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F-Pages 2013

INDEX TO FINANCIAL STATEMENTS

FINANCIAL INFORMATION

The following English-language consolidated financial statements of GFKL Financial Services AG *(now GFKL Financial Services GmbH – which arose through transformation in accordance with the resolution of the Shareholders' Meeting of February 16, 2016 as a result of the successful squeeze-out)* are free translations of the respective German-language consolidated financial statements of GFKL Financial Services AG.

Company No. 07652466

METIS BIDCO LIMITED

Report and Consolidated Financial Statements

13 months ended 30 September 2013

OFFICERS AND PROFESSIONAL ADVISERS

Directors

J J Cornell
M Dale
A R Hill
T J H Large
J R Rosen
B J Thompson

Registered office

Enterprise House
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Leeds
LS11 9BH

Bankers

Royal Bank of Scotland
280 Bishopsgate
London
EC2M 4RB

Solicitors

Travers Smith LLP
10 Snow Hill
London
EC1A 2AL

Auditor

KPMG LLP
Chartered Accountants & Statutory Auditors
15 Canada Square
London
E14 5GL

METIS BIDCO LIMITED

DIRECTORS' REPORT
Period ended 30 September 2013

The directors present their report and the audited financial statements for the 13 months ended 30 September 2013.

The financial year end of the Company was changed from 31 August to 30 September in order to align the financial reporting schedule to calendar year quarters. Accordingly, the current financial statements are prepared for the 13 months from 1 September 2012 to 30 September 2013, and as a result, the comparative figures stated in the income statement and notes are not comparable.

On 16 May 2013 the Group acquired 100% of the issued ordinary shares of Interlaken Group Limited. The principal activity of Interlaken Group Limited is contingent debt collection on behalf of third parties. Further details are set out in Note 12 to the financial statements.

PRINCIPAL ACTIVITIES

The principal activities of the Group are the purchase and collection of non-performing consumer debt portfolios.

The subsidiary undertakings affecting the losses and net liabilities of the Group in the period are listed in Note 11.

GOING CONCERN

The directors remain confident that the Group will continue to grow through the further purchase and recovery of non-performing debt portfolios in the UK. The directors have formed a judgement, at the time of approving the financial statements, that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason the directors adopt the going concern basis in preparing the financial statements (further details are included in Note 1).

DIVIDENDS

The directors do not recommend the payment of a dividend for the period (15 months ended 31 August 2012: £nil).

EMPLOYEES

The Group supports equal opportunities in respect of recruitment, career progression and employee management processes. Consideration is given to all applicants for employment, irrespective of any of the protected characteristics as detailed in the Equality Act 2010. It is the policy of the Group to treat disabled persons fairly by making reasonable adjustments to the workplace and business processes. Likewise, in the event of a member of staff becoming disabled, every effort is made to ensure that their employment within the Group can continue. Support is also given to internal applicants in moving to new jobs in other parts of the organisation.

The Chief Executive Officer and other members of the executive team conducted a number of staff briefings throughout the period that kept our people fully informed and updated on business activities. The Group's magazine is used on a routine basis to keep employees and others informed about important business issues, the progress that is being made on key corporate programmes, and other changes affecting the Group, its employees and other stakeholders.

Key employees are invited to take part in an employee share offer to apply for ordinary shares in the Company.

DIRECTORS

The directors who held office during the period and up to the date of signing the financial statements are shown on page F-265.

CHARITABLE AND POLITICAL DONATIONS

During the period, the Group made charitable donations of £1,238 (15 months ended 31 August 2012: £2,665).

DISCLOSURE OF INFORMATION TO THE COMPANY'S AUDITOR

The directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

AUDITOR

During the period KPMG Audit Plc resigned as auditors of the Company and KPMG LLP were appointed.

Pursuant to section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

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

J J Cornell
Director

20 January 2014

STRATEGIC REPORT
Period ended 30 September 2013

OBJECTIVES & STRATEGY

The Group's strategy is to retain our position as a leading credit management and debt purchasing organisation and achieve significant growth across all key performance indicators by building partnerships and finding innovative, ethical, cost-effective and fair solutions for our customers, clients and team members.

In the period to September 2013 the Group's key objectives were to optimise servicing costs, strengthen market position, optimise data, create capacity and to strengthen compliance in preparation for FCA regulation.

THE BUSINESS MODEL

The Group's business model remains unchanged from prior year – the purchase and collection of non-performing consumer debt portfolios through a largely in-house, UK based, integrated collection platform.

On 16 May 2013 the Group acquired 100% of the issued ordinary shares of Interlaken Group Limited. The principal activity of Interlaken Group Limited is debt collection on behalf of third parties. Further details are set out in Note 12 to the financial statements.

The purchase of Interlaken Group Limited during the period further develops our Group's growth potential as the company's skills in Financial Services higher balances aids portfolio diversification and facilitates incremental purchases in a market segment not previously targeted by the Lowell Group.

PRINCIPAL RISKS AND UNCERTAINITIES

Details of the Group's financial risk management policies are set out in Note 3.

FINANCIAL PERFORMANCE

The Group, through its subsidiaries, is invited to bid upon over 95% of the portfolios brought to market. The business acquired portfolios from 31 vendors during the period (15 months ended 31 August 2012: 28).

The overall fair value of debt portfolios stood at £299.5m at 30 September 2013 (2012: £236.8m), growth of 26% over the period.

Other turnover represents the commission on collections on behalf of third parties. This has increased from £272k to £6,849k, due to the acquisition of Interlaken Group Limited.

The Group continues to be funded by the £200m 10.75% Senior Secured Notes due 2019 (the "Notes"), (Note 15), which the subsidiary, Lowell Group Financing Plc, had issued on 30 March 2012. An additional £75m was issued on 11 February 2013 under the same terms. Semi-annual interest payments have been made during the period.

In addition, on 21 January 2013 the facility available under the Revolving Credit Facility ("RCF") was increased from £40m to £55m.

The Group has performed strongly in the period, with ERC (Estimated Remaining Collections) of £532.1m at 30 September 2013 (2012: £428.8m) and Adjusted EBITDA of £119.6m in the 13 month period ended 30 September 2013 (15 months ended 31 August 2012: £94.9m).

The Group defines ERC as the expected collections on owned portfolios over an 84 months period, based on our proprietary valuation model.

The Group defines Adjusted EBITDA as collections on owned portfolios plus other turnover, less cost of sales and administrative expenses (which together equal servicing costs), which is the same as operating profit before exceptional and non-recurring items, depreciation, fair value movement in debt portfolios and amount of purchase cost recovered.

ERC and Adjusted EBITDA are widely used by investors to measure a company's asset base and cash flow generation and operating performance respectively. Analysts and investors use ERC and Adjusted EBITDA as supplemental measures to evaluate the overall operating performance of companies in our industry.

FINANCIAL PERFORMANCE (continued)

The Group has included certain non-UK GAAP financial measures in these financial statements, including ERC, Adjusted EBITDA, Net Debt and certain other financial measures and ratios.

These measurements may not be comparable to those of other companies and may be calculated differently from similar measurements under the indenture governing the Group's 10.75% Senior Secured Notes due 2019. Reference to these non-UK GAAP financial measures should be considered in addition to UK GAAP financial measures, but should not be considered a substitute for results that are presented in accordance with UK GAAP.

