other credit institutions to lend to corporations could adversely affect our own ability to obtain credit, and this may adversely impact our business, results of operations or financial condition by, *inter alia*, limiting our ability to finance portfolio purchases on financially favorable terms, or at all.

An improvement in the economic conditions in the countries in which we operate could have both positive and negative impacts on our business. Although improved economic conditions may lead to higher debt repayment due to the improved financial position of our consumers, this may also lead to more competitive pricing for the debt portfolios that we purchase or for the debt collection services that we offer because of improved payment prospects. In addition, rising interest rates due to a change in the economic environment or other factors beyond our control may increase our financing costs, which may result in our inability to finance debt portfolio purchases at profitable levels or at all.

Any of these developments could have a material adverse effect on our business, results of operations or financial condition.

A decrease in our ability to purchase debt portfolios or an insufficient supply of debt, appropriately priced debt or debt of a sufficient quality could materially and adversely affect our business.

We derived 65% of our revenue from our debt purchase business (based on total revenue, including lawyer service revenue and other revenue) for the twelve months ended June 30, 2017 and 64% for the year ended December 31, 2016. The availability of debt portfolios at profit-generating prices depends on a number of factors, some of which are outside of our control, including: the level of consumer spending; the availability of credit to consumers, which may be driven by a number of factors, including heightened regulation of the credit card and consumer lending industry, changing credit origination strategies, tighter lending criteria introduced by consumer credit providers and general economic conditions; the level of non-performance on consumer debt portfolios and the proportion of such portfolios that are written off by debt originators, which also in turn may affect the availability of credit to consumers identified above; sales of debt portfolios by debt originators, which could be jeopardized by a change in accounting policies or practices, the consolidation of creditors or increased sophistication in internal collection efforts; potential concerns that the small value received for defaulted debt portfolios as a percentage of their face value may not outweigh the potential reputational risks or required management

attention associated with selling defaulted debt portfolios; negative publicity or a loss of trust in the receivables management service industry, whether due to our failure or that of one or more of our competitors to meet applicable legal or regulatory obligations or otherwise; increased government regulation of the circumstances in which debt originators have a right to collect on debt; and the macroeconomic environment in the countries in which we operate, or to the extent that they may impact consumers or the domestic economy in such countries, macroeconomic conditions and other relevant global or European developments. Additionally, an increase in demand for debt portfolios among competitors could result in our not being chosen to purchase a debt portfolio due to more attractive offers from competitors.

Furthermore, the quality of the debt offered in the portfolios available for purchase may be affected by the aforementioned factors as well as originators' willingness to sell debt early in the collection process. If, for example, originators choose to perform more of their own collections or to rely more heavily on DCAs for initial collection efforts, there could be a reduction in the availability of debt that is sold early in the financial difficulty cycle and has had little or no exposure to collection activity. For further discussion, see ''—*We depend on the continued willingness and ability of our clients to outsource their debt collection and offer their portfolios for sale*.''

There can be no assurances that we will continue to be able to identify a sufficient volume of portfolios at appropriate prices. If the volume of debt sales or the quality of debt sold decreases, we may not be able to buy the type and quantity of receivables at prices consistent with our historic return targets. Generally, prices vary significantly among industries. If we are unable to identify portfolios at appropriate prices or that are of sufficient quality, we may need to purchase portfolios at higher prices, reducing our level of profit, or portfolios of asset types or in industries in which we have little or no experience, or where it is more difficult to collect on overdue receivables. Purchases in these asset types or industries may impair our ability to collect on these claims and may cause us to overpay for these claims. Consequently, we may not be able to meet our historical profit targets in respect of, or make any profit at all, from these debt purchases.

The supply of debt portfolios available for purchase varies over time. This inconsistency in the availability of portfolios for purchase may mean that during certain financial reporting periods we may make few or no debt purchases. This could adversely affect our reported results. In addition, if any originators with which we have committed to purchase debt portfolios should fail to complete such sales, we may be unable to make such committed portfolio purchases. If we do not continually replace the debt portfolios we service with additional portfolios, our business could be materially and adversely affected. For further discussion of these risks, see ''—*We depend on the continued willingness and ability of our clients to outsource their debt collection and offer their portfolios for sale*.''

If we are unable to identify sufficient levels of attractive portfolios and generate an appropriate return on purchased debt, we may experience difficulties covering the related expenses and may, as a consequence, need to reduce the number of our collection personnel or take other measures to reduce costs. These developments could lead to disruptions in our operations, loss of efficiency, decreased employee morale, fewer experienced employees and excess costs associated with unused space in our facilities and, as a result, a further loss of clients. Any of these developments could have a material adverse effect on our business, results of operations or financial condition.

Failure to renew existing debt collection contracts on similar terms or at all, win new debt collection contracts, replace terminated forward flow agreements or successfully manage our commitments under forward flow agreements may adversely affect our revenue.

We obtain most of our debt collection contracts initially through a competitive bidding process, and, apart from forward flow agreements that we renew on a bilateral basis, substantially all of the debt collection contracts that we expect to seek in the foreseeable future likely will be subject to a competitive bidding process. We may be required to compete to renew existing debt collection contracts that have in the past been awarded to us without competition from competitors or for which we have been the incumbent provider of debt collection services for a long time. We may also enter into debt collection contracts at price levels or with margins that are lower than we find acceptable, if we want to develop a new relationship with an originator or get a foothold in new industries or if the overall competition for debt portfolios increases. We may not be afforded the opportunity in the future to bid on debt collection contracts that are held by other companies and are scheduled to expire if the existing contract is extended. In addition, we cannot be certain that all our existing clients will choose to continue to use our

debt collection services for the same volumes of debt or at all in the future. Our inability to renew contracts with existing clients on similar terms or at all or to find suitable replacements could have a material adverse effect on our business, financial condition and results of operations.

In the period from June 1, 2004 to June 30, 2017, 40% of our UK Division's purchased portfolios were acquired pursuant to forward flow agreements or agreements that were a mixture of a forward flow agreement with a spot purchase, representing £519.4 million in purchase price consideration and a principal value of £6.0 billion. In the period from September 30, 2003 to June 30, 2017, 42% of our DACH Division's purchased portfolios were acquired pursuant to forward flow agreements, representing €199 million in purchase price consideration and a principal value of €755 million, which excludes any accrued interest and any fees and costs at the time of purchase. A forward flow agreement is an arrangement in which we agree to purchase claims based on specific parameters from a third-party supplier on a periodic basis at a set price over a specified time period. Although our fixed term forward flow agreements mainly include provisions for automatic renewal if none of the parties expressly terminates the agreement, a number of our forward flow agreements may expire in 2017, 2018 and 2019. We could lose a potential source of income if we are unable to renew or replace any volume represented by our forward flow agreements upon termination or expiration. Although we expect that many of these will be renewed, our current forward flow agreements provide no medium to long-term assurance on purchasing levels.

We are dependent on clients in a variety of industries and failure to maintain relationships with these clients could have a material adverse effect on our business, prospects, financial condition and results of operations.

A significant portion of the Group's revenue is generated from a limited number of industries. For the twelve months ended June 30, 2017, the Group's cash income from third-party collection services was approximately £105 million and split by industry was financial services (45%), telecommunications (18%), retail (7%), public sector (2%) and other (28%).

A significant decrease in the amount of debt collection outsourced or the volume of debt available for purchase from any of our principal clients in these sectors on acceptable terms would force us to seek alternative sources of revenue. Clients may elect to change receivables management providers if the providers' reputation is harmed by external factors. In addition, our clients may change receivables management providers based on a change of control. See ''—*Limitations imposed on us by debt originators of debt portfolios may adversely impact our operational flexibility*.'' We may be unable to find alternative sources of revenue and, even if replacement clients could be found, the search could take time or the debt could be of lower quality and/or higher cost. See ''—*A decrease in our ability to purchase debt portfolios or an insufficient supply of debt, appropriately priced debt or debt of a sufficient quality could materially and adversely affect our business*.'' Any material failure in the insurance, telecommunications, retail or financial services sectors or any significant change in the willingness or ability of debt originators in these sectors to outsource or sell their debt to debt collection agencies, such as changes in applicable law or regulations relating to these industries that restrict or prohibit such actions, could materially and adversely affect our business, financial condition and results of operations.

We depend on the continued willingness and ability of our clients to outsource their debt collection and offer their portfolios for sale.

We depend on the willingness and ability of our clients to continually engage us to provide receivables management services. Some factors that may influence our clients' willingness and ability to engage us to provide receivables management services include, but are not limited to, the strength of our reputation, regulatory pressures our clients face and the value proposition that we offer. Debt originators may develop technological tools similar to ours, such as sophisticated decision science and consumer profile development that could increase their competitive advantages. If debt originators choose to perform more of their debt collections internally as a result of these data quality improvements, the volume of debt portfolios available for purchase could decrease and the quality of debt portfolios that are sold could suffer. This could materially and adversely affect our business, financial condition and results of operations. See ''—*A decrease in our ability to purchase debt portfolios or an insufficient supply of debt, appropriately priced debt or debt of a sufficient quality could materially and adversely affect our business*.''

Our business would be adversely affected if our clients decide to reduce or discontinue the outsourcing of their debt collection or portfolio sales or if the actual growth of levels of outsourcing and sales is lower than expected. In addition, our future revenue growth may be limited if companies that do not currently outsource their debt collection or sell portfolios continue to manage their portfolios in-house. There can be no assurances that the demand for our services will increase or remain the same, and a decrease or stagnation in demand for our services, or if one or more material debt originators stop or decrease their portfolio sales due to one of the factors listed above or any other factors, could have a material adverse effect on our business, results of operations or financial condition.

We generate a significant amount of our revenue from a small number of large clients and we are dependent on a small number of key suppliers.

Although the relative significance of individual clients changes from year to year, a significant percentage of our revenue is generated by contracts with a small number of clients in any given year. For example, in our DACH Division in the twelve months ended June 30, 2017, 73% of our portfolio purchases by purchase value came from 10 vendors. In the UK, during the twelve months ended June 30, 2017, 74% of our portfolio purchases by purchase value came from five vendors. For the twelve months ended June 30, 2017, our top five third-party collections clients generated 22% of our total DACH Division revenue without lawyer service revenue and other service revenues, and 43% of our DACH Division third party collection service revenue without lawyer service revenue. Our top five portfolio purchases vendors by revenue value represented 3%, 3%, 5%, 0% and 1% of total DACH Division revenues without lawyer service revenue and other service revenue, respectively for the same period. Our top five DACH Division third-party collections clients represented 8%, 5%, 4%, 3% and 3% of total revenues, respectively. Whereas, for the twelve months ended June 30, 2017, the UK Divisions top five third-party collections clients generated 2.2% of our total UK Division revenue and 65% of our UK Division third party collection service revenue. Our top five portfolio purchases vendors by purchase value represented 17%, 8%, 6%, 3% and 2% of total UK revenues, respectively, for the same period.

A creditor's decision to sell debt to us or contract with us for third-party collection services is based on price, reputation, compliance history and other factors. We cannot be certain that we will maintain our relationships with our current and/or future debt originator clients including large clients that make material contributions to our revenue. These clients may cease to offer us desirable terms or debt in acceptable quantities, or they may become insolvent or cease to exist. For example, our DACH Division lost one of the top 10 originators in its third-party collection services business in 2014, mainly due to the originator's shift towards another collection model. Although no originator from our top 10 in 2015, 2016 and 2017 has terminated a contract, we may lose more clients in the future. Furthermore, many of our contracts with our clients do not have a fixed term or renew automatically on an annual basis and, therefore, may be terminated on relatively short notice in certain circumstances. Any changes to the key relationships that we rely on could have a material adverse effect on our business, results of operations or financial condition.

A significant decrease in the volume of debt portfolio purchases available from any of the debt originators with which we are currently working, on terms acceptable to us, would make it necessary to further enlarge our network of sellers or the sources of debt to purchase. Furthermore, because reputation is paramount in our industry, the loss of a key vendor relationship could jeopardize our existing relationship with other vendors or our ability to establish new relationships with other vendors. We may be unable to find alternative sources from which to purchase debt, and even if we could successfully replace such purchases, the search could take time, and the receivables could be of lower quality or higher cost, any of which could materially adversely affect our business. See ''—*A decrease in our ability to purchase debt portfolios or an insufficient supply of debt, appropriately priced debt or debt of a sufficient quality could materially and adversely affect our business.*''

In addition, we face supply risks, including certain single-source supply risks. In particular, our UK Division relies on a single supplier for a substantial amount of its consumer credit data (for further discussion of this risk, see ''—*We are highly dependent on our intelligence systems and proprietary consumer profiles*''), and our DACH Division relies heavily upon one supplier for certain software solutions. If any of these suppliers were to significantly limit access to their services, significantly raise their prices, experience labor disputes and work stoppages, become insolvent or cease to exist, this could impede our ability to collect on claims or increase our collections costs and therefore have a material adverse effect on our business, results of operations or financial condition.

We are active in competitive markets and may be unable to continue to successfully compete with businesses that may offer more attractive prices or have greater financial resources, less expensive funding or lower return requirements than we have.

We face competition from new and existing purchasers of debt portfolios and debt collection providers in the markets in which we operate.

Competition in the UK market

We face competition in the UK from new and existing purchasers of debt portfolios, and large and established foreign debt purchasers are active in the UK debt purchase market. In addition, the UK debt purchase market has recently experienced significant capital inflows. Furthermore, average portfolio purchase prices in the UK debt purchase market are expected to increase over the coming years due to: (i) improvements in collection efficiencies; (ii) sustained competition for the purchase of portfolios; and (iii) greater proportions of the portfolios sold containing fresher debt, with a higher proportion of paying accounts. We may also face competition in this market from financial investors (*i.e.,* those more suited to the purchase of a portfolio consisting of largely paying accounts, such as institutional investors). Moreover, such competition, also driven by greater financial resources, less expensive funding or lower return requirements, may lead to an increase in the purchase price demanded by debt originators for their debt portfolios, which we may not be willing or able to offer.

Even though we have a small DCA business in the UK operated by our subsidiary, Interlaken, our UK business focuses on the purchase of debt portfolios. Some of our competitors have more significant UK DCA businesses in addition to operations involving the purchase of debt portfolios. These competitors may be able to offer originators a more attractive suite of services, or they may be able to use the consumer data provided at the DCA stage to help them price debt portfolios more accurately, or collect debt receivables more effectively or efficiently, than we can.

There can be no assurance that we will be able to offer competitive bids for debt portfolios, or that we will be able to maintain the advantages in tracing technology, consumer profile development, or low servicing costs that we believe that we currently possess in the UK market. If we are unable to develop and expand our business or adapt to changing market needs as well as our current or future competitors are able to do, or if our competitors are able to make advances in their pricing or collections methods that we are not able to make, we may be unable to purchase debt portfolios at prices we deem appropriate in order to operate profitably in the UK. Any of these developments could have a material adverse effect on our business, results of operations or financial condition.

Competition in the German market

The German debt collection market is highly fragmented and consists of numerous companies with varying profiles. These companies compete with us on, among other things, the basis of price. New entrants to the German market and existing competitors may offer more attractive pricing levels, both for debt collection contracts and for debt portfolio purchases, and accept lower returns in order to gain or increase market share. There can be no assurances that this price competition will not result in us paying higher prices for portfolios that we purchase or charging less for our debt collection services, both of which could decrease our margins and have a material adverse effect on our business, results of operations or financial condition.

We face bidding competition in our acquisition of debt portfolios in the German market. We believe that successful bids are awarded based on price and a range of other factors, including service, compliance, reputation and relationships with the sellers of debt portfolios. Some of our current competitors, and potential new competitors, in the German market may have more effective pricing and collection models, greater adaptability to changing market needs and more established relationships in our industry or the business sectors in which we operate. Moreover, our competitors in the German market may elect to pay prices for debt portfolios that we determine are not economically sustainable and, in that event, our volume of debt portfolio purchases may decrease. There can be no assurance either that our existing or potential debt portfolio sources within the German market will continue to sell their portfolios at recent levels or at all, or that we will continue to make competitive bids for debt portfolios.

Some of our current competitors, and potential new competitors, in the German market may have substantially greater financial resources, less expensive funding or lower return requirements than we currently have. The receivables management industry in Germany might further consolidate and our

competitors might merge, creating size and scale benefits that we might not be able to match. In addition, in the future we may not have the financial resources to make competitive bids for portfolio purchases and debt collection contracts, especially when competing with competitors that have greater financial resources than we have. Competition is not limited to the bidding process, as some of our clients will simultaneously retain multiple receivables management companies to perform collections on their behalf, thereby intensifying the competition for ongoing and new business. There can be no assurances that we will be able to develop and expand our business in Germany or adapt to changing market needs as well as our current or future competitors. Any of these developments could have a material adverse effect on our business, results of operations or financial condition.

Competition in other markets

We also operate in Austria, Switzerland, Croatia and Slovenia. In the future, we may expand into additional markets. We face significant competition in each of our current markets and expect to face significant competition in any other market that we may enter into in the future. There can be no assurances that we will be able to develop and expand our business in these markets or adapt to changing market needs as well as our current or future competitors.

Errors in our collection process or other operational matters could have a negative effect on our business and reputation.

Our ability to collect debt according to the correct contractual terms and to treat consumers fairly is critical to our business and our reputation. Our reputation is fundamental to maintaining our relationships with current and potential clients and regulators. The following events, among others, may have a negative effect on our reputation and/or our financial results: negative media publicity relating either to us or the wider receivables management services industry, allegations of unethical or improper behavior by us or third parties we use in the collection process, our inability to collect debt on an accurate and timely basis, our failure to respect and treat the consumers fairly, failures in our collection and data protection processes, the actions of third parties engaged by us in the debt collection process, IT platform failure or other operational issues, litigation, regulatory restrictions, investigations, fines or enforcement actions and matters affecting our financial reporting.

The collection of debt involves complex interpretations and calculations of contractual terms that may vary by debt originator, which may impact the calculation of consumers' resulting payment obligations and the collection strategies we employ. The inherent complexity of debt calculation and historical inaccuracies may result in our failure to choose the correct collection strategies and could lead to incorrect payment calculations in the future. Furthermore, under German law, if we agree on a payment plan with a consumer based on an incorrect calculation of the debt, such payment plan will become binding and may not be renegotiated. Therefore, processing errors may have an adverse effect on our business, results of operations or financial condition.

Such processing or other operational errors could lead to an increase in new consumer complaints which could harm our reputation with debt originators, consumers and/or regulatory authorities. Any of the aforementioned events could thereby result in financial liability for us and could jeopardize our relationships with the debt originators with which we have already established a business relationship or our ability to establish new relationships with other debt originators, have a negative impact on a consumer's willingness to pay a debt owed to us or to our clients, diminish our attractiveness as a counterparty or lead to increased regulation of the receivables management industry, each of which could have a material adverse effect on our business, results of operations or financial condition. See ''—*Negative attention and news regarding the debt purchase and collection industry and individual debt purchasers and collectors, including us, may have a negative impact on a consumer's willingness to pay a debt owed to us and may diminish our attractiveness as a counterparty for debt originators and other third parties*,'' ''—*We are subject to UK, German and EU regulations, among others, and changes to the regulatory environment or a failure to comply with applicable laws, regulations, licenses and codes of practice may negatively affect our business*'' and ''—*We are subject to audits conducted by sellers of our debt portfolios and clients that place debt with us for collection on a contingent basis, and we may be required to implement specific changes to our policies and practices as a result of adverse findings by such sellers as a part of this audit process, or certain sellers may remove us from their panels of preferred purchasers, which could limit our ability to purchase debt portfolios from them in the future, which could materially and adversely affect our business*.''

Negative attention and news regarding the debt purchase and collection industry and individual debt purchasers and collectors, including us, may have a negative impact on a consumer's willingness to pay a debt owed to us and may diminish our attractiveness as a counterparty for debt originators and other third parties.

There are various factors that may cause consumers to be more reluctant to pay their debt in full or at all, or more willing to pursue legal actions against us (including, in the UK, through complaints to the UK Financial Ombudsman Service (the ''**FOS**''), and, in Germany, through consumer protection associations (*Verbraucherschutzvereine*) or other similar third party agencies), even if such actions are not warranted. These factors include, *inter alia*: (i) publications in online, print and broadcast media, from time to time, of stories about the debt collection or debt purchase industry that may cite specific examples of real or perceived abusive collection practices as well as regulatory investigations and enforcement actions; (ii) online articles, blogs and tweets that may lead to the rapid dissemination of a story and increase exposure to negative publicity surrounding the debt purchase and receivables management industry in general or in relation to us or any of our clients in particular; and (iii) websites where consumers list their concerns about the activities of debt collectors and seek online guidance from others on how to react to collection efforts. These websites are increasingly providing consumers with letter templates, guidance and other strategies to protest collection efforts and to try to avoid their obligations. To the extent that these forms and strategies are based upon erroneous legal information, the cost of collections may increase. Finally, in Germany, consumer blogs and consumer protection associations (*Verbraucherschutzvereine*) are becoming more common and add to the negative attention surrounding the receivables management industry.

Negative publicity could also result from us being named in published industry complaint data sites, receiving negative attention due to internal disputes, failing to prevent potential unlawful behavior of our employees and engaging in disputes with former employees or being subject to negative publicity relating to any of our clients or any former employers of our key executives. Negative publicity relating to violations by any of the third parties we engage, of legal or other regulatory requirements, could also result in negative publicity or reputational damage to us.

Any such negative publicity could jeopardize our existing relationships with debt originators or our ability to establish new relationships with other debt originators, diminish our attractiveness as counterparties generally or lead to requests by the debt originator to reassign debt portfolios. Any of the foregoing could impact our ability to purchase debt portfolios or our ability to collect debt owed to us or to our clients, and may materially and adversely affect our business, results of operations or financial condition.

We are subject to risks associated with our contracts and business model for debt collection services, including our ability to correctly assess pricing terms and the potential early termination or a reduction in the volume of claims we service.

The profitability of our debt collection services will generally depend upon our ability to successfully calculate prices by taking into consideration all economic factors and our ability to manage day-to-day operations under these contracts. Under most of our debt collection contracts we do not get paid unless a consumer begins paying on a claim and we may be unable to accurately predict the costs or identify the risks associated with these contracts or the complexity of the services, which may result in lower than expected margins, losses under these contracts or even the loss of clients. Some of our material contracts for debt collection services subject us to early termination clauses in a range of circumstances and also include benchmark clauses or, in a small number of contracts, penalties and /or service credits for the failure of service level agreements. If we are unable to satisfy the terms of our contracts, then we could potentially have contracts terminated and lose clients and revenue.

The majority of our material debt collection contracts have an initial stated term, typically one to three years, and, in some cases, termination clauses permitting the debt originator to cancel the contract at its discretion following the expiration of an agreed notice period. There can be no assurances that our clients will not exercise their rights to terminate their contracts prior to expiration or that we will be successful in negotiating new contracts with clients as such contracts expire. In addition, we are also exposed to unforeseen changes in the scope of existing contracts, including prices or volumes, that may occur as a result of any changes in the general business or political landscape of our clients. Generally, our debt collection contracts do not have volume commitments, and a client can eliminate or reduce the volume of claims it outsources to us for debt collection without formally terminating the contract. We may have disputes or disagreements with our clients as to the level of services we have agreed to provide or

contract terms. The potential effects of these risks may increase as we enter into larger contracts. If we are unable to fulfill our obligations under our contracts for any reason, we risk the loss of revenue and fees under that contract, the potential loss of a client and significant harm to our reputation. Any of our contracts could become more costly than initially anticipated, and as a result, we may experience significant increases in our operating costs and/or potential litigation. Furthermore, we may experience delays in integrating with our existing operations any additional collection platforms that we acquire or the carve-outs of our clients' in-house collections departments. Accordingly, if we are unable to collect or maximize payments from consumers through our various initiatives, our business and financial condition may be adversely affected. Any of these developments could have a material adverse effect on our business, results of operations or financial condition.

We may not be able to collect the expected amounts on our existing debt portfolios or the value of our debt portfolios may deteriorate, and this may lead to reduced profits, write-downs or lost market opportunities.

As the length of time involved in collecting on our existing debt portfolios may be extensive and since the factors affecting debt collection rates may be volatile and outside our control, we may be unable to identify economic trends or make changes in our purchasing strategies in a timely manner.

If our diligence for the purchased debt is not sufficiently comprehensive or if the assumptions used by us in our models are incorrect, including, but not limited to, claims not being time barred, the age and balances of the purchased claims being correctly stated by the sellers, consumers being alive and the claim not resulting from fraud, or if some of the accounts in a portfolio behave differently from the way we expect, there could result a loss of value in a portfolio after purchase, subsequent negative revaluations in our statement of financial position and a continuing deterioration in value over time as actual collections can deviate significantly from the collection estimates produced by our pricing model as accounts age. We do not have an insurance policy that covers breaches of guarantees, representations and warranties with respect to the quality of the purchased debt in our debt purchase agreements. Therefore, we may not be able to pass on the losses in the event that we cannot take recourse against the seller.