KEY PERFORMANCE INDICATORS (KPIs)

	2013	2012
Cumulative face value of debt purchases	£11.0bn	£9.0bn
Cumulative number of accounts	12.3m	10.0m
Collections on owned portfolios	£173.7m	£135.9m
Debt portfolios	£299.5m	£236.8m
ERC (Estimated Remaining Collections)	£532.1m	£428.8m
Fixed charge cover ratio (Consolidated EBITDA / Fixed Charges)	1.96	1.87
Bond covenant (Net Debt* / ERC)	0.51	0.45
Drawdown on RCF** (Revolving Credit Facility)	£10.0m	£0.0m
10.75% Senior Secured Notes	£275.0m	£200.0m
Senior Secured Notes / debt portfolios	91.8%	84.5%
Operating cash generation (actual collections received less servicing costs, working capital and capital expenditure)	£114.2m	£91.6m

* Net Debt is total indebtedness of £285.0m (2012: £200.0m) less cash in bank of £15.3m (2012: £9.0m).

** Facility available under the RCF as at 30 September 2013 is £55.0m (2012: £40.0m). This was further increased to £66.0m on 28 November 2013 (see Note 3, page F-281 for further details).

There is a significant tail of cash flow inherent in our portfolios past the 84 months ERC period which is not reflected in our ERC at 30 September 2013. Our forecast tail of cash flow from month 84 to month 120 is £61.2m (2012: £47.9m), which is in addition to the £532.1m (2012: £428.8m) ERC.

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

J J Cornell
Director

20 January 2014

METIS BIDCO LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS
Period ended 30 September 2013

The directors are responsible for preparing the Directors' Report and Strategic Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the Group and Parent Company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Parent Company and of their profit or loss for that period.

In preparing each of the Group and Parent Company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Parent Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF METIS BIDCO LIMITED

We have audited the financial statements of Metis Bidco Limited for the period ended 30 September 2013 set out on pages F-272 to F-295. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page F-270, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 30 September 2013 and of the Group's loss for the period then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and Directors' Report for the financial period for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Kieren Cooper (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
15 Canada Square
London
E14 5GL

20 January 2014

METIS BIDCO LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT
Period ended 30 September 2013

	Note	13 months ended 30 Sept 2013 £000	15 months ended 31 Aug 2012 (Restated*) £000
Collections on owned portfolios		173,684	135,903
Amount of purchase cost recovered		(74,527)	(55,078)
Fair value movement in debt portfolios		10,997	11,858
Turnover from debt portfolios		110,154	92,683
Other turnover		6,849	272
Turnover	1	**117,003**	**92,955**
Cost of sales	1	(23,591)	(15,845)
Gross profit		**93,412**	**77,110**
Administrative expenses	1	(37,335)	(25,436)
Depreciation	10	(2,496)	(2,004)
Operating profit	4	**53,581**	**49,670**
Interest receivable	6	944	11
Interest payable and similar charges	7	(61,690)	(51,755)
Fair value movements in derivatives	3	—	160
Amortisation of intangible assets	9	(9,479)	(7,968)
Loss on ordinary activities before taxation		**(16,644)**	**(9,882)**
Tax on loss on ordinary activities	8	(4,752)	(5,629)
Loss for the financial period	18	**(21,396)**	**(15,511)**

* Prior period figures have been restated due to a change in accounting policy regarding litigation costs.

See Note 1 for further details.

All amounts relate to continuing operations.

Although the prior period's figures are stated to be for the 15 months from 31 May 2011 (date of incorporation) to 31 August 2012, the Group only traded for 11½ months commencing on 15 September 2011 when it acquired the Lowell group of companies headed by Lowell Group Limited.

There were no recognised gains and losses for the current or prior period other than those included in the Profit and Loss Account and accordingly, a statement of recognised gains and losses has not been prepared.

The notes on pages F-276 to F-295 form part of these financial statements.

METIS BIDCO LIMITED

CONSOLIDATED BALANCE SHEET
30 September 2013

	Note	30 Sept 2013 £000	31 Aug 2012 (Restated*) £000
Fixed assets			
Intangible assets	9	174,249	152,728
Tangible assets	10	4,708	4,160
		178,957	156,888
Current assets			
Debt portfolios	1 & 2	299,465	236,759
Debtors	13	22,623	16,714
Cash at bank and in hand		15,303	9,020
		337,391	262,493
Creditors: amounts falling due within one year	14	**(36,258)**	**(23,246)**
Net current assets		**301,133**	**239,247**
Total assets less current liabilities		**480,090**	**396,135**
Creditors: amounts falling due after more than one year	15	**(515,698)**	**(410,428)**
Net liabilities		**(35,608)**	**(14,293)**
Capital and reserves			
Called-up share capital	16	1,230	1,212
Share premium account	17	69	6
Profit and loss account	17	(36,907)	(15,511)
Total shareholders' deficit	18	**(35,608)**	**(14,293)**

*Prior period figures have been restated due to a change in accounting policy regarding litigation costs.

See Note 1 for further details.

These financial statements of Metis Bidco Limited, Company No. 07652466, were approved by the Board of Directors on 20 January 2014.

Signed on behalf of the Board of Directors by:

J J Cornell
Director

20 January 2014

The notes on pages F-276 to F-295 form part of these financial statements.

METIS BIDCO LIMITED

COMPANY BALANCE SHEET
30 September 2013

	Note	30 Sept 2013 £000	31 Aug 2012 £000
Fixed assets			
Investments	11	188,076	188,076
Current assets			
Debtors	13	2,466	2,692
Cash at bank and in hand		482	81
		2,948	2,773
Creditors: amounts falling due within one year	14	**(1,604)**	**(675)**
Net current assets		**1,344**	**2,098**
Total assets less current liabilities		**189,420**	**190,174**
Creditors: amounts falling due after more than one year	15	**(240,698)**	**(210,428)**
Net liabilities		(51,278)	(20,254)
Capital and reserves			
Called-up share capital	16	1,230	1,212
Share premium account	17	69	6
Profit and loss account	17	(52,577)	(21,472)
Total shareholders' deficit	18	**(51,278)**	**(20,254)**

These financial statements of Metis Bidco Limited, Company No. 07652466, were approved by the Board of Directors on 20 January 2014.

Signed on behalf of the Board of Directors by:

J J Cornell
Director

20 January 2014

The notes on pages F-276 to F-295 form part of these financial statements.

METIS BIDCO LIMITED

CONSOLIDATED CASH FLOW STATEMENT
Period ended 30 September 2013

	Note	13 months ended 30 Sept 2013 £000	15 months ended 31 Aug 2012 £000
Cash flow from operating activities	19	**(7,580)**	**2,890**
Returns on investments and servicing of finance	20	(43,598)	(21,757)
Taxation	20	(4,869)	(6,521)
Capital expenditure and financial investment	20	(2,711)	(1,932)
Acquisitions and disposals	20	(29,995)	(232,125)
Cash outflow before financing		**(88,753)**	**(259,445)**
Financing	20	95,036	268,465
Increase in cash in the period		**6,283**	**9,020**

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT
Period ended 30 September 2013

	Note	13 months ended 30 Sept 2013 £000	15 months ended 31 Aug 2012 £000
Increase in cash in the period	21	**6,283**	**9,020**
Movement in borrowings	21	(115,408)	(267,248)
Non cash movements	21	9,156	(36,031)
Movement in net debt in the period		**(99,969)**	**(294,259)**
Net debt at start of the period / date of acquisition	21	(410,426)	(116,167)
Net debt at end of the period	21	**(510,395)**	**(410,426)**

The notes on pages F-276 to F-295 form part of these financial statements.

1. ACCOUNTING POLICIES

These financial statements are prepared in accordance with UK Generally Accepted Accounting Practice. The particular accounting policies adopted are described below.

Basis of accounting

These financial statements are prepared under the historical cost convention, except for purchased non-performing debt portfolios which are held at fair value to reflect changes in the expected profile of future cash flows and derivative contracts which are also held at their fair value.

Going concern

The Group's business activities together with factors likely to affect its future development, performance and position are set out in the Directors' Report and Strategic Report on pages F-266 to F-269. In addition, Note 3 to these financial statements includes the Group's financial risk management objectives; details of its financial instruments and hedging activities and its exposures to credit risk and liquidity risk.

There are long term business plans and short term forecasts in place which are reviewed and updated on an ongoing regular basis by management. The Group is in a net liabilities position as a result of funding structures in place as investment by the ultimate controlling parent, Metis Holdings Sarl.

The directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they adopt the going concern basis of accounting in preparing these financial statements.

Basis of consolidation

The Group financial statements consolidate the financial statements of Metis Bidco Limited and all its subsidiary undertakings drawn up to 30 September 2013. The results of subsidiaries acquired or sold are consolidated for the periods from or to the date on which control passed. Acquisitions are accounted for under the acquisition method.

No Profit and Loss Account is presented for Metis Bidco Limited itself, as permitted by Section 408 of the Companies Act 2006. The Company's result for the period, determined in accordance with the Act, was a loss after tax of £31,105k (15 months ended 31 August 2012: loss after tax of £21,472k).

Financial instruments

In accordance with FRS 26, the financial instruments of the Group have been classified as follows:

a) *Debt portfolios*

Non-performing debt portfolios are purchased from institutions at a substantial discount from their face value. The portfolios are initially recorded at their fair value. These portfolios are classified as a financial asset at "fair value through profit or loss" as the portfolios are managed and evaluated on a fair value basis in accordance with a documented risk management and investment strategy, and internal information is made available to the Board and key management personnel on this basis. The fair value of each portfolio is assessed using valuation techniques taking account of projected future cash flows, an assessment of the discount factor for each portfolio based upon market information modified by appropriate risk assessments or discounts, and recent arm's length transactions.

The Group has forward flow agreements in place in relation to the future purchase of debt portfolios. The fair value of portfolios purchased under these agreements is determined on the same basis as the Group's other purchased debt portfolios.

b) *Financial liabilities*

All financial liabilities held by the Group are measured at amortised cost using the effective interest method, except for those measured at fair value through profit or loss, e.g. derivative liabilities.

1. ACCOUNTING POLICIES (continued)

Financial instruments (continued)

c) *Derivatives*

The Group enters into interest rate caps and interest rate swaps to commercially hedge its exposure to interest rate risk from financing activities. The Group does not hold derivative instruments for trading purposes.

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

At 30 September 2013, the Group had no outstanding derivative contracts. The last derivative contracts that the group entered either matured or were closed out as at 30 March 2012. No other contracts have been entered into since this date.

Turnover

Turnover represents the yield from purchased non-performing debt portfolios, net of VAT, all of which arose in the UK.

Other turnover represents commission on collections for third parties.

Cost of sales

Cost of sales represents the costs of collecting debts; examples include printing and postage, third party commissions, litigation, telephone and SMS text costs.

Administrative expenses

Administrative expenses represent the servicing costs incurred in running the business; examples include staff costs, premises, travel and marketing costs.

Fair value movement in debt portfolios

For portfolios purchased during the period, the fair value movement is the difference in net collection projections from 30 September 2013 between the original curves based on the price paid for the portfolios and the current collection projections, plus reflecting any change in discount rates.

For portfolios owned at the start of the period, the fair value movement is the difference in net collection projections from 30 September 2013 as forecast at 31 August 2012 and 30 September 2013 reflecting any change in discount rates.

Intangible fixed assets – goodwill

Goodwill arising on the acquisition of subsidiary undertakings and business assets, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight line basis over its useful economic life as follows:

Acquisition of subsidiary undertakings	20 years
Acquisition of business assets	4 years

Provision is made for any impairment.

1. ACCOUNTING POLICIES (continued)

Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost less estimated residual value on each asset on a straight line basis over their estimated useful lives as follows:

Office equipment	4 years
Computer equipment	3 years
Fixtures and fittings	4 years

Fixed asset investments

Fixed asset investments are shown at cost less any provision for impairment. .

Taxation

Current tax, including UK corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Group's taxable profits and its results as stated in these financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in these financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Amounts collected on behalf of third parties

Amounts collected on behalf of third parties are reported within both Cash at bank and in hand and Other creditors.

Leases

Operating lease rentals are charged to income on a straight line basis over the lease term. Any lease incentives are spread over the life of the lease. During the period the lease was broken on the Interchange building; the cost was expensed in full as incurred.

A dilapidation provision is being accrued for vacating the buildings in June 2014.

Litigation costs

Up to 31 August 2012 litigation costs were expensed through the Profit and Loss Account ("P&L") due to the materiality of the expenditure and the fact that the majority of these costs were incurred internally.

During 2013, litigation costs have increased as a greater number of accounts have been deemed appropriate to litigate upon. The increase in materiality has led to a consideration of accounting policy and a subsequent change to account for litigation costs on an accruals basis. They are now deferred to the balance sheet on initial recognition and released to the P&L in line with the forecast collections profile over 4 years.

1. ACCOUNTING POLICIES (continued)

Litigation costs (continued)

At 30 September 2013 there are £2,887k of litigation costs included within Other debtors as a result of the policy change. Prior to the change the full amount of this would have been expensed to the P&L resulting in an additional debit of £1,706k in the current year.

As a material policy change, prior period figures have also been restated. This has resulted in an increase of £867k to 2012 opening retained earnings, a £315k credit to the 2012 P&L, and a £1,182k increase in 2012 other debtors. This prior year restatement also impacted the current year figures due to the release of restated deferred costs held on the balance sheet in 2012 for the first time. This increase of £792k is included in the overall P&L charge for the current year.

2. CRITICAL ACCOUNTING POLICIES, JUDGEMENTS AND ESTIMATES

Certain assets and liabilities are reported in these financial statements based upon managements' estimates and assumptions, introducing a risk of changes to the carrying amounts of these items within the next financial year.

Purchased debt portfolios

Non-performing debt portfolios are purchased from institutions at a substantial discount from their face value. The portfolios are classified as a financial asset at "fair value through profit or loss". The fair value of each portfolio is assessed on the measurement date using valuation techniques taking account of projected future cash flows, an assessment of the discount factor for each portfolio based upon market information modified by appropriate risk assessments or discounts, and recent arm's length transactions.

The calculation of the amount falling due after more than one year depends upon the value and profile of 'setups' where customers enter into payment plans. As at 30 September 2013 the amount falling due after more than one year is £211,767k (2012: £168,262k).

The directors are of the opinion that the discount rates applied in determining the fair value of the debt portfolios represent unobservable market rates. For both the periods ended 30 September 2013 and 31 August 2012, these rates have been determined by management to be 15% for default portfolios and 12% for paying portfolios. Changes in these assumptions to possible alternatives of plus or minus 2.5% would lead to the following (decrease) / increase of profit:

	13 months ended 30 Sept 2013 £000	15 months ended 31 Aug 2012 £000
Plus 2.5%	(12,383)	(9,127)
Minus 2.5%	13,555	9,898

3. RISK MANAGEMENT AND CONTROL

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

- Credit risk
- Liquidity risk
- Operational risk
- Market risk
- Capital management risk
- Fair value estimation risk

3. RISK MANAGEMENT AND CONTROL (continued)

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

The Group has no significant exposures in foreign currency and does not hold any speculative foreign exchange positions.

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

Credit risk

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

The risk to the Group is lower than expected collections from the purchased non-performing debt portfolios.

The risk from the concentration of debtor credit risk is limited due to the relatively low value of each of the individual debtor's debts and to the Group's increasingly broadening client base from whom portfolios are purchased.

The risk is managed through utilising appropriate portfolio valuation models and building current expectations of recoverability into pricing models. The Group's exposure to credit risk is monitored by the Board of Directors.