We purchase debt mainly at a discount to face value, except for small amounts of debt purchased through our DACH Division's historical PayProtect service, for which we pay the full face value of the debt. Debt that we purchase typically consists of loans that consumers have failed to repay and, in certain cases that the debt originator has deemed to be uncollectable. It is crucial for our business that we are able to identify portfolios that are of sufficient quality for us to determine what we are likely to collect on the claims. Before making the decision to generally sell their overdue or defaulted debt and other overdue receivables, clients usually make various attempts to recover on such receivables, often using a combination of in-house recovery efforts and third-party collection agencies. These overdue claims are difficult to collect and we may not collect a sufficient amount to cover our investment associated with purchasing the portfolios of overdue receivables and the costs of running our business. There can be no assurances that any of the claims contained in our purchased portfolios will eventually be collected. Furthermore, most of the claims that we own are unsecured and an increase in bankruptcy filings involving consumers could impact our ability to collect on those claims. If the cash flows from our existing portfolios (and the debt portfolios we purchase in the future) are less than anticipated, we may be unable to purchase all of the new debt portfolios that we would like to purchase, may need to pay a higher interest rate to finance the purchase of new debt portfolios or may need to accept lower returns. This could also result in further write-downs of our debt portfolios. As a result of further write-downs or any of the aforementioned factors, this could have a material adverse effect on our business, results of operations or financial condition.

Limitations imposed on us by debt originators of debt portfolios may adversely impact our operational flexibility.

We derived 65% of our revenue from our debt purchase business (based on total revenue, including lawyer service revenue and other revenue) for the twelve months ended June 30, 2017 and 64% for the year ended December 31, 2016. Contracts entered into with our clients for the purchase of debt portfolios typically impose various restrictions on our realization of value from the debt portfolios, including restrictions on our ability to resell portfolios, even if the legal title to the debt has been transferred to us. Debt originators from both our third-party collection services and purchased debt businesses may also restrict our flexibility in pursuing certain enforcement and collection activities. In

addition, our clients may have the right to compel us to undertake or refrain from taking certain actions, including agreeing the fees that we can pass through to the respective consumers. Furthermore, debt originators may have rights to repurchase portfolios and require reassignment to protect against factors such as reputational risk. In instances where accounts are fraud-sensitive or where an accountholder has raised a complaint against the debt originator, among other things, debt originators may also have rights to repurchase or require reassignment of the respective debt portfolios. Debt originators may have the right to terminate such agreements upon a direct or indirect change of control of our company. Any of the foregoing factors may adversely impact the profitability of debt portfolios that we purchase and our operational flexibility and, therefore, have a material adverse effect on our financial condition and results of operations.

We are subject to audits conducted by sellers of our debt portfolios and clients that place debt with us for collection on a contingent basis, and we may be required to implement specific changes to our policies and practices as a result of adverse findings by such sellers as a part of this audit process, or certain sellers may remove us from their panels of preferred purchasers, which could limit our ability to purchase debt portfolios from them in the future, which could materially and adversely affect our business.

Our companies are subject to audits that are conducted by sellers of our debt portfolios and clients who place debt with us for contingent collections. In the UK, regulations and contractual provisions require us to provide our clients with the opportunity to conduct such an audit whereas in Germany, client audits are available pursuant to provisions in some of our contractual agreements. In addition, relevant authorities may perform audits pursuant to the German Legal Services Act (*Rechtsdienstleistungsgesetz*), and in connection with such audits, we need to provide the relevant authorities with information upon their request. Audits may occur with little or no notice and the assessment criteria used by each seller and creditor varies based on their own requirements, policies and standards. Although much of the assessment criteria is based on regulatory requirements in the UK and in Germany, we may be asked to comply with additional terms and conditions that are unique to particular debt originators in either the UK or Germany. From time to time, clients may determine that we are not in compliance with certain of their criteria and in such cases, we may be required to dedicate resources and to incur expenses to address such concerns through the implementation of new policies and procedures or by other means. In addition, to the extent that we are unable to satisfy the requirements of a particular client or where our noncompliance is deemed sufficiently significant or systemic, such client may remove us from its panel of preferred purchasers or suppliers, which could limit our ability to purchase debt portfolios from, or service the collection of debt for, such client in the future, which could materially and adversely affect our business. Furthermore, in certain circumstances in the UK, audit reports may need to be provided to the regulator, and there is also a risk that any non-compliance identified in those reports may be viewed by the regulator as a breach of our regulatory obligations owed to it.

The statistical models and decision science tools that we use in our business may prove to be inaccurate, we may not achieve anticipated levels of return and we may be unable to appropriately identify and address underperforming portfolios.

We use internally developed models and other decision science tools extensively in our operations. At the time of purchase, however, we are likely to have imperfect information about the precise age of the debt, the ability of the consumer to pay, the time at which the consumer will pay and the cost required to service and collect on such debt. Therefore, our ERC figures could be inaccurate. Moreover, our performance metrics, such as ERC and gross money multiple, are forward looking in nature and have inherent limitations as they are based on historical data and assumptions based on such data, which may prove to be inaccurate. In addition, our historical information about portfolios may not be indicative of the characteristics of subsequent portfolios purchased from the same debt originator or within the same industry due to changes in business practices or economic developments and our internal databases may not be as extensive as needed for a comprehensive decision science. There is a significant amount of management judgment and estimation involved in purchasing and valuing portfolios and there can be no assurances that management's judgments and estimations will prove to be accurate. Furthermore, although we have review structures in place designed to ensure that portfolios performing significantly outside of forecast will be reviewed by management, there can be no assurances that we will be able to appropriately identify and address underperforming portfolios.

In addition, our decision science team may not be able to achieve the desired results and may not be able to create the decision science functions which we need in order to operate profitably.

Furthermore, if we purchase types of debt portfolios with which we have limited experience or from clients with which we have no prior dealings, our ability to properly price and collect on such debt portfolios may be adversely affected. Lack of reliable information, or the use of inaccurate assumptions, can lead to mispricing of purchased portfolios, which may have an adverse effect on the financial returns from such portfolios or can lead us to underbid on and lose bids for debt portfolio purchases. Our statistical models and analysis tools make use of information provided by third parties, such as credit information suppliers and other mainstream or public sources, or generated by software products. We have no control over the accuracy or sufficiency of information received from such third parties. If such information is inaccurate or insufficient, we could incorrectly price portfolios that we purchase, incorrectly value our existing debt portfolios, set debt originator prices or performance goals inaccurately, and/or experience lesser liquidation rates or greater operating expenses.

There can be no assurances that any of the current or future debt contained in our purchased portfolios will eventually be collected. If we are not able to achieve results consistent with our forecasted levels of collection and underlying cost assumptions, valuation impairments may be recognized, our portfolios may be written down and revenue and returns on purchases of portfolios may be reduced. Any of the foregoing factors could have a material adverse effect on our business, results of operations or financial condition.

Our need to adapt to consumers' changing financial circumstances may result in increased servicing costs, reduced cash flow or imprecise modeling.

We proactively work with consumers who experience a reduced ability to pay their debt to try to reach an appropriate payment plan through means such as reduced average monthly payments. This adaptability on our part could lead to increased servicing costs as our employees renew contact with consumers and revise pre-existing payment arrangements. Furthermore, a reduction in monthly payments would reduce our cash generation and returns on capital. A change from our original estimates of servicing costs or consumers' monthly payments may mean we may not achieve our expected returns. Additionally, our modeling for future pricing decisions may be rendered less reliable if we are unable to accurately predict the number of consumers who will, or which consumers will, need to reduce their debt payments or the amounts of such reductions. As a result, our financial condition, financial returns and results of operations may be materially and adversely affected.

We may experience volatility in our reported financial results due to the revaluation of our purchased debt portfolios and the timing of portfolio purchases during the financial year.

Our purchased debt portfolios are initially recognized at a carrying value equal to the portfolio's acquisition cost and are subsequently measured at amortized cost using the EIR method. Following acquisition, the value of these assets may be adjusted as the cash flow projections associated with the portfolios are reassessed based upon actual collections results. Accordingly, the value of our purchased portfolios as recorded in our Consolidated Financial Statements may fluctuate as a result of these reassessments.

There is sometimes a gap between the point in time when we purchase a portfolio and the point in time when we begin earning returns on the purchased portfolio. This is because we do not always have control over when a deal to purchase a portfolio will close, and we need to locate consumers, build a consolidated profile of each such consumer's circumstances and formulate an appropriate repayment solution before we can start to collect on a purchased portfolio. As a result, we may experience fluctuating cash flows and delays in generating income from purchased portfolios. Any of the foregoing factors could have a material adverse effect on our business, results of operations or financial condition.

We use a number of estimates and assumptions in the preparation of our consolidated financial statements, which could prove to be incorrect or cause our earnings to fluctuate.

The preparation of our consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. These estimates and associated assumptions are based on historical experience and various other factors that are considered by management to be reasonable under the

circumstances at the time. These estimates and assumptions form the basis of judgments about the carrying amounts of assets and liabilities that are not readily available from other sources.

Areas requiring more complex judgments may shift over time, based on changes in accounting policies, accounting standards, such as IFRS 15 and IFRS 9, or on changes in our business profile.

Complex judgments are required in relation to revenue recognition, impairment of our purchased loan portfolios, collection forecast and impairment tests of our goodwill, among others. For example, the estimates used to calculate our returns on our purchased portfolios are primarily based on historical cash collection experience and payer dynamics. If future cash collections are materially different in amount or timing, our earnings could be affected, either positively or negatively. Higher collection amounts or cash collections that occur sooner than projected will have a favorable impact on revenue in the form of income increases or impairment reversals. In addition, higher collection amounts or cash collections that occur sooner than projected could have the effect of reducing the expected future value of our loan portfolios, requiring us to purchase additional loan portfolios in order to maintain our level of expected future cash flows, which we might not be able to do. Lower collection amounts or cash collections that occur later than projected will have an adverse impact and may result in an impairment of the purchased loan portfolio. Impairments, in turn, cause reduced and fluctuating earnings. In the future, should actual results differ from management's estimates and assumptions (particularly with respect to revenue recognition and collection forecast) this could have a material adverse effect on our business, prospects, results of operations and financial condition.

IFRS 9 (*Financial Instruments*) is effective from January 1, 2018. The current application of the Effective Interest Rate with regards to purchased non-performing assets is thought to be largely in line with IFRS 9; however, additional disclosure requirements, over and above those from IFRS 7, will be required around compliance with applicable regulation and the management of risk. During the remainder of 2017, management will continue to assess the impact of the three main areas of IFRS 9, these being classification and measurement, impairment, and hedge accounting. IFRS 15 (*Revenue from Contracts with Customers*) is effective from January 1, 2018. IFRS 15 established a five step approach to accounting for revenue from contracts with customers. Management will continue to assess the potential impact of adopting IFRS 15 during the remainder of 2017. Although we do not expect the application of these standards to have a material effect on our business, we have yet to complete our review of these standards and, therefore such application may have a material adverse effect on our business, results of operations or financial condition.

It can take several years to realize cash returns on our investments in purchased debt portfolios, during which time we are exposed to a number of risks in our business.

We generally measure our investments based on a projected return, typically up to 120 months, based on the historical data and collection forecast for our UK Division and DACH Division. It takes us an average of 22 months, for our UK Division, and 24 months, for our DACH Division, to collect the gross cash cost of each of their investments in debt portfolios (after taking into consideration, in the case of our DACH Division, its direct and indirect operating costs, financing costs, taxes and other factors (*e.g.*, real estate costs, legal and consulting costs and IT expenses)), and, in some cases, it may take significantly longer than average to realize cash returns equal to this initial investment. During this period, significant changes may occur in the economy, the regulatory environment, our business or our markets, which could lead to a reduction in our expected returns or forecasted collection plan, a reduction of which could cause us to record an impairment of our purchased debt portfolio, or reduce the value of the debt portfolios that we have purchased. Given the multi-year payback period on substantially all our purchases, each portfolio purchase exposes us to the risk of such changes for a significant period of time, which could have a material adverse effect on our business, results of operations or financial condition.

Our forward flow agreements may contractually require us to purchase portfolios at unfavorable or uneconomic prices.

In the period from June 1, 2004 to June 30, 2017, 40% of our UK Division's purchased portfolios were acquired pursuant to forward flow agreements or agreements that were a mixture of a forward flow agreement with a spot purchase, representing £519.4 million in purchase price consideration. In the period from September 30, 2003 to June 30, 2017, 42% of our DACH Division's purchased portfolios were acquired under forward flow agreements, representing €199 million in purchased debt.

Commitments under such forward flow contracts are typically for approximately one to three years, although in the UK, we have entered into five year forward flow agreements with two creditors. However, depending upon the length of the contractual arrangements, forward flow agreements generally contain termination clauses that allow the arrangement to be terminated early and on relatively short notice in certain circumstances, such as where there is a change of control or at will for certain of our clients. We may be required to purchase debt under a forward flow agreement for an amount greater than we would have otherwise agreed to pay at the time of purchase due to pressure from larger clients or major debt portfolio sellers, which could result in reduced returns. In addition, we could be faced with a choice between decreasing our purchasing volume, agreeing to forward flow agreements at a higher average price or agreeing to fewer contractual protections concerning the portfolios we purchase, any of which could have a material adverse effect on our results of operations. We generally allow for some margin for future fluctuations in value of the debt we purchase through forward flow agreements, but future fluctuations in value may exceed that margin due to circumstances beyond our control, such as economic conditions or other market conditions. If the quality of debt purchased varies from our pricing assumptions, we may price the contract improperly, which could have a material adverse effect on our business, results of operations or financial condition.

We may not be able to procure sufficient funding on favorable terms to purchase further debt portfolios as they become available.

Historically, we have funded purchases of portfolios through cash generated by our operations, borrowings and loans procured by our relevant majority shareholders. Our ability to obtain funding in the future from these sources will depend on our performance and prospects, as well as other factors beyond our control. Such factors may include weak economic and capital market conditions during or prior to periods in which attractive debt portfolios are available for purchase, the ability and willingness of banks and other clients to lend to our industry generally or to us, in particular, and changes in fiscal, monetary and other government policies, among others. An inability to procure sufficient funding at favorable terms to purchase portfolios as they become available could have a material adverse effect on our business, results of operations or financial condition.

We could be adversely affected if third parties providing services on which we rely, including lawyers or data providers, perform poorly, cease to provide services or fail to comply with applicable regulatory requirements.

Our business is dependent on a number of key relationships with third parties as part of the supply chain to provide our services. For example, when our internal debt collection efforts are unsuccessful, we may engage law firms, with which we have framework service agreements, to collect or enforce the receivables in our name or in the name of our clients. Any failure by third parties involved in our supply chain to adequately perform services for us on an efficient basis for any reason (including insolvency) or to meet agreed service levels could materially reduce our cash flows, income and profitability, and adversely affect our reputation and results of operations.

Furthermore, these third parties may not be bound by our industry standards and practices. These third parties could commit fraud with respect to the consumer accounts that we place with them or fail to comply with applicable laws and regulations, such as data protection requirements, or to provide us with accurate data on the accounts they are servicing. To the extent that these third parties violate laws, other regulatory requirements or their contractual obligations to us, or act inappropriately in the conduct of their business, our business and reputation could be negatively affected or penalties could be directly imposed on us.

In addition, we depend on banking systems to execute payment transactions in connection with our business. A systematic shutdown or any other disruption of the banking industry or one of the banks we work with would impede our ability to process funds on behalf of clients and to collect on claims. Any of the foregoing factors could have a material adverse effect on our business, results of operations or financial condition.

We rely partly on data provided by multiple credit information suppliers and other sources in order to operate our business, and our UK operations, in particular, rely on the data provided substantially by one supplier. Our business, along with the businesses of our competitors, could be negatively affected if any third-party sources were to stop providing this data for any reason, including a change in laws or regulations, or if they were to raise the price of their services. In addition, any disruption of our

relationship with our data suppliers could affect the intelligence systems upon which we rely. See ''—*We are highly dependent on our intelligence systems and proprietary consumer profiles*'' and ''—*We generate a significant amount of our revenue from a small number of large clients and we are dependent on a small number of key suppliers*'' for further discussion. Furthermore, if data suppliers provide us with inaccurate data, we may have no recourse against them if we are exposed to claims by our clients, consumers, or alleged debtors arising from the use of such inaccurate data, which may also lead to reputational damage. Conversely, through our subsidiaries we provide data to third parties as well and there is a risk that data provided by us may prove to be inaccurate or false and third parties could take recourse against us for providing false data.

In certain situations, we outsource some of our UK Division's accounts to third-party DCAs for collection. For example, we may use third-party DCAs late in the collections process when our in-house methods of contact have not succeeded or when an atypical consumer may be better served by a specialist DCA (*e.g.*, when the debt collection process is complicated by probate). Any failure by these third parties to adequately perform collection services for us or to remit such collections to us could materially reduce our cash flow, income and profits. We rely on these third parties to effectively manage their operations and to meet our servicing needs efficiently, but these third parties may not have the resources, management training and management depth that we have. This may negatively impact their ability to comply with applicable laws or other regulatory requirements. To the extent these third parties violate laws or other regulatory requirements in their collection efforts, it could negatively impact our business and reputation, and we may not be aware of the risk or occurrence of any such violation.

INDUSTRY AND MARKET DATA

Certain information set forth in this section has been derived from external sources, including the Company Market Studies. These external sources generally state that the information contained therein has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information are not guaranteed. While we believe that these external sources are reliable, we have not independently verified them and cannot guarantee their accuracy or completeness. Therefore, the following data, in particular regarding market sizes, past growth rates and competitive positions, should be viewed with caution and may differ from market and competitive data contained in other analyses or calculations of competitors. See ''Presentation of Industry and Market Data.'' Additional factors that should be considered in assessing the market and competitive data set forth in this section are described elsewhere in this report, including, in particular, in the section entitled ''Risk Factors Related to our Business and Industry.''

Introduction to the Receivables Management Industry

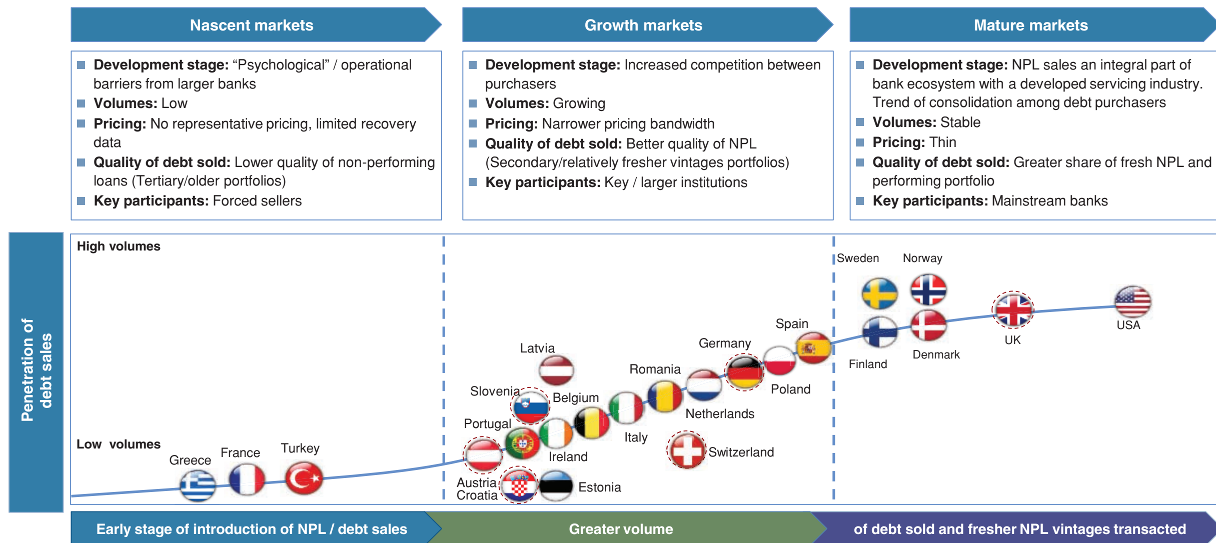
Debt is created when a debt originator extends credit to a person, who in turn becomes a customer of that debt originator. Such arrangements include financial institutions extending loans or trade sector companies issuing invoices for services rendered or goods delivered (*e.g.*, retail and telecommunications companies or public-sector entities, among others). Debtors default on their payment obligations when they do not repay the debt according to the terms on which it was extended, which results in the debt becoming overdue. Defaulted debt is an inherent feature of unsecured lending. Debt originators typically expect a certain percentage of consumers to default and, accordingly, manage their pricing to a target default level. Defaulted debt may be collected by the debt originator itself, by a law firm on behalf of the debt originator or by a receivables management company, such as the Group.

Debt, whether it is overdue or not, may be collected by either the originator itself or by a third-party to whom the originator has either sold the debt or merely outsourced its collection. For many debt originators, the management of defaulted debt is a low priority or non-core activity because volumes of defaulted debt are small relative to the overall scale of lending and debt originators do not generally invest much capital in their respective collection systems. Accordingly, outsourcing the collection of defaulted debt to a receivables management company is an attractive option for many debt originators. Depending on the debt originators' preferences and objectives, a receivables management company either manages the defaulted debt on behalf of the debt originator according to a servicing agreement, or purchases the defaulted debt from the debt originator, thereby taking legal ownership of the debt and acquiring the right to collect on it for its own account. The Group purchases defaulted debt and manages defaulted debt on behalf of third-party debt originators.

Our current geographical footprint principally comprises the two largest consumer credit markets in Europe, the UK and Germany, with a leading presence in Austria. The following chart illustrates the relative maturity profile of the receivables management industry in our markets as compared to the receivables management industry in other key international markets. As the chart indicates, the UK provides opportunities given the large scale of its economy and overall levels of indebtedness and Germany and Austria offer an attractive growth profile driven by the opportunity for greater debt collection outsourcing and debt portfolio sales. Our presence in Croatia and Slovenia marks the Group's entry into the CEE region where we have a positive outlook having recently seen significant activity in terms of debt sales. We also believe that there is further room for consolidation led by large players such as the Group.

Illustrative Relative Development of Key Debt Recovery Markets

Typical stages of development of debt purchase markets



Source: Management Estimate.

Credit Lifecycle

Receivables management services are an established part of the credit lifecycle in Germany and the UK. There are a number of stages in the debt lifecycle and credit management companies offer several services to clients throughout the cycle. A number of credit management services are exemplified in the following illustration and described below. The debt recovery cycles in the German and the UK markets are broadly similar in their components. However, the relative importance of third-party collection versus debt purchase and the timing of third parties' involvement in the recovery cycle tend to differ between the two markets. For instance, in the UK, a portfolio is often sold following at least one DCA placement, while in Germany, debt sale and third-party collection are often viewed as alternatives to recovering on defaulted debt. Due to their scale, expertise, specialization and data capabilities, large receivables management companies can make outsourcing an attractive option by offering efficient debt-collection strategies.

The debt recovery cycle encompasses the following steps:

- **Origination of debt.** A consumer obtains credit from a debt originator. The financial services sector has historically been one of the largest sources of credit for consumers, but short- or long-term consumer credit is also a core component of business models across many other sectors, including telecommunications, retail, utilities and e-commerce.

- **Default.** A consumer defaults on his or her payment obligations. For example, the consumer may fail to make a series of scheduled payments. This may happen because of a change in the consumer's circumstances (*e.g.*, the loss of a job) or because the consumer entered into debt arrangements that prove unmanageable.

- **In-house recovery.** The debt originator uses its internal resources to attempt to recover the defaulted debt. Debt originators typically have standard procedures that apply when a consumer account falls into arrears, which include the use of internal recovery strategies and in-house debt collection activity to attempt to rehabilitate consumer accounts. Regularly, debt originators either fail to make contact with the consumer or are unable to reach an acceptable agreement on a payment.

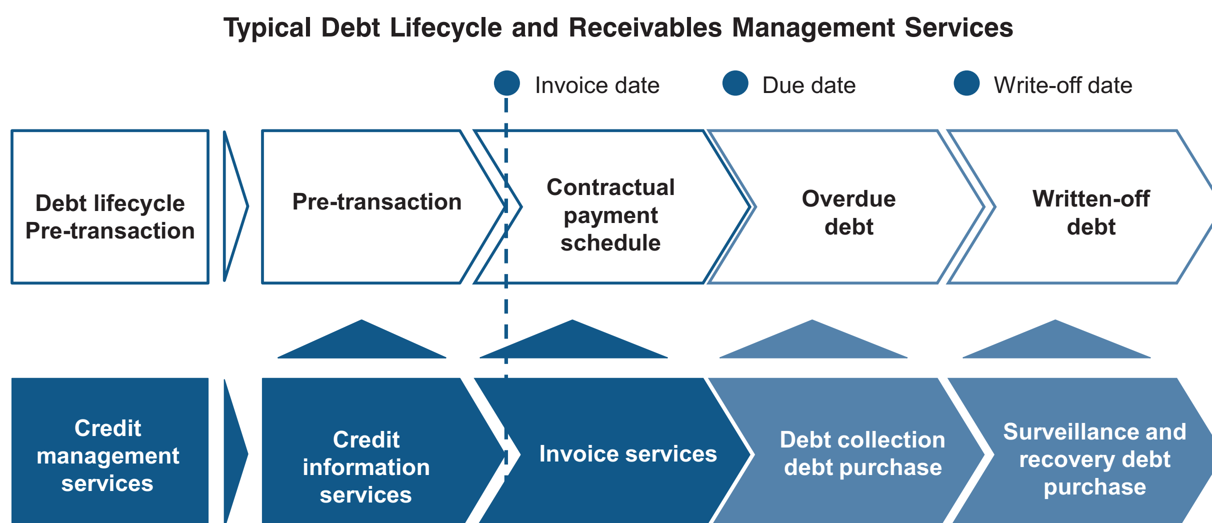
- **Engagement of DCA.** Defaulted debt portfolios are serviced by third parties for a fee. The legal ownership and balance-sheet exposure remain with the debt originators. Debt collection agencies use a range of collection and contact techniques, including letters, phone calls, emails, text messages, event campaigns and litigation to recover the outstanding debt. Litigation techniques are often used when the consumer's ability to pay has been demonstrated but the consumer is unwilling to pay.