The carrying amount of financial assets recorded in these financial statements represents the Group's maximum exposure to credit risk. These portfolios are performing in line with the Group's expectations, but are in default relative to the original contractual terms between the debtor and the third party from whom the Group acquired the debt. The Group does not hold any collateral in respect of its receivables.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group manages liquidity risk by maintaining adequate reserves and banking facilities by continuously monitoring forecast and actual cash flows. At 30 September 2013, the Group had available undrawn committed borrowing facilities of £45m. Subsequent to the year end, on 28 November 2013 the RCF was further increased to £66m, resulting in undrawn committed borrowing facilities increasing to £56m. Under the terms of the RCF, further growth in ERC will allow the facility to increase to a maximum limit of £83m.

3. RISK MANAGEMENT AND CONTROL (continued)

Liquidity risk (continued)

The following table shows the Group's contractual maturities of financial liabilities including interest payments at the balance sheet dates:

2013

	Carrying amount £000	Contractual cash flows £000	0-6 months £000	6-12 months £000	1-5 years £000	Over 5 years £000
Notes*	275,000	437,593	14,781	14,781	118,250	289,781
Preference shares	217,560	418,670	—	—	—	418,670
Loan with parent	23,138	54,764	—	—	—	54,764
Other liabilities	36,258	36,258	36,258	—	—	—
Total liabilities	551,956	947,285	51,039	14,781	118,250	763,215

2012

	Carrying amount £000	Contractual cash flows £000	0-6 months £000	6-12 months £000	1-5 years £000	Over 5 years £000
Notes*	209,018	350,560	10,810	10,750	86,000	243,000
Preference shares	190,196	418,670	—	—	—	418,670
Loan with parent	20,232	54,764	—	—	—	54,764
Other liabilities	14,228	14,228	14,228	—	—	—
Total liabilities	433,674	838,222	25,038	10,750	86,000	716,434

* Includes Loan principal outstanding (Note 15) and accrued interest (Note 14)

Operational risk

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

Market risk

Market risk is the risk of changes caused by market variables such as interest rate and prices, i.e. the cost of consumer debt portfolios. The Group has minimised its risk against interest rates by being funded by share capital and from 30 March 2012 by 10.75% Senior Secured Notes due 2019, upon which the interest rate is fixed.

By only bidding for consumer debt portfolios up to a price that enables the Group to expect a yield high enough to cover all costs of collection and to make a contribution to overhead costs, the Group minimises its risk against the cost of these portfolios.

On 30 March 2012 the balance outstanding on the old Revolving Credit Facility ("RCF") was fully repaid. A new RCF was put in place on 30 March 2012 for £40m. On 21 January 2013 the facility was increased to £55m. On 28 November 2013 the facility was further increased to £66m. Under the terms of the RCF, further growth in ERC will allow the facility to increase to a maximum limit of £83m.

Derivatives are contracts or arrangements whose value is derived from one or more underlying price, rate or index inherent in the contract or arrangement, such as interest rates. The group's RCF has a variable interest rate and at 30 September 2013 £10m of the facility was utilised.

Interest rate caps and interest rate swaps have been used in the past to mitigate the risk of changing interest rates, however due to the stability in interest rates in recent years the group has taken the decision to not enter into any derivative contracts to hedge this risk. As at 30 September 2013 the group has no outstanding derivative contracts.

3. RISK MANAGEMENT AND CONTROL (continued)

Capital management risk

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

Fair value estimation risk

Financial assets and liabilities are classified into the following categories:

	Sept 2013 £000	Aug 2012 £000
Financial assets		
Fair value through profit and loss (debt portfolios)	299,465	236,759
Loans and receivables	37,926	25,734
Total financial assets	337,391	262,493
Financial liabilities		
Fair value through profit and loss	—	—
Other financial liabilities measured at amortised cost	(551,956)	(433,674)
Total financial liabilities	(551,956)	(433,674)

The directors consider that the carrying amount of financial assets and financial liabilities recorded in these financial statements approximates their fair value. The fair values are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

4. OPERATING PROFIT

	13 months ended 30 Sept 2013 £000	15 months ended 31 Aug 2012 £000
Operating profit is after charging:		
Depreciation of tangible fixed assets	2,496	2,004
Amortisation of intangible fixed assets	9,479	7,968
Rentals under operating leases	1,098	805
Auditor's remuneration:		
Audit of these financial statements	4	4
Audit of other group companies' financial statements	87	52
Other assurance services	—	18

During the 15 months ended 31 August 2012, £186k was charged by the auditor for other assurance services in relation to the issue of the 10.75% Senior Secured Notes (the "Notes"). These costs are charged to the Profit and Loss Account over the 7 year term of the Notes. During the year, £28k has been included in "Fees payable on the Notes" (Note 7) (15 months ended 31 August 2012: £11k).

In the period ended 31 August 2012, statutory audit and non-audit fees solely relate to those paid to KPMG Audit Plc. In the period ended 30 Sept 2013, all such fees relate to these paid to KPMG LLP.

5. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	13 months ended 30 Sept 2013 £000	15 months ended 31 Aug 2012 £000
Directors' remuneration		
Aggregate emoluments to current directors	633	502
Remuneration of the highest paid director	458	362

The above emoluments do not include any emoluments for M Dale, T J H Large, J R Rosen and B J Thompson, which are paid by a parent undertaking.

	13 months ended 30 Sept 2013 No.	15 months ended 31 Aug 2012 No.
Employees		
Average number of persons (including executive directors) employed by the Group:		
Administration	740	541

	13 months ended 30 Sept 2013 £000	15 months ended 31 Aug 2012 £000
Staff costs for the Group (including executive directors):		
Wages and salaries	22,541	15,628
Social security costs	2,387	1,663
Pension contributions	111	—
	25,039	17,291

6. INTEREST RECEIVABLE

	13 months ended 30 Sept 2013 £000	15 months ended 31 Aug 2012 £000
Bank interest receivable	206	11
Bond loan premium (Note 15)	738	—
	944	11

7. INTEREST PAYABLE AND SIMILAR CHARGES

	13 months ended 30 Sept 2013 £000	15 months ended 31 Aug 2012 £000
Interest payable on preference shares to Company's immediate parent	26,661	23,674
Interest payable on preference shares to other parties	703	712
Interest payable on the Notes	28,443	9,018
Interest payable on loan notes to Company's immediate parent	2,906	10,232
Interest payable to banks	—	7,215
Fees payable on the Notes	1,453	479
Interest and fees payable on revolving credit facility	1,524	425
	61,690	51,755

8. TAX ON LOSS ON ORDINARY ACTIVITIES

	13 months ended 30 Sept 2013 £000	15 months ended 31 Aug 2012 (Restated*) £000
Current taxation		
UK corporation tax	2,815	4,287
Group relief paid for (Note 14)	2,547	1,087
Adjustment in respect of previous periods	(146)	(13)
Total current tax charge	5,216	5,361
Deferred taxation		
Origination and reversal of timing differences	(493)	233
Adjustment in respect of previous periods	(7)	—
Effects of change in tax rates	78	35
Change in estimate of recoverable deferred tax asset	(42)	—
Total deferred tax (credit)/charge	(464)	268
Total charge on loss on ordinary activities	**4,752**	**5,629**

Reductions in the UK corporation tax rate from 26% to 24% (effective from 1 April 2012) and to 23% (effective 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively. Further reductions to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. This will reduce the company's future current tax charge accordingly.