- In the UK, debt originators often commence an external recovery process by passing on the consumers' details to a DCA once the debt has fallen more than 180 days past due, although some pass debt to DCAs at 90 days past due. The external recovery process may encompass the use of two or three cycles of placements with DCAs.
- In Germany, debt originators generally tend to outsource debt once it is 45 days past due or, in the case of financial services debt, both 90 days past due and terminated. Alternatively, debt originators in Germany often sell defaulted consumer debt without ever outsourcing it to a DCA.

- **Debt sale.** Defaulted debt portfolios are sold to third parties at a significant discount to the principal value of the debt. The legal ownership and balance-sheet exposure are thereby transferred to the debt purchasers.
    - In the UK, if one or more DCAs are unable to recover amounts due, debt originators often sell off portfolios of non-performing debt to debt purchasers. Such sales typically commence once the debt in question has fallen more than 180 days past due, and could happen without debt being placed with any DCA. In general, the "fresher" the debt, the higher the price the debt originator can achieve. Additionally, if the consumer is already participating in a payment plan when the debt is sold (*i.e.*, making regular agreed payments to clear an outstanding balance) then the price of the debt will generally be higher. Prices are reduced for accounts that have passed through several DCA placement cycles, reflecting reduced expected recovery rates for such accounts.
    - In Germany, debt sale is perceived by debt originators as both an alternative to third-party collections and a subsequent option. The decision whether to sell or outsource depends on the objective the debt originator is aiming to achieve through the externalization. The propensity to sell also varies with the sector of the debt originator (*e.g.*, the insurance and the public sectors in Germany tend to refrain from debt sales due to regulatory constraints) and with general market conditions.
- **Other receivables management services.** In both the UK and Germany, receivables management services companies are increasingly active throughout the recovery process. End-to-end recovery management provides growth opportunities for such companies, for instance, in early-stage recovery (*e.g.*, prior to the consumer's default). Before debt originators extend credit to consumers, receivables management companies can also provide credit scoring and other forms of credit information services, such as data extraction and modeling. Receivables management companies also provide payment processing services, including invoice administration, subsidiary ledger accounting, invoice printing, payment reminders and consumer checks related to the ability to make purchases on account. These services can be provided either before or after debt is defaulted and, in certain cases, before the debt originator-customer relationship is first created (*i.e.*, before a consumer purchase takes place).

The chart below gives an overview of the debt recovery cycle.

Typical Debt Lifecycle and Receivables Management Services



Receivables Management Services' Business Models

The various sub-segments of the receivables management services industry are addressed below:

Debt Purchasing

Debt purchasing entails the sale of financial debt by a debt originator to a specialist debt purchaser or investor who acquires the right to collect the debt for its own account and retain the cash collected. The purchaser then typically seeks to reinvest this cash, net of collection costs, in acquisitions of new portfolios. Originators may sell portfolios of performing or non-performing loans to receivables management services companies for a number of reasons relating to operational and economic efficiency. Selling non-performing loans enables originators to, among other things, increase liquidity, strengthen their balance sheets, liberate internal resources to focus on core competencies and reduce back office costs associated with their in-house collection infrastructure. Debt originators generally choose to sell performing loans for similar reasons, though this can also be due to a decision to withdraw from a particular product or geography which is no longer profitable or core to their future strategy.

Methods of Debt Sale

Debt originators may structure their sales of debt portfolios in one of the following ways:

- *Off-market sales / bilateral agreements*: financial institutions generally use off-market transactions to simplify the sale process, where the transaction size does not justify running a competitive process or for the sale of complex portfolios. In off-market sales, the vendor originator considers just one party for the sale (typically a well-reputed and trusted partner with which it has a long-standing relationship), and if the price offered by the buyer is considered appropriate, the vendor originator sells the debt portfolio to the buyer without inviting any other bidders.
- *Limited auction*: for the sale of portfolios with a relatively higher level of complexity, vendor originators will often typically invite a few bidders to a tender process, which involves a greater level of more manual loan file due diligence.
- *Broad auction*: for the sale of some classes of debt, vendor originators will often initiate widely competitive tender processes, including five to six bidders or more. The relevant portfolios are generally priced by bidders using statistical models, and are often broken down into segments, with each segment being sold to the highest bidder. Such auctions become more difficult when portfolios are more complex and data quality is poor, including in less mature markets.
- *Forward flow agreements:* involve an agreement to sell several similar debt portfolios over a period of time at a predetermined price and for a specified quality of debt, avoiding fluctuations caused by changes in macroeconomic conditions and outcomes of precedent auctions. We are protected against downside risk in debt quality through provisions in the forward flow agreements allowing flexibility to modify pricing upon a detailed review of the portfolios, in the case of our UK forward flow agreements, and through put back mechanisms and certain representations and warranties from the seller in the case of our German forward flow agreements. In the UK, forward flow agreements are generally transacted through bilateral sales processes, while in Germany, forward flow agreements are transacted through both auctions and bilateral sales processes.

Debt Servicing

Debt servicing is a service provided by a receivables management services company that collects financial debt on behalf of a third global party (typically the debt originator). Servicers generally receive a fee related either to the face value of the debt portfolios they manage or the collections generated, depending on the nature of the managed portfolio. Receivables management services companies may provide debt collection services to debt originators for either performing or non-performing debt. Collections of non-performing debt can be particularly burdensome for debt originators because it can be time consuming and costly, especially when compared to specialists who have the key competencies, experience and are appropriately structured to do so more efficiently. Additionally, debt originators may choose to outsource the collection of some of their accounts to a receivables management services company in order to benchmark their internal debt recovery performance against that of a third global party. Collection of performing debt may be outsourced because of a desire to reduce back office or IT costs (to turn fixed overhead costs into variable costs) or to benefit from economies of scale that can be offered by receivables management services companies.

Methods of Debt Servicing

The terms and the fee structure of a servicing agreement typically depend on whether it concerns the servicing of non-performing or performing loans and type of debt, whether consumer or corporate, secured or unsecured etc.

NPL service agreements: Debt servicing agreements for outsourced NPLs typically have a defined minimum term with tacit renewal and at least a three-month termination notice by either party. Service agreements for non-performing loans can take a wide variety of forms with specific guidelines regarding reporting obligations, thresholds for debt forgiveness and guidelines regarding incurrence of costs. Service agreements for non-performing loans also tend to have customary confidentiality, compliance and data privacy clauses, as well as an audit clause and limitation of financial responsibility for the servicer.

Performing debt service agreements: Debt servicing agreements for performing debt, typically have a stated term commensurate with the remaining life of the portfolio but can be terminated with an advance notice. Performing debt servicing agreements typically include either a flat fee per month and/or per loan which varies depending upon the size, duration and nature of the debt, or a variable fee based on assets under management, which also varies depending upon the size, duration and nature of the claims. Service agreements for performing debt tend to have customary confidentiality, compliance and data privacy clauses, as well as a service level agreement and an audit clause that permits the bank to monitor the quality of the provider's services. Typically, these agreements also limit the financial responsibility for the servicer.

Overview of Key Market Sectors

There are different ways to classify the defaulted consumer debt available for purchase or servicing. For example, such debt may be classified by its quality. Key drivers of the quality of debt, and therefore its price, include its age, its average balance and the level of difficulty in contacting its consumer base. Accordingly, receivables management companies may, for instance, classify consumer debt by its stage in the debt-recovery cycle. Credit card asset classes, for example, typically vary from fresh write-offs (*i.e.*, accounts that have generally not been placed with DCAs at the time of sale) to accounts that have remained defaulted for a longer period of time prior to being outsourced, and receivables management companies may focus on one or more of such classes. Furthermore debts may be classified by the industry they originate from in order to leverage the predictive power of industry specific consumer behavior. For example, the propensity for consumers to pay back debt resulting from e-commerce transactions may be higher compared to other sectors.

Consumer debt may also be classified by market sector as below:

Financial services

- The sector includes financial institutions other than insurance providers.
- Financial services is the largest and most developed sector of the debt purchase market in the UK. It is highly diversified by type, age and quality of debt and debt originator. Since competition is intense in the UK financial services sector, the Group has focused its investments in this sector, where it believes its operational platform and database scale provides a competitive advantage allowing it to generate higher returns.
- In the German financial services market, we have focused our investments in the financial services sector on the defaulted consumer debt of credit banks, which primarily focus on third-party collection in their recovery process.

Insurance

- Defaulted debt in the insurance sector is usually created due to a customer's failure to keep up with instalment payments on insurance premiums or charges for short term rates in connection with the cancellation of a policy.
- In the UK, insurance providers historically have been a relatively insignificant presence among debt originators in the receivables management market.

- In the German insurance sector, only third-party collections and other services are possible in the majority of cases because the German regulatory framework prohibits the sale of most types of debt in this sector. While it is prohibited to purchase their debt, we may provide these companies with up-front payments, which are made after the receivables have been transferred for service to our DACH Division. See "—*Legal and Regulatory Framework*."

E-commerce

- E-commerce debt is created through balances due from online purchases of goods and services on direct debit and on account. Outsourcing of debt collection in the e-commerce sector is expected to increase, predominantly driven by the rapid underlying market growth, in addition to the high average default rates and high level of outsourcing of debt collection by small and medium players. Defaulted debt from e-commerce is increasingly controlled by specialized payment service providers which charge a fee to merchants for hedging especially consumer payments and who engage with CMS players themselves. Consolidation among aforementioned specialized payment service providers may offer the opportunity for larger servicing or debt purchasing agreements.
- In the UK, we have developed expertise in a retail subsector called "home retail credit", which relates to companies engaged in catalogue, phone or online shopping and in which balance sizes typically range from approximately £800 to £900.

Retail

- Debt portfolios in the UK retail sector are sold early in the receivables management cycle, typically prior to placement with DCAs, and as a result tend to be of higher quality.
- Debt in the German retail sector is generated when customers order on account, such that goods are received and an invoice is issued prior to payment. Retail debt usually relates to large purchases, such as appliances, furniture and clothing, rather than everyday items.
- In Germany, the retail sector is relatively consolidated, with debt originators served by a group of large, established debt collection providers, including our DACH Division.

Telecommunications

- Defaulted debt in the telecommunications sector is typically from balances due from post-paid mobile, fixed line, broadband contracts and subsidized devices.
- Telecommunications debt portfolios typically have lower balances than debt in most other sectors (approximately £250 to £500). In light of the low balances of telecommunications debt portfolios, collection efforts must typically be few in number and low in cost in order to be economically viable.
- In the UK, we have played a key role in developing debt sales in the UK telecommunications sector, in which we remain a leading player.
- In Germany, there is no clear receivables management services leader established in the telecommunications market, which has led to ongoing price competition among receivables management service providers.

Fitness

- Defaulted debt in the fitness sector consists of unpaid gym contracts. If the contract is paid in instalments and the customer defaults, the customer may be liable to pay for the full length of the contract.
- In the UK, debt originators in the fitness sector currently do not extensively use receivables management services, which presents us with an opportunity to develop a new source of revenue.
- In Germany, we have established a key role in fitness sector debt purchasing.

Utilities

- Defaulted debt in the utilities sector consists of unpaid heating, water, gas and electricity bills.
- In the UK, we continue to develop relationships in sectors in which debt portfolios have not previously been sold, or have been sold in only limited quantities, such as the utilities sector.

- In Germany, cost pressures from the German Renewables Energy Act are expected to trigger increased outsourcing of debt collection further, outsourcing of debt collection of contracts from pre-terminated end customers are also expected to increase in the medium term, offering incremental future potential for our Group, despite our market leadership within this sector.

Public sector

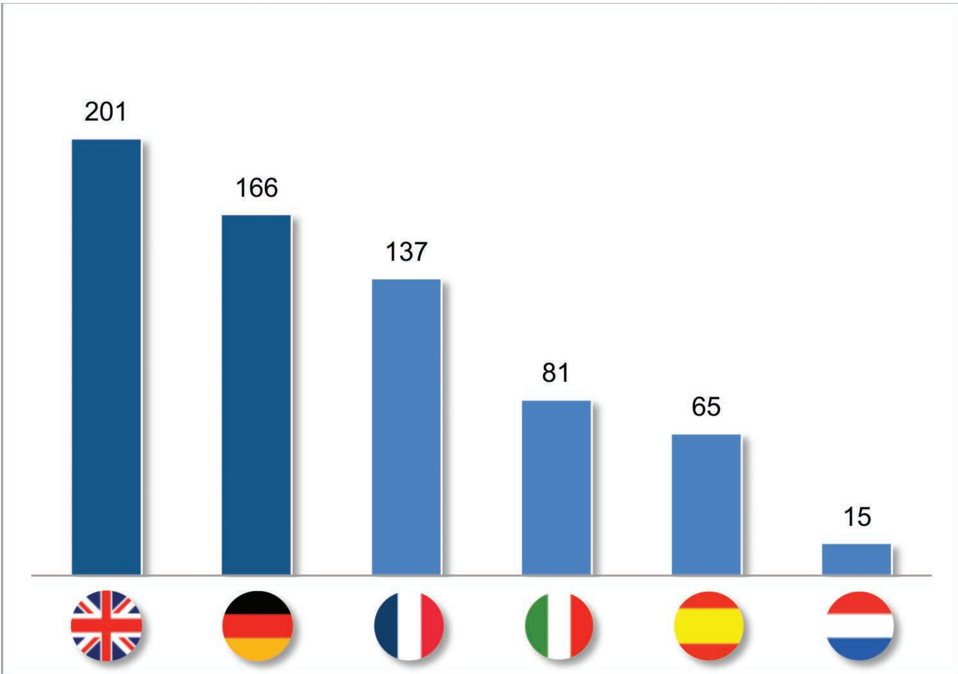
- Unpaid self-assessment income tax, local authority council tax, public transport fines and unpaid television licenses are examples of public sector defaulted debt. We believe there is potential for growth in both the UK and German public sectors, each of which is at an early stage of development.
- In the UK, we have been active in developing our relationship with the UK government, which has started to outsource debt collection, including our UK Division, and is considering the sale of some defaulted debt.
- In Germany, while typical public-sector debt such as tax and housing payments is not currently being outsourced, recent regulations would permit the outsourcing of certain ancillary services (e.g., address checks) as long as the responsibilities of public administration (e.g., enforcement) continue to be performed by the relevant public-sector entity.

In addition to the sectors described above, the German defaulted consumer debt market includes several other sectors in which the Group participates to a limited extent (e.g., the media, medical, travel and business-to-business sectors).

Size and Attractions of the UK and German Receivables Management Services Markets

The UK and Germany are two of the largest European producers of annual NPL volumes across industries, driven by the size of their respective economies and consumer credit markets. The UK with £201 billion in consumer credit outstanding and Germany with £166 billion in consumer credit outstanding had the first and second largest consumer credit markets in Europe, respectively, as of June 2017. (Source: Bank of England and European Central Bank).

Consumer Credit Outstanding by Country (£ billion, June 2017)



Source: Bank of England and European Central Bank

We believe that the other countries in which we operate provide significant growth opportunities over the coming years.

UK

The receivables management market was established in the UK in the late 1990s following the success of more established markets in the United States and Scandinavia, and has grown considerably since then. This market was initially developed as a method for debt originators to manage defaulted loans and to accelerate capital release for defaulted debt the value of which had already been significantly written down. The market commenced with small-scale transactions by DCAs that generally had access to small funding lines.

The UK debt purchase market underwent significant growth from 2000 to 2008, fueled by a rapid rise in outstanding consumer debt together with increasing default rates. The onset of the financial crisis in 2008 resulted in a substantial withdrawal of funding supply from the debt purchasers operating in the sector and an increased cost of funding for those debt purchasers that remained active. Reduced funding supply, coupled with a difficult collections environment in which debt purchasers were no longer able to agree settlements with borrowers, resulted in the exit of many debt purchasers from the market. Since 2010, however, the UK debt purchase market has experienced a recovery and is now one of the largest defaulted consumer debt markets in Europe.

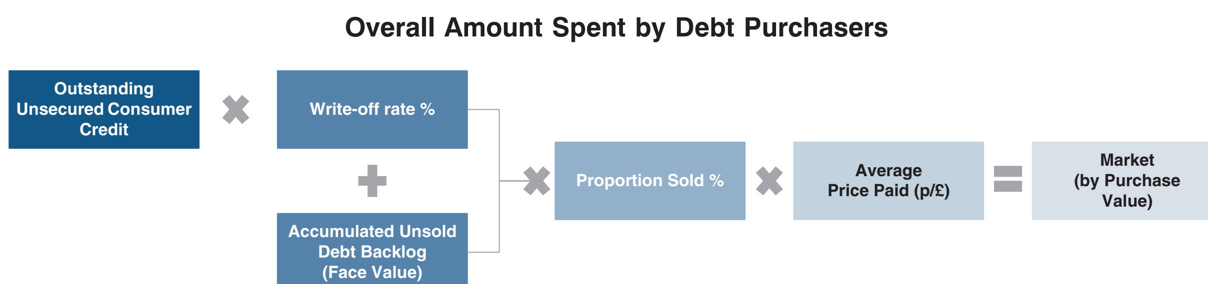
Today, the debt purchase and collection industry has become an integral component of the debt recovery process in the UK and helps UK debt originators manage the asset quality in their loan portfolios. This has become particularly important as capital and liquidity requirements imposed by regulators and investors increase. Increasingly, receivables management services have also become an important tool for non-financial debt originators, such as telecommunications and retail companies (as described below), to outsource the management of their bad debt and focus on their core businesses.

The volume of debt portfolios sold by debt originators each year comes from the book of defaulted debt in that year and the backlog of unsold defaulted debt from prior years. The pricing of debt portfolios also affects the volume of debt portfolios sold each year as it determines whether it is more economically attractive for a vendor to sell its debt portfolios or to warehouse them for further in-house or outsourced collections. The value of debt purchases is a function of the volume of debt sold and the price of that debt expressed as a percentage of its face value. Price is linked to factors determining the quality of the underlying debt, such as its age and the traceability and financial profile of the underlying consumers.

The UK market is expected to remain a large market as consumer debt levels remain very high and banks continue to actively manage risk. According to PwC, the household debt to income ratio is projected to reach 165% by 2020.

The chart below illustrates the method of calculating the overall amount spent by debt purchasers on defaulted debt.

Overall Amount Spent by Debt Purchasers



Factors Underlying the Size of the UK Receivables Management Services Market

The UK has one of the largest defaulted consumer debt markets in Europe. This is illustrated by the following key features:

- **Largest consumer credit market in Europe.** The UK has high levels of consumer indebtedness, with an estimated £201 billion of outstanding consumer debt as of June 2017 (Source: Bank of England). In addition, United Kingdom has significant and increasing amount of new consumer credit origination annually, with £260 billion in new flows in 2016 (Source: Bank of England).
- **Large volumes of defaulted debt.** We believe that the UK is the largest consumer NPL market in Europe by estimated flow of unsecured defaulted consumer debt, with approximately £8.2 billion in

face value defaulting in the years 2014 to 2016, according to Oliver Wyman and Intrum Justitia Source: Oliver Wyman and Intrum Justitia, ''European Retail and SME Credit Recovery Time?'').

- **Rebounding debt purchase market.** Spending on debt purchases grew from approximately £57 million in 2000 to approximately £625 million in 2008. From the onset of the most recent financial crisis in 2008 to 2010, the sector went through a period of decreased activity due to the withdrawal of substantial funding available to debt purchasers. Since the beginning of 2010, the debt purchasing market has witnessed renewed growth, driven by the sale of recession-generated debt portfolios, increased availability of funding and the increasing willingness of debt originators to sell their debt portfolios.

These features of the UK consumer credit market create a large and mature market for debt purchase. In 2015, Oliver Wyman and Intrum Justitia estimated that the acquisition cost of debt portfolios in the UK was approximately £746 million, with financial services, telecommunications, home retail credit and other sectors (public sector, utilities and insurance) accounting for approximately 78%, 8%, 7% and 7% of the total amount spent in such sales, respectively (Source: Oliver Wyman and Intrum Justitia, ''*European Retail and SME Credit Recovery Time?''*).

The chart below illustrates the amount of total defaulted debt that is sold to debt purchasers in the UK.

Attractions of the UK Receivables Management Services Market

- **Increasing concentration.** In recent years, we believe that there has been a trend towards increased concentration of the UK receivables management industry around a small core group of leading DCAs and debt purchasers. Industry consolidation has been further supported by the tightening supply of credit globally during the financial crisis, with only the most experienced and reputable market participants being able to secure the necessary financing to support an active debt collection and debt acquisition program during that period. All the large participants in the UK debt purchase market have recently raised debt through high-yield bond issuances, which gives them more stable medium-term financing as compared to other smaller participants, thereby facilitating further industry consolidation.
- **Increasing tendency to sell.** Moreover, management expect that the propensity on the part of UK debt originators to sell debt portfolios earlier in the recovery process will continue.
- **Emerging market sectors.** In the UK, the utilities, insurance and public sectors have historically accounted for a relatively small proportion of debt purchase and debt collection revenue as compared to the financial services, telecommunications and retail sectors. We believe these sectors represent new sources of supply for UK receivables management companies.

Germany

Unless otherwise stated, references to defaulted debt or NPLs in this section refer to unsecured consumer debt that remains unpaid for more than 45 days or, in the case of receivables sourced from the financial services industry, generally 90 days past the original payment due date.

Factors Underlying the Size of the German Receivables Management Services Industry

Germany has one of the largest addressable defaulted consumer debt markets in Europe. This is illustrated by the following key features:

- **Second largest consumer credit market in Europe.** According to the European Central Bank, £166 billion of consumer credit was outstanding in the German market as of June 2017, making it one of the largest unsecured consumer credit markets in Europe. Germany also benefits from having one of the most stable economic outlooks in Europe, with steady GDP growth and contained unemployment levels supporting a steady extension of consumer credit, with £84 billion in new flows in 2016 (Source: Deutsche Bundesbank).
- **Low default rate.** Germany has a low default rate compared to other countries in Europe, with a default rate of approximately 2.5% for consumer debt in 2015, reflecting a culture of debt repayment by borrowers and the resilience of the economy to macroeconomic cycles (Source: KPMG, ''European Debt Sales'', 2016).

- **Large volumes of defaulted debt.** Germany boasts a large flow of newly created unsecured defaulted consumer debt each year. In 2015, of approximately €4.0 billion of outsourced defaulted debt collected (excluding defaulted debt collected from the financial services sector), approximately €1.4 billion of defaulted debt collected was from the e-commerce sector and approximately €1.0 billion was from the insurance sector, with the remaining €1.6 billion from other sectors, including the utilities, telecommunications, travel and publishing sectors (excluding financial services sector).
- **High outsourcing.** We believe German debt originators across various sectors have a high propensity to outsource early in the credit cycle (*i.e.*, after the due date, but before the debt becomes overdue by 45 days or, in the financial services sector generally, by 90 days), due to the limited presence of in-house collection operations at German debt originators.
- **High awareness of the management of defaulted debt.** Management of defaulted debt is well understood across an increasing number of sectors, and companies of all sizes make strategic decisions on how to handle the recovery process.
- **Attractive growth prospects in various underlying sectors.** We believe that the German credit market offers an attractive and supportive environment for debt collection providers. We believe that the German credit market has positive underlying fundamentals, and that such fundamentals are driven by a number of sectors, each with unique debt management practices and growth prospects. Historically, the insurance sector was among the largest sectors from which debt collectors could generate sufficient flow of new defaulted debt and we expect defaulted debt flow in the e-commerce sector and the payment industry to significantly increase.

Together, these features of the German consumer credit market create a very large market for debt collection and debt purchase.