The tax assessed for the period is higher (15 months ended 31 August 2012: higher) than the standard effective rate of corporation tax in the UK for the 13 months ended 30 September 2013 of 23.54% (15 months ended 31 August 2012: 25%) The differences are explained below:

	13 months ended 30 Sept 2013 £000	15 months ended 31 Aug 2012 (Restated*) £000
Loss on ordinary activities before tax	**(16,644)**	**(9,882)**
Tax credit on loss on ordinary activities at standard UK corporation tax rate of 23.54% (15 months ended 31 August 2012: 25%)	(3,917)	(2,471)
Effects of:		
Expenses not deductible for tax purposes	8,735	8,146
Impact of prior year restatement	141	—
Movement in short term timing differences	170	(432)
Book depreciation in excess of capital allowances	181	135
Adjustment in respect of previous periods	(97)	(14)
Group relief claimed free of charge	3	(3)
Current tax charge for period	**5,216**	**5,361**

* The prior period figure has been restated due to an accounting policy change regarding litigation costs. (See Note 1).

9. INTANGIBLE FIXED ASSETS

Group

	Goodwill £000
Cost	
At 1 September 2012	160,696
Additions during the period	31,000
At 30 September 2013	191,696
Accumulated amortisation	
At 1 September 2012	(7,968)
Charge for the period	(9,479)
At 30 September 2013	(17,447)
Net book value	
At 30 September 2013	174,249
At 31 August 2012	152,728

The additions in the period arose from the acquisition of Interlaken Group Limited as detailed in Note 12.

This is being amortised over a period of 20 years as detailed in the accounting policies in Note 1.

10. TANGIBLE FIXED ASSETS

Group

	Office equipment £000	Computer equipment £000	Fixtures, fittings & equipment £000	Total £000
Cost				
At 1 September 2012	11,610	—	—	11,610
At acquisition of subsidiary undertakings (Note 12)	—	718	761	1,479
Additions during the period	2,527	94	90	2,711
At 30 September 2013	14,137	812	851	15,800
Accumulated depreciation				
At 1 September 2012	(7,450)	—	—	(7,450)
At acquisition of subsidiary undertakings (Note 12)	—	(530)	(616)	(1,146)
Charge for the period	(2,410)	(55)	(31)	(2,496)
At 30 September 2013	(9,860)	(585)	(647)	(11,092)
Net book value				
At 30 September 2013	4,277	227	204	4,708
At 31 August 2012	4,160	—	—	4,160

11. FIXED ASSETS INVESTMENTS

Company

Subsidiary undertakings

	£000
Cost	
At 30 September 2013 and 31 August 2012	188,076

The Company and the Group have investments in the following subsidiary undertakings:

Name	Country of incorporation	Principal activity	Ordinary share holding %
Lowell Finance Holdings Limited	UK	Holding company	100*
Lowell Group Financing Plc	UK	Financing	100
Lowell Group Limited	UK	Holding company	100
Lowell Funding Limited	UK	Holding company	100
Lowell Acquisitions Limited	UK	Holding company	100
Lowell Holdings Ltd	UK	Holding company	100
Lowell Finance Ltd	UK	Holding company	100
Lowell Financial Ltd	UK	Consumer debt collection	100
Lowell Portfolio I Ltd	UK	Consumer debt purchase and collection	100
Tocatto Ltd	UK	Consumer debt collection	100
Lowell Portfolio III Holdings Limited	UK	Holding company	100
Lowell Portfolio III Limited	UK	Dormant	100
Lowell Portfolio IV Holdings Limited	UK	Holding company	100
Lowell Portfolio IV Limited	UK	Dormant	100
Lowell Portfolio V Limited	UK	Dormant	100
Interlaken Group Limited	UK	Holding company	100
Fredrickson International Limited	UK	Consumer debt collection	100
SRJ Debt Recoveries Limited	UK	Consumer debt collection	100

* Held directly by the Company.

All subsidiaries are included in the consolidation.

12. ACQUISITION OF SUBSIDIARY UNDERTAKINGS

On 16 May 2013, Lowell Finance Limited acquired 100% of the issued ordinary shares of Interlaken Group Limited. Interlaken Group Limited consists of three entities, Interlaken Group Limited, Fredrickson International Limited and SRJ Debt Recoveries Limited. The consideration paid was £29.8m cash, with potential contingent consideration of £5.2m payable in cash on achievement of certain revenue stream targets (Note 14: included within other creditors). In addition, the Group incurred professional fees of £1.0m on the acquisition of Interlaken Group Limited.

12. ACQUISITION OF SUBSIDIARY UNDERTAKINGS (continued)

This resulted in goodwill on acquisition of £31.0m.

	£000
Assets and liabilities acquired at fair value:	
Investment in subsidiary	10
Tangible fixed assets (Note 10)	333
Portfolios	1,289
Debtors	4,158
Cash	827
Creditors	(1,427)
Creditors: deferred tax liability	(140)
Revaluation reserve	(28)
	5,022
Goodwill (Note 9)	**31,000**
Consideration	**36,022**

The acquisition of Interlaken Group Limited has been accounted for by the acquisition method of accounting.

Included within the above is a fair value adjustment which has been made to the portfolio asset book acquired by aligning the valuation method with that used by Lowell Portfolio I Ltd. This resulted in an increase in the portfolio value of £0.6m.The tax effect of this adjustment is an additional tax charge of £0.1m (deferred tax liability).

In its last financial year ended 31 March 2013 the Consolidated Profit and Loss Account of Interlaken Group Limited showed a loss after tax of £0.6m.

For the period since 31 March 2013 to the date of acquisition of 16 May 2013, the consolidated management accounts of Interlaken Group Limited show the following:

	£000
Turnover	2,529
Gross Profit	1,248
Loss before taxation	(13)

13. DEBTORS

Group

	Sept 2013 £000	Aug 2012 (Restated*) £000
Trade debtors	2,961	126
Other debtors	6,594	4,719
Deferred tax	473	149
Prepayments and accrued income	12,424	11,720
Directors loans	171	—
	22,623	16,714

* The 2012 other debtors figure has been restated due to an accounting policy change regarding litigation costs. These were previously recognised through the P&L, but are now being deferred to the balance sheet to more accurately reflect the nature of the costs (See Note 1).

13. DEBTORS (continued)

Group (continued)

Deferred tax assets recognised in these financial statements are as follows:

	Sept 2013 £000	Aug 2012 (Restated*) £000
Book depreciation in excess of capital allowances:		
At 1 September 2012	382	281
Deferred tax credit in the Profit & Loss Account (Note 8)	144	101
At 30 September 2013 / 31 August 2012	526	382
Short term timing differences:		
At 1 September 2012	(233)	137
Acquisition of subsidiary undertaking (Note 12)	(140)	—
Deferred tax credit/(charge) in the Profit & Loss Account (Note 8)	320	(370)
At 30 September 2013 / 31 August 2012	(53)	(233)
Total deferred tax assets at 30 September 2013 / 31 August 2012	473	149

Company

	Sept 2013 £000	Aug 2012 £000
Amounts owing by group undertakings (repayable on demand)	2,245	2,577
Other debtors	18	18
Other taxes and social security	—	59
Prepayments and accrued income	32	38
Directors loans	171	—
	2,466	2,692

14. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

Group

	Sept 2013 £000	Aug 2012 £000
Trade creditors	2,886	1,769
Other taxes and social security	1,115	377
Corporation tax	484	3,026
Other creditors	7,378	441
Accruals and deferred income	10,622	7,528
Interest due on the Notes	—	9,018
Amounts owing to Company's immediate parent for group relief (repayable on demand) (Note 8)	3,773	1,087
Bank loan (RCF)	10,000	—
	36,258	23,246

14. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR (continued)

Company

	Sept 2013 £000	Aug 2012 £000
Trade creditors	30	71
Other taxes and social security	14	6
Other creditors	—	8
Accruals and deferred income	281	363
Amounts owing to Company's immediate parent for group relief (repayable on demand) (Note 8)	1,279	227
	1,604	675

15. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

Group

	Sept 2013 £000	Aug 2012 £000
10.75% Senior Secured Notes due 2019	275,000	200,000
Unsecured loan notes 2021 and accrued interest, owing to Company's immediate parent (Note 22)	23,138	20,232
Preferences shares and accrued interest:		
Amounts owing to Company's immediate parent (Note 22)	213,114	184,647
Amounts owing to other parties	4,446	5,549
	515,698	410,428

On 30 March 2012, the subsidiary, Lowell Group Financing Plc, issued £200.0m 10.75% Senior Secured Notes due 2019, with the interest rate fixed at 10.75% for the entirety of its term. Commencing on 1 October 2012, the interest on the Notes is paid by the subsidiary semi-annually on each 1 April and 1 October. The Notes will mature on 1 April 2019, though the subsidiary may redeem some or all of the Notes at an earlier date as per the details set out in the Offering Memorandum issued on 23 March 2012.

A further £75.0m Notes were issued on 11 February 2013 under the same terms. The £75.0m Notes were issued at a premium raising cash of £82.1m. The loan premium of £7.1m is recorded within Accruals and deferred income (Note 14) and is being released to the profit and loss account (Note 6) over the remaining term of the Notes. As at 30 September 2013 the outstanding loan premium is £6.4m.

Company

	Sept 2013 £000	Aug 2012 £000
Unsecured loan notes 2021 and accrued interest, owing to Company's immediate parent (Note 22)	23,138	20,232
Preferences shares and accrued interest:		
Amounts owing to Company's immediate parent (Note 22)	213,114	184,647
Amounts owing to other parties	4,446	5,549
	240,698	210,428

The Unsecured Loan Notes 2021 were all issued to the Company's immediate parent on 15 September 2011. The interest rate is 15.25% non-compounding for the first five years and then 12.00% compounding annually for the next five years. The principal and accrued interest are both

15. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR (continued)

Company (continued)

payable ten years after the issue date. The loan notes together with accrued interest may be redeemed early by the Company at any time or by the noteholders with the lead investor's consent on the occurrence of any event specified in the Loan Note Instrument.

The rights attached to the 165,810,093 preference shares, with a nominal value of £1.00 each, are as follows:

Voting

Preference shareholders are entitled to receive notice of and to attend and speak at general meetings of the Company, but they may not vote at general meetings in respect of their preference shares.

Dividends

Each preference share shall accrue a fixed preferential dividend at 15.25% (non-compounding) of the subscription price per preference share and shall be paid on the date of repayment, redemption or repurchase of the relevant preference share. The right to the preference dividend has priority over the dividend rights of the holders of any other class of share.

Return of capital

On a return of capital on a liquidation, reduction of capital or otherwise, the assets of the Company available for distribution among the shareholders shall be applied in paying to the preference shareholders, in priority to any payment to the holders of any other class of shares: (i) the subscription price in respect of each preference share and (ii) a sum equal to the accrued and unpaid preference dividend calculated to the date of return of capital in accordance with the articles and payable irrespective of whether or not the Company has enough profits available for distribution to pay the accrued and unpaid preference dividend. The preference shares do not confer any further right of participation in the profits or assets of the Company.

The preference shares shall, unless previously repaid, redeemed or repurchased by the Company, be redeemed by the Company in full at par value (together with the amounts of accrued and unpaid preference dividend) ten years after the date of their issue. The preference shares may be redeemed early by the Company at any time or by the holders of a majority of the preference shares in issue on the occurrence of the events specified in the articles.

16. CALLED-UP SHARE CAPITAL

	Sept 2013 £000	Aug 2012 £000
Allotted and fully paid		
940,478 (2012: 940,478) A ordinary shares of £1.00 each	940	940
226,190 (2012: 226,190) B ordinary shares of £1.00 each	226	226
62,836 (2012: 45,515) C ordinary shares of £1.00 each	63	46
23,810 (2012: 6,250) D ordinary shares of £0.01 each	1	—
	1,230	1,212

The rights attached to the ordinary shares are as follows:

Voting

The ordinary shareholders shall be entitled to receive notice of, attend and speak at and vote at general meetings of the Company. On a show of hands each ordinary shareholder shall have one vote and on a poll the ordinary shareholders (other than the D ordinary shareholders) shall have one vote for each ordinary share held by them, and the D ordinary shareholders shall have one vote for every one hundred D ordinary shares held by them.

16. CALLED-UP SHARE CAPITAL (continued)

Dividends

The profits of the Company available for distribution and resolved to be distributed shall be distributed as follows: (i) 999,999 / 1,000,000 to the holders of the ordinary shares (other than the C ordinary shares) pro rata to the number of the ordinary shares (other than the C ordinary shares) held by them; and (ii) 1 / 1,000,000 to the holders of the C ordinary shares pro rata to the number of C ordinary shares held by them.

Return of capital

On a return of capital on liquidation, reduction of capital or otherwise (other than on a redemption or purchase of shares), the balance of any assets available for distribution, subject to any special rights which may be attached to any other class of shares, shall be distributed among the ordinary shareholders in the following priority: (i) first, in paying to each holder of ordinary shares, in respect of each ordinary share of which he / she is a holder, a sum equal to the issue price; (ii) thereafter, of the balance remaining: (a) 999,999 / 1,000,000 to the holders of ordinary shares (other than C ordinary shares) pro rata to the number of the ordinary shares (other than C ordinary shares) held by them; and (b) 1 / 1,000,000 to the holders of C ordinary shares pro rata to the number of C ordinary shares held by them.

During the period the Company issued 17,231 C ordinary shares and 17,560 D ordinary shares at a subscription price of £1.00 and £3.57 respectively. This gave rise to a share premium on the D ordinary shares of £63k.

17. RESERVES

Group

	Share premium account £000	Profit and loss account (restated*) £000
At 1 September 2012 (restated*)	6	(15,511)
Arising on issue of shares (Note 16)	63	—
Loss for the financial period	—	(21,396)
At 30 September 2013	69	(36,907)

* Prior year figures have been restated due to a change in accounting policy for treatment of litigation costs (see Note 1).

Company

	Share premium account £000	Profit and loss account £000
At 1 September 2012	6	(21,472)
Arising on issue of shares (Note 16)	63	—
Loss for the financial period	—	(31,105)
At 30 September 2013	69	(52,577)

18. RECONCILIATION OF MOVEMENT IN TOTAL SHAREHOLDERS' DEFICIT

Group

	13 months ended 30 Sept 2013 £000	15 months ended 31 Aug 2012 (restated*) £000
Opening total shareholders' deficit	(14,293)	—
Issue of share capital (Note 16)	18	1,212
Share premium on shares issued (Note 16)	63	6
Loss for the financial period	(21,396)	(15,511)
Closing total shareholders' deficit	(35,608)	(14,293)

* Prior year figures have been restated due to a change in accounting policy for treatment of litigation costs (see Note 1).