Attractions of the German Receivables Management Services Market

- **Stable and strong economy with a strong growth outlook.** Germany has been experiencing strong and positive real GDP growth since 2010, and low unemployment relative to other European economies. The stability and strength of the economy support increased investments and borrowing.
- **Supportive environment for outsourced receivables management services.** Due to the limited in-house resources of many debt originators in Germany, receivables management companies benefit from a large supply of outsourced debt. The trend is expected to continue due to the cost cutting pressure on German banks. Furthermore, the number of potential debt collectors chosen by a specific company tends to be small (which we believe to be one to three collectors, on average) for third-party collections and services, providing an opportunity to build partnership-like relationships with debt originators early in the recovery cycle.
- **Wide range of revenue opportunities and longer time to work on debt.** Debt is outsourced relatively early through BPO services prior to its due date, and outsourced collections and debt sales generally start 45 days after the respective due dates of the obligations. This ‘‘fresh’’ debt typically is of higher quality and has higher collection expectations, because less work has been applied to the assets to obtain consumer payments. Furthermore, it is possible to engage in long-term monitoring to identify potential solvency changes of consumers for up to 30 years (and, in some cases, for a longer period) in line with the applicable statute of limitations. Earlier access to debt and longer-term monitoring provide wider opportunities to capture fees and allow for more time to recover debt.
- **Cultural attitudes towards debt repayment.** German consumers tend to use debt for payments to a substantially lesser degree than do consumers in other European countries, preferring instead to use cash and debit cards. The low comparative usage of credit in Germany could be driven by the additional fees charged to defaulted consumers, as well as by cultural attitudes towards indebtedness. As a result, consumers who do incur debt are generally more likely to want to repay it when able to do so.
- **Specific fee and receivables management services remuneration structure.** Different to other markets, German legislation and established industry practice offers a fee structure that allows receivables management services companies to charge delayed payment fees to consumers rather

than charging commissions to the debt originators. The fact that the debt originators themselves are not allowed to charge these fees but DCAs/receivables management services companies are is further fueling third party collections.

Attractions of the Austrian Receivables Management Services Market

In terms of the amount of defaulted consumer debt per capita and the percentage of debt collection currently outsourced to DCAs, Austria is significantly smaller than Germany and the UK. We believe there is a significant potential to benefit from higher outsourcing rates in Austria in the future. Also, since there are indications of a large pent-up NPL sale volume on the balance sheets of Austrian banks, as well as a relatively low penetration of debt purchasers in the Austrian market, we believe there is a potential for market participants to deploy their capital on debt purchases in the Austrian market at attractive returns.

Attractions of the Croatian Receivables Management Services Market

The Croatian market has one of highest NPL levels in the CEE region. The NPLs in Croatia have been increasing since the 2008 global crisis, totaling 17.1% at the end of 2014 (Source: Croatian National Bank) and have only recently seen a decline to 14.8% in June 2016, as a result of decrease in corporate sector NPLs. For the household sector, which reacted to the crisis with a time lag, the share of NPLs is still growing. The government is set to bring in legislation to lower these high NPL levels including introducing tax-deductibility for write-offs. Such initiatives could boost the NPL sale activity in the market.

Attractions of the Slovenian Receivables Management Services Market

The Slovenian banking sector has considerably brought down the level of NPLs in the system since 2012 but still they remain at much higher levels compared to rest of Europe. One of the major ways in which banks dispose of NPLs is by transferring them to the Slovenian Bank Asset Management Company (''**BAMC**''), which is a government owned entity which operates under the objective of restructuring the assets and selling them when the market has again recovered. The Slovenian receivables management services market (largely consisting of the banking sector) remains attractive to receivable management companies given the transaction activity would further increase once the BAMC is dissolved by the government in the future.

Market Growth Drivers and Trends

The following factors represent drivers of growth in both the UK and German receivables management industries:

- **Continued expansion of overall unsecured credit.** In the UK, unsecured consumer indebtedness has returned to growth since 2011, after a short period of decline following the most recent financial crisis. The sustained growth experienced in UK consumer lending, and consequently in defaulted loans, will be a key driver for future debt sale volumes. However, the impact of Brexit on growth in consumer spending and consumer credit remains uncertain. The growth of unsecured consumer credit in Germany tends to be less cyclical and is expected to remain in line with growth rates observed in recent years.
- **Default rates.** In the UK, we believe that the increase in unsecured consumer lending in the post-crisis recovery period, which has been associated with riskier credit, has tended to result in an increase in default rates. If Brexit results in a recession in the UK, it will likely result in a further increase in default rates. Management expects default rates in Germany to remain relatively stable over the coming years.
- **Increased outsourcing of collections and debt sales.** Debt originators increasingly tend to outsource the recovery of defaulted debt on account of their lack of internal resources, the desire to focus internal resources on core activities, the increased compliance cost and regulatory risk associated with increased regulation and the generally better cost structure of receivables management companies. Receivables management companies offer a wide range of services, providing debt originators with a comprehensive solution for the management of delinquent debt that extracts higher value from their NPLs.

- **Emerging market sectors.** We believe that some sectors in both the UK and Germany are still relatively nascent or underdeveloped, and we expect these sectors to experience growth in the short term. In the UK, there are opportunities to develop relationships with sectors that have not previously outsourced receivables management at all, or have done so only to a limited extent, such as the opportunities described above with respect to the public and utilities sectors. In Germany, there are various growth opportunities arising from small and medium-sized enterprises (''**SMEs**''), and large companies and certain sectors with limited current use of third-party services (*e.g.,* the public and utilities sectors). In particular, SMEs that still use staff dedicated to run collection activities may consider outsourcing opportunities because of cost benefits, access to data, state of the art technology, improved collection rates and the professional approach to collection provided by receivables management companies. Furthermore, within large companies across all relevant sectors, there is an ongoing shift towards replacing in-house departments with third-party outsourcing services.
- **Price.** The pricing of receivables management activities, such as the level of commissions for contingent collections and the price of debt for debt purchase, is an important driver of the overall demand for such services and the overall supply of debt for sale. We believe that competitive pricing tends to encourage market growth by increasing the demand for collection services and the supply of debt for sale. Moreover, we believe that receivables management companies that benefit from economies of scale tend to be able to compete more effectively on pricing, which gives them an advantage when price competition increases.

Competitive Dynamics

In recent years, we believe that there has been a trend towards increased concentration of the receivables management industry around a small core group of companies. See ''—*Barriers to Entry*.''

The UK Market

Industry consolidation has been supported by the tightening supply of credit globally during the financial crisis, with only experienced and high-quality debt purchasers in the market being able to secure competitive financing to support an active debt-acquisition program both during the crisis and thereafter. Recently however, several international players from the Scandinavian and the U.S. markets (*e.g.*, Hoist, Intrum and Encore) have expanded from their traditional geographical focuses and sought to compete in the UK.

Our UK Division tends to compete with one or two of these leading purchasers in the final stage of each debt tender process. We believe that many of our UK Division's current competitors have evolved with a specific investment focus and associated operational infrastructure, which may make them more or less suited to particular sectors of the market. Some purchasers are more focused on higher-balance debt or paying debt, which often requires less tracing capability and cost to collect efficiencies. The importance of historical benchmark data to guide prices on new debt portfolios means that market participants may also gravitate towards specialty niches in which they have been more active in the past. As a result, current competitive dynamics primarily reflect the ability of each debt purchaser to generate appropriate returns on investment, based on its cost structure and operational capabilities.

We believe that large, high-end debt purchasers have outpaced broader market growth in the UK. For example, the Group and three of its large competitors increased their total share of the UK debt purchase market (by purchase value) from approximately 39% in 2012 to approximately 60% in 2015, based on the top four debt purchases in the UK for 2015 (Source: Company information and Oliver Wyman and Intrum Justitia, ''*European Retail and SME Credit Recovery Time?''*). As the market consolidates further and panel size reduces, we expect leading players to continue to be materially advantaged and outperform both the market and their smaller peers in growth and profitability.

The German Market

With approximately 600 to 900 players, the German receivables management services market is highly fragmented. Players can be generally distinguished by service activity and sector focus.

We believe ''Tier I'' debt collection companies with revenue of more than €100 million have outpaced broader market growth. Notwithstanding the fragmentation of the German receivables management services market, there is a trend toward consolidation. A small group of four Tier I players, including EOS

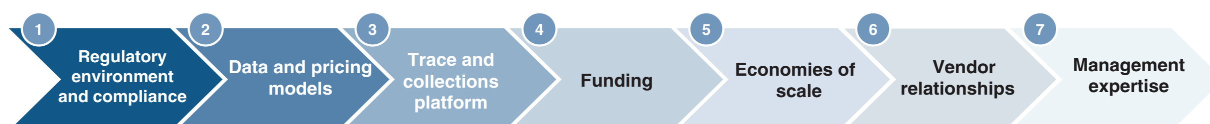
(part of the Otto Group), our DACH Division, Creditreform and Arvato (part of the Bertelsmann Group), is significantly larger by revenue than the other players in the market. ''Tier II'' players, which comprise companies with revenue in the €10 million to €100 million range, have grown at a lower rate, with a representative sample of companies with revenue in the € 30 million to €100 million range. Tier II players generally focus on one or two industries or are the German subsidiaries of international receivables management corporations. Small- and medium-sized players typically have a regional focus and serve smaller debt originators, often only in the third-party collections and services business.

The Austrian Market

Outsourcing activities to external debt collectors in Austria are comparatively underdeveloped in relation to Germany and the UK and provide the chance to deploy capital at relatively attractive returns. The debt collection market in Austria today is highly fragmented with three participants of scale including IS Inkasso Service, EOS and Arvato, and the rest of the market is composed of a large number of smaller companies. Similar to Germany, we see scope for consolidation as the market matures over the coming years.

Barriers to Entry

The concentration in the European receivables management markets over the last several years has resulted in a maturing of the industry, with the key participants increasing in scale both organically and inorganically and becoming ever more operationally sophisticated. We believe this has created certain challenges for a new entrant to create a sustainable business. We believe the following significant barriers to entry exist in the industry:



- **Regulatory environment and compliance.** The industry is subject to increasing levels of legal and regulatory oversight. Debt purchase and debt collections activity migrated from the OFT to the FCA in 2014. The trend in the UK over the past 20 years has been to make debt collections a mainstream financial services activity subject to a comparable level of regulatory scrutiny as that to which the activities of debt originators in the financial services sector are subjected. We believe that, in this context, compliance track record and reputation are key to developing strong relationships with debt originators. In Germany, we believe that the law against dubious business practices for receivables management companies (*Gesetz gegen unseriöse Geschäftspraktiken—GguG*), which sets forth the limit for debt collection fees payable by consumers and introduced more stringent requirements relating to transparency, increases the burden on smaller businesses (for more details regarding this law, see ''—*Legal and Regulatory Framework—Germany*''). Accordingly, we believe that debt collection in both the UK and Germany requires considerable investment in processes, know-how and management, making it potentially difficult for a new entrant to be competitive and increasing barriers to entry. See ''*Regulation*.''

- **Data and pricing models.** A new entrant would be unlikely to have an established model with which to price debt portfolios, given its lack of historical data sets important for substantiating and benchmarking collection curves and ultimately for formulating rational prices across varying debt types and consumer characteristics.

- **Trace and collections platform.** The ability to locate account holders, determine their financial circumstances and the recoverability of their debt is fundamental to success in collecting in a cost-effective manner and generating an appropriate return on investment. The systems of a debt purchaser, such as the Group, have been developed over an extensive period of time, requiring substantial investment and expertise.

- **Funding.** Since 2012, several leading UK debt purchasers such as our UK Division, Cabot and Arrow have issued high-yield bonds, which provide more stable medium-term financing. Additionally, our DACH Division pioneered the issuance of high-yield bonds by non-captive receivables management companies in Germany in 2015 and has undertaken the securitization of certain of its purchased debt portfolios. In both the UK and Germany, high-yield financing is used in

combination with revolving credit facilities provided by major banks as a flexible means of funding the purchase of additional debt portfolios. Without a successful track record and verifiable projections supported by reliable pricing models, it could be difficult for a new entrant to obtain cost-effective debt funding to purchase debt portfolios.

- **Economies of scale.** Large debt purchasers can spread their fixed costs across their book of existing debt portfolios. This scale provides a cost advantage to an established debt purchaser when pricing new debt portfolios.
- **Vendor relationships.** Key debt originators have established relationships with the leading receivables management companies in the UK and Germany. Increasingly, such vendors are seeking to maintain relationships with a smaller number of service providers. Based on the panel relationships we have, we believe that vendors have reduced the size of their panels. This means that it is increasingly important for us to be present on panels. We believe we are among the large debt purchasers present on nearly all major panels in their respective markets. Whether a debt purchaser has a reputation for being able to transact purchases on a sustainable basis and a track record of regulatory compliance is a key consideration for certain vendors and may represent a considerable challenge for new entrants.
- **Management expertise.** The receivables management market is relatively concentrated among top players. Proven management with deep industry knowledge may be difficult to find and hire.