Company

	13 months ended 30 Sept 2013 £000	15 months ended 31 Aug 2012 £000
Opening total shareholders' deficit	(20,254)	—
Issue of share capital (Note 16)	18	1,212
Share premium on shares issued (Note 16)	63	6
Loss for the financial period	(31,105)	(21,472)
Closing total shareholders' deficit	(51,278)	(20,254)

19. RECONCILIATION OF OPERATING PROFIT TO OPERATING CASH FLOWS

	13 months ended 30 Sept 2013 £000	15 months ended 31 Aug 2012 (restated) £000
Operating profit	53,581	49,670
Depreciation	2,496	2,004
Increase in debt portfolios	(61,417)	(47,464)
Increase in debtors	(1,270)	(1,972)
(Decrease)/increase in creditors	(970)	652
Net cash (outflow)/inflow from operating activities	**(7,580)**	**2,890**

20. ANALYSIS OF CASH FLOWS

	13 months ended 30 Sept 2013 £000	15 months ended 31 Aug 2012 £000
Returns on investments and servicing of finance		
Interest received	206	11
Interest and set up fees paid	(43,804)	(21,928)
Fair value movement in derivatives	—	160
	(43,598)	(21,757)
Taxation		
UK corporation tax paid	(3,869)	(6,521)
Group relief paid to immediate parent	(1,000)	—
	(4,869)	(6,521)
Capital expenditure and financial investment		
Purchase of tangible fixed assets (Note 10)	(2,711)	(1,932)
Acquisitions and disposals		
Purchase of Interlaken Group Limited (Note 12)	(30,822)	—
Cash acquired with Interlaken Group Limited (Note 12)	827	—
Purchase of Lowell Group Limited	—	(241,887)
Cash acquired with Lowell Group Limited	—	9,762
	(29,995)	(232,125)
Financing		
Issue of 10.75% Senior Secured Notes 2019 (Note 15)	85,036	200,000
Drawdown of revolving credit facility	10,000	—
Issue of ordinary share capital	—	1,218
Issue of preference shares	—	165,810
Issue of Unsecured Loan Notes 2021	—	110,000
Repayment of Unsecured Loan Notes 2021	—	(92,395)
Repayment of mezzanine loan	—	(35,355)
Repayment of bank loan	—	(80,813)
	95,036	268,465

21. ANALYSIS OF NET DEBT

	At 1 September 2012 £000	Cash flow £000	Acquisition of subsidiary £000	Non cash movements £000	At 30 September 2013 £000
Debt due within one year	(9,018)	(30,372)	—	29,390	(10,000)
Debt due after more than one year	(410,428)	(85,036)	—	(20,234)	(515,698)
	(419,446)	(115,408)	—	9,156	(525,698)
Cash at bank and in hand	9,020	5,456	827	—	15,303
Total	(410,426)	(109,952)	827	9,156	(510,395)

22. RELATED PARTY TRANSACTIONS

The Group had the following related party transactions in relation to loan notes (Note 15) and preference shares (Note 15):

13 months ended 30 September 2013	Company's immediate parent £000	Other holders £000	Total £000
Unsecured Loan Notes 2021			
Principal and accrued interest at 1 September 2012	20,232	—	20,232
Interest charged (Note 7)	2,906	—	2,906
As at 30 September 2013	23,138	—	23,138
Preference Shares			
Principal and accrued interest at 1 September 2012	184,647	5,549	190,196
Principal and interest transferred	1,806	(1,806)	—
Interest charged (Note 7)	26,661	703	27,364
As at 30 September 2013	213,114	4,446	217,560

15 months ended 31 August 2012	Company's immediate parent £000	Other holders £000	Total £000
Unsecured Loan Notes 2021			
Principal	110,000	—	110,000
Principal repaid	(92,395)	—	(92,395)
Interest charged (Note 7)	10,232	—	10,232
Interest paid	(7,605)	—	(7,605)
As at 31 August 2012	20,232	—	20,232
Preference Shares			
Principal	160,973	2,967	165,810
Interest charged (Note 7)	23,674	437	24,386
As at 31 August 2012	184,647	3,404	190,196

23. OPERATING LEASE COMMITMENTS

Group

Annual commitments under non-cancellable operating leases for which no provision has been made in these financial statements are as follows:

	Sept 2013 £000	Aug 2012 £000
Land and buildings, which expire:		
Within one year	621	—
Within two to five years	494	805
Other operating leases, which expire:		
Within one year	23	—
Within two to five years	44	—
	1,182	805

The lease expires on Enterprise House on 16th June 2014.

The lease on Interchange House includes a break clause which allows the Company to terminate the lease on 16th June 2014. The Company has taken up this option and the lease will expire on 16th June 2014.

A new lease was signed post year end for new premises at Leeds Valley Park. The annual commitment on this new lease is £1.1m.

24. ULTIMATE CONTROLLING PARTY

The Company is a subsidiary undertaking of Metis Holdings Sarl, which is the ultimate parent company, incorporated in Luxembourg.

The largest group which consolidates these financial statements is that headed by Metis Holdco Limited, incorporated in England and Wales. The consolidated financial statements of Metis Holdco Limited are available from its registered office at One Stanhope Gate, London, W1K 1AF.

Translation of the German-language auditor's report, which refers to the audit of the German-language consolidated financial statements and the German-language group management report of GFKL Financial Services AG, Essen, as of and for the year ended December 31, 2013 as a whole

Auditor's report

We have audited the consolidated financial statements prepared by GFKL Financial Services Aktiengesellschaft, Essen, comprising the balance sheet, the income statement, the statement of comprehensive income, the statement of changes in equity, the cash flow statement and the notes to the consolidated financial statements, together with the group management report for the fiscal year from January 1 to December 31, 2013. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs [International Financial Reporting Standards] as adopted by the EU, and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB ["Handelsgesetzbuch": German Commercial Code] is the responsibility of the company's management. Our responsibility is to express an opinion on the consolidated financial statements and the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Sec. 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and the group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 315a (1) HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Essen, April 17, 2014

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Pfeiffer
Wirtschaftsprüfer
[German Public Auditor]

Uhl
Wirtschaftsprüfer
[German Public Auditor]

GFKL Financial Services Aktiengesellschaft, Essen

Consolidated Balance Sheet as of December 31, 2013 (in accordance with IFRSs)[1] in €k

	Notes	Dec. 31, 2013	Dec. 31, 2012
ASSETS			
Non-current assets			
Property, plant and equipment	III.1.	2 354	2 595
Intangible assets	III.2.	16 156	19 074
Goodwill	III.3.	23 523	35 628
Non-performing loans and receivables acquired for settlement	III.5.	59 681	70 897
Other financial assets	III.7.	78	2 574
Deferred tax assets	III.8.	0	516
		101 793	**131 285**
Current assets			
Non-performing loans and receivables acquired for settlement	III.5.	41 011	45 874
Trade and other receivables	III.9.	10 136	13 490
Income tax refund claims	III.10.	4 630	1 354
Other financial assets	III.7.	12 632	21 588
Cash and cash equivalents	III.11.	58 212	38 174
		126 620	120 481
Assets classified as held for sale	III.12.	11 433	0
		138 053	**120 481**
Total assets		**239 846**	**251 765**
EQUITY AND LIABILITIES			
Equity			
Share capital	III.13.	25 884	25 884
Capital reserves	III.14.	51 668	51 668
Hybrid capital	III.15.	33 852	31 246
Treasury shares	III.16.	– 17 890	– 17 890
Retained earnings	III.17.	97	64
Valuation reserves	III.18.	– 1 291	– 1 377
Net retained loss		– 98 881	– 98 576
Equity attributable to equity holders of the parent		– 6 561	– 8 981
Non-controlling interests	III.19.	– 100	– 54
Total equity		**– 6 661**	**– 9 034**
Non-current liabilities			
Liabilities to banks	III.22.	100 008	108 266
Derivatives with negative fair values	III.6.	1 616	2 785
Other financial liabilities	III.23.	30 777	32 661
Provisions	III.24.	1 019	2 527
Provisions for pensions	III.25.	4 564	4 386
Deferred tax liabilities	III.8.	5 093	4 809
		143 077	155 434
Current liabilities			
Liabilities to banks	III.22.	10 042	14 037
Derivatives with negative fair values	III.6.	443	1 227
Trade payables and other liabilities	III.26.	8 509	12 816
Other financial liabilities	III.23.	41 456	33 061
Income tax provisions	III.27.	14 224	18 384
Provisions	III.24.	24 107	25 840
		98 780	105 366
Liabilities classified as held for sale	III.12.	4 650	0
		103 430	105 366
Total liabilities		**246 507**	**260 800**
Total equity and liabilities		**239 846**	**251 765**