Legal and Regulatory Framework

UK

The debt recovery process in the UK is limited by the applicable statute of limitations, which does not allow a creditor to take legal action on debt either five or six years (in Scotland or in England, Wales and Northern Ireland, respectively) after (i) the last non-verbal acknowledgement of such debt (*e.g.*, the last payment made on the account) or (ii) the cause of action arose (e.g. when the customer defaulted).

Receivables management companies in the UK are regulated by several bodies, including the FCA, ICO and Ofcom. The FCA took over regulation of the consumer credit and debt management sectors from the Office of Fair Trading (''OFT'') in April 2014, and a breach of its ''Treating Customers Fairly'' obligation can be a serious matter. The Lending Standards Board Operates the Standards of Lending Practice which many banks and credit card companies subscribe to. The Standards of Lending Practice make debt originators responsible for the behavior of a debt purchaser that purchases their debts, and third parties must follow guidelines set out in the standards.

We believe that the UK regulatory environment favors participants with scale, such as our UK Division, which are more likely to have the resources necessary to comply with the increasing volume of regulation in the industry and with the FCA regime.

Furthermore, a receivables management company must be authorized to carry on regulated activities, which from April 1, 2014 include specified consumer credit activities, in order to do business in the UK. In addition, in 2018 data protection regulation will change as a result of the EU General Data Protection Regulation coming into force.

Pursuant to Section 19 of FSMA, a firm must be authorized to carry on regulated activities, which from April 1, 2014 include carrying on specified consumer credit activities, by way of business in the UK. For example, entering into a regulated credit agreement as lender, and exercising, or having the right to exercise, the lender's rights and duties under a regulated credit agreement, are regulated activities. Therefore, debt purchasers who acquire the lender's rights and duties under the credit agreement are required to be authorized and to have permission to carry on consumer credit business. Certain activities in relation to debt, including debt collection, are also regulated activities.

Our UK operating businesses—Lowell Portfolio 1 Ltd; Lowell Financial Ltd and Fredrickson International Limited—have been granted full FCA authorization to conduct consumer credit-related and/or debt related regulated activities in the UK.

Germany

The legal framework in Germany allows creditors to use a variety of collection methods to support the consumer debt recovery process. Once a debt collection agency is engaged by a debt originator, certain

fees can be added to the principal value of the debt. If creditors or their agents need to use more complex processes to recover the debt owed, the law provides that creditors can add additional fees and costs incurred during the collections process.

As part of the creditor's default damage, servicer fees of a debt collection company can generally be charged to the debtor up to the amount of fees a lawyer could charge pursuant to the German Lawyer Remuneration Act (*Rechtsanwaltsvergütungsgesetz*). Similarly, costs in connection with the subsequent retention of external lawyers are frequently passed on to the consumer.

The recovery process in Germany is typically longer than in peer markets, as debt is, under the German Civil Code (*Bürgerliches Gesetzbuch*), generally considered defaulted at the latest 30 days after the due date and receipt of an invoice (in case the debtor is a consumer, this applies only if this consequence has been explicitly referred to in the invoice), and debt originators tend to outsource it earlier than in their peer markets. Therefore, receivables management companies in Germany have access to ''fresher'' debt. Unlike in peer markets, in Germany debt can be serviced for a period of 30 years after obtaining an enforcement title. For some players, a significant portion of total collections comes from debt that is older than 10 years.

The debt collection services industry in Germany is not a regulated activity with its own regulator, but DCAs must register under the German Legal Services Act (*Rechtsdienstleistungsgesetz*) to be permitted to carry out debt collection services. Supervision is effected through the court system. The determination of the competent court typically depends on the region in which the debt collection company is headquartered. The Higher Regional Courts (*Oberlandesgerichte*) of Düsseldorf, Hamm, Cologne and the local courts (*Amtsgerichte*) of Osnabrück and Hannover are the competent authorities for the German entities of our DACH Division. The supervision of debt collection companies and their activities is governed by a number of key laws: the German Legal Services Act (*Rechtsdienstleistungsgesetz—RDG*), the Introductory Act to the German Legal Services Act (*Einführungsgesetz zum Rechtsdienstleistungsgesetz—RDGEG*) and the Implementing Regulations to the German Legal Services Act (*Verordnung zum Rechtsdienstleistungsgesetz—RDV*).

The Law Against Dubious Business Practices (*Gesetz gegen unseriöse Geschäftspraktiken—GguG*) came into effect in Germany in October 2013. The law sets forth the limit for debt collection fees payable by consumers and introduced more stringent requirements relating to transparency, including as to what information must be provided to a consumer during the debt collection process. We believe this development reflected the way that the largest players already operated and increased the burden on smaller businesses, accelerating the sector's consolidation.

Debt Purchase—Assignment of Debts

When we purchase debt portfolios, the underlying claims are frequently assigned to us. Under German law, a creditor may generally assign claims in which it holds ownership in accordance with applicable law, in particular Sections 398 *et seq.* of the German Civil Code (*Bürgerliches Gesetzbuch*). Such assignment is not required to be made in writing. Section 402 of the German Civil Code stipulates that the assignor has to provide the assignee with any information necessary for the enforcement of the underlying claim. An assignment of claims may be restricted either by contractual or legal limitations or held void under certain circumstances. For example, according to some courts' decisions, Section 88 (3) sentence 2 of the German Law on Telecommunication (*Telekommunikationsgesetz*) in connection with Section 134 of the German Civil Code provides that payment claims derived from telecommunication services may not be assigned due to the underlying limitation of the German telecommunications secrecy (*Fernmeldegeheimnis*). However, the Federal Court of Justice (*Bundesgerichtshof*) has ruled in accordance with a decision in a preliminary court ruling of the European Court of Justice that an assignment of such claims will not be void if the provider (*Diensteanbieter*) as assignor ensures that the assignee processes traffic data (*Verkehrsdaten*) in accordance with applicable law, the assignor retains the right to audit the assignee's compliance with such requirements at any time and the contract between the provider and the assignee contains respective provisions. Additionally, such claims may only be assigned once from the provider to an assignee.

On the other hand, the debtor may make use of any objections that are based and founded on the legal relationship to the original debtor. He may in particular object on grounds of statutes of limitation. German civil law provides under Section 195 of the German Civil Code for a so-called ''standard limitation period'' (*regelmäßige Verjährungsfrist*) of three years, which generally commences at the end

of the year in which the underlying claim arose and the creditor obtains knowledge of the circumstances giving rise to the claim and of the identity of the debtor, or would have obtained such knowledge if he had not shown gross negligence. The limitation period expands according to Section 197 (1) No. 4 of the German Civil Code (*Bürgerliches Gesetzbuch*) to 30 years if a claim has been legally established as final and absolute, which is the case, for example, if a court has issued a final and absolute judgment (*rechtskräftiges Urteil*) or the creditor obtains a binding enforcement order (*Vollstreckungsbescheid*).

Restrictions on Debt Purchase in Certain Industries

By regulation under the German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht*), companies operating in certain industries are not allowed to sell their overdue and defaulted receivables to third parties (*e.g.*, in the insurance industry for premiums). While it is prohibited to purchase their debt, we may provide these companies with up-front payments, which are made after the receivables have been transferred for service to our DACH Division. In exchange for providing up-front payment, our DACH Division receives all further collections as a fee. Such up-front payments only reflect a portion of what a similar debt portfolio may cost in an open market purchase, as our DACH Division purchases only the economic right to collect on a portfolio of debt, not full title to the underlying debt. See ''*Risks Factors Related to Our Business and Industry—We are subject to UK, German and EU regulations, among others, and changes to the regulatory environment or a failure to comply with applicable laws, regulations, licenses and codes of practice may negatively affect our business.*''

Enforcement of Claims under German Law

According to the provisions of the German Code of Civil Procedure (*Zivilprozeßordnung, ZPO*), enforcement of claims under German law generally requires a creditor to obtain an enforcement title stating his claim (*Vollstreckungstitel*) with a court certificate of enforceability (*Vollstreckungsklausel*) which has to be delivered to the creditor. If these requirements are met, the creditor may initiate enforcement measures depending on the type of claim. For example, if the debtor owes payment, the creditor may, subject to certain prerequisites and exemptions, instruct a bailiff to initiate attachment of movable assets of the debtor, which is generally followed by a foreclosure, or request the competent enforcement court (*Vollstreckungsgericht*) to attach claims of the debtor and transfer the garnished claims.

An execution title is not automatically transferred with the underlying claim, but is generally rendered in the name of a specific creditor who has the sole right to enforce the claim. Although we benefit in many portfolio debt purchases, to the extent German law applies, from acting as a beneficial owner with the original creditor as trustee, which allows us to enforce on the basis of existing execution titles, we may not enforce the claim using the existing execution title if the original creditor is no longer available to serve as trustee (*e.g.*, if the creditor is liquidated). We also may not use an existing execution title if we are the legal owner of the claim. In such situations, an execution title may only be amended by way of a circumscription of title (*Titelumschreibung*), subject to certain legal requirements set forth by the German Code of Civil Procedure. This procedure allows other persons who are not named in the respective execution title to use it for enforcement. See ''*Risks Factors Related to Our Business and Industry—We may purchase portfolios that contain accounts that are not eligible to be collected, including due to defects in consumer documentation that may make the credit agreements unenforceable, and an enforcement of related claims may be difficult.*''

German Insolvency Proceedings regarding Natural Persons

Insolvency proceedings regarding natural persons are tightly regulated in Germany. A natural person is only insolvent in case of an (imminent) inability to pay its debt as and when it falls due (*Zahlungsunfähigkeit*). An insolvency based on over-indebtedness (*Überschuldung*) does not apply to natural persons.

To the extent a natural person resident in Germany does not operate commercially (and has not done so recently), the consumer insolvency proceedings (*Verbraucherinsolvenzverfahren*) might apply to any such natural persons. These insolvency proceedings include three stages: (1) Prior to the filing for insolvency, the debtor has to set up and offer its creditors a plan to settle his debts in the course of an out-of-court debt-adjustment procedure (*außergerichtliches Schuldenbereinigungsverfahren*). During this out-of-court procedure, the general rules apply with respect to an enforcement of security interests,

i.e., there are no restrictions on enforcement of security. (2) If the debtor fails to reach a settlement with its creditors, he/she may file for insolvency. The insolvency court may then initiate an in-court debt-adjustment procedure (*gerichtliches Schuldenbereinigungsverfahren*) in which the court may, under certain circumstances, replace a creditor's objection to a settlement (*cram-down*). During this in-court procedure, the preliminary insolvency proceedings (*vorläufiges Insolvenzverfahren*) are pending but the court may order preliminary restrictions on enforcement of security. (3) If the in-court procedure also fails, the court may open insolvency proceedings. With respect to security interests granted by a natural person, the insolvency proceedings do not differ much from the general insolvency proceedings. The consumer insolvency proceedings may also include an insolvency plan (*Insolvenzplan*) but the debtor may not apply for debtor-in-possession status (*Eigenverwaltung*). If not the natural person but one of its creditors files for insolvency over the assets of the natural person, the court allows the natural person/debtor to file for insolvency as well. If the debtor does so, he/she has to follow the above mentioned three steps. If the debtor refuses to file for insolvency, the court may directly open insolvency proceedings.

Natural persons may under certain circumstances apply to be discharged from all residual debt remaining at the end of an insolvency proceeding (*Restschuldbefreiung*) if they agree to assign the seizable part of their wages for a period of generally six years from the opening of the insolvency proceedings to a court-appointed trustee. The period can be reduced, *e.g.,* to five years if the debtor has paid all costs of the proceedings or even three years if the debtor has paid all costs of the proceedings and the amount that has been paid to the trustee is sufficient to repay at least 35% of the debt. The insolvency creditors may request the court to deny the discharge based on certain reasons stated in the German Insolvency Code (*Insolvenzordnung*). The discharge of all residual debt would generally not affect the security interests granted by the respective natural person that is subject to the insolvency proceedings as the German Insolvency Code (*Insolvenzordnung*) excludes certain security interests from the effects of the discharge.

An insolvency administrator may void the granting of guarantees, security interests, payments made by consumers, etc., by the insolvent natural person.

Austria

The Austrian regulatory environment is generally favorable towards debt collection services. Litigation proceedings can take eight to 12 weeks for dunning procedures and up to a year for ordinary legal proceedings. Furthermore, executory titles last for 30 years and can be reactivated multiple times within this period.

Amicable settlements and fast-track proceedings are typically considered before engaging Austria's tribunals. Fast-track proceedings are available when the debt is undisputed. For claims under €75,000, creditors may request the local court to issue a payment order, instructing that payment in full including interest and court costs must be completed within 14 days.

Creditors are furthermore entitled to charge recovery costs, which, according to §1333 ABGB, must be proportionate to the extent of delays in obtaining payment.