1 Prior-year figures were adjusted due to the first-time application of IAS 19R.

GFKL Financial Services Aktiengesellschaft, Essen

Consolidated Income Statement for the Period from January 1 to December 31, 2013 (in accordance with IFRSs)[1] in €k

	Notes	Jan. 1 to Dec. 31, 2013	Jan. 1 to Dec. 31, 2012
Revenue	IV.1.	190 396	156 976
Other operating income	IV.2.	11 069	9 017
Personnel expenses	IV.3.	43 951	43 384
Depreciation, amortization and impairment expense	IV.4.	3 850	3 991
Other operating expenses	IV.5.	134 570	125 328
Interest and similar income	IV.6.	2 642	902
Interest and similar expenses	IV.7.	14 828	14 651
Profit/loss from investments accounted for using the equity method	IV.8.	0	56
Earnings/loss before tax		**6 908**	**– 20 403**
Income taxes	IV.9.	– 7 536	413
Profit/loss from continuing operations		**14 444**	**– 20 817**
Profit/loss from discontinued operations	**IV.10.**	– 12 157	– 3 174
Consolidated profit/loss for the period		**2 288**	**– 23 991**
Profit attributable to non-controlling interests		0	1
Loss attributable to non-controlling interests		13	6
Profit/loss attributable to equity holders of the parent		**2 301**	**– 23 986**
Earnings per share from continuing operations in € (after non-controlling interests)			
Basic	V.1.	0,58	– 0,84
Diluted	V.1.	0,58	– 0,83
Earnings per share from discontinued operations in € (after non-controlling interests)			
Basic	V.1.	– 0,49	– 0,13
Diluted	V.1.	– 0,49	– 0,13

1 Prior-year figures were adjusted.

GFKL Financial Services Aktiengesellschaft, Essen

Consolidated Statement of Comprehensive Income for the Period from January 1 to December 31, 2013 (in accordance with IFRSs)
in €k

	Notes	Jan. 1 to Dec. 31, 2013	Jan. 1 to Dec. 31, 2012
Consolidated profit/loss for the period		**2 288**	**– 23 991**
Result from the valuation reserve for financial instruments	III.18.	542	1 394
Result from deferred taxes for financial instruments	III.8.	– 172	– 442
Items that may be reclassified to profit or loss in the future		**370**	**952**
Actuarial gains and losses on pension plans	III.18., III.25.	– 390	– 2 033
Deferred taxes on actuarial gains and losses from pension plans	III.18., III.25.	106	645
Items that will not be reclassified to profit or loss in the future		**– 284**	**– 1 388**
Other comprehensive income		**86**	**– 436**
Total comprehensive income		**2 374**	**– 24 427**
Thereof attributable to:			
Equity holders of the parent		2 387	– 24 422
Non-controlling interests		– 13	– 5

GFKL Financial Services Aktiengesellschaft, Essen

Consolidated Statement of Changes in Equity for the Period from January 1 to December 31, 2013 (in accordance with IFRSs)[1] in €k

Notes	Share capital III.13.	Capital reserves III.14.	Hybrid capital III.15.	Treasury shares III.16.	Retained earnings III.17.	Valuation reserve for actuarial gains and losses III.18., III.25.	Valuation reserve for financial instruments III.18.	Currency translation	Net retained profit/loss	Equity attributable to equity holders of the parent	Non-controlling interests III.19.	Total equity
As of January 1, 2012 before adjustment	**25 884**	**51 668**	**0**	**– 17 890**	**64**	**0**	**– 1 321**	**0**	**– 73 344**	**– 14 939**	**– 49**	**– 14 988**
Effects from first-time application of IAS 19R	**0**	**0**	**0**	**0**	**0**	**381**	**0**	**0**	**0**	**381**	**0**	**381**
As of January 1, 2012 after adjustment	**25 884**	**51 668**	**0**	**– 17 890**	**64**	**381**	**– 1 321**	**0**	**– 73 344**	**– 14 558**	**– 49**	**– 14 607**
Other comprehensive income	0	0	0	0	0	– 1 388	952	0	0	– 436	0	– 436
Consolidated profit/loss for the period	0	0	1 246	0	0	0	0	0	– 25 232	– 23 986	– 5	– 23 991
Total comprehensive income	**0**	**0**	**1 246**	**0**	**0**	**– 1 388**	**952**	**0**	**– 25 232**	**– 24 422**	**– 5**	**– 24 427**
Contribution	0	0	30 000	0	0	0	0	0	0	30 000	0	30 000
As of December 31, 2012	**25 884**	**51 668**	**31 246**	**– 17 890**	**64**	**– 1 007**	**– 370**	**0**	**– 98 576**	**– 8 981**	**– 54**	**– 9 034**
As of January 1, 2013 before adjustment	**25 884**	**51 668**	**31 246**	**– 17 890**	**64**	**0**	**– 370**	**0**	**– 98 576**	**– 7 974**	**– 54**	**– 8 027**
Effects from first-time application of IAS 19R	**0**	**0**	**0**	**0**	**0**	**– 1 007**	**0**	**0**	**0**	**– 1 007**	**0**	**– 1 007**
As of January 1, 2013 after adjustment	**25 884**	**51 668**	**31 246**	**– 17 890**	**64**	**– 1 007**	**– 370**	**0**	**– 98 576**	**– 8 981**	**– 54**	**– 9 034**
Other comprehensive income	0	0	0	0	0	– 284	370	0	0	86	0	86
Consolidated profit/loss for the period	0	0	2 605	0	0	0	0	0	– 305	2 301	– 13	2 288
Total comprehensive income	**0**	**0**	**2 605**	**0**	**0**	**– 284**	**370**	**0**	**– 305**	**2 387**	**– 13**	**2 374**
Acquisition of non-controlling interests	0	0	0	0	33	0	0	0	0	33	– 33	0
As of December 31, 2013	**25 884**	**51 668**	**33 852**	**– 17 890**	**97**	**– 1 291**	**0**	**0**	**– 98 881**	**– 6 561**	**– 100**	**– 6 661**

[1] Prior-year figures were adjusted due to the first-time application of IAS19R.

GFKL Financial Services Aktiengesellschaft, Essen

Consolidated Cash Flow Statement for the Period from January 1 to December 31, 2013 (in accordance with IFRSs)[1] in €k

		Notes	Jan. 1 to Dec. 31, 2013	Jan. 1 to Dec. 31, 2012
1.	**Operating activities**			
	Profit/loss from continuing operations		14 444	– 20 817
	Profit/loss from discontinued operations		– 12 157	– 3 174
	Consolidated profit/loss for the period		**2 288**	**– 23 991**
	Non-cash items included in consolidated profit/loss for the period and reconciliation to cash flow from operating activities			
+	Depreciation, amortization and impairment expense		16 307	8 895
+	Accounting losses from the disposal of property, plant and equipment/intangible assets		2	107
–	Gain from the disposal of property, plant and equipment/ intangible assets		– 15	0
+/–	Change in provisions		– 10 519	8 733
+/–	Change in deferred taxes		– 368	– 4 724
–/+	Repayments and changes in value of NPL portfolios		32 202	34 402
	Changes in balances in the period			
–/+	Trade and other receivables		620	5 586
+/–	Trade payables and other liabilities		– 437	– 1 611
–/+	Changes in other net assets		13 233	– 9 118
=	**Cash flow from operating activities**	VI.3.	**53 312**	**18 279**
2.	**Investing activities**			
+	Cash received from the disposal of property, plant and equipment/intangible assets		6	147
–	Acquisition of property plant and equipment/intangible assets		– 2 063	– 2 872
+	Cash received from transferred receivables		0	24 600
–	Cash paid for loans granted and other financial investments		0	– 500
–	Investment in NPL portfolios		– 26 064	– 16 487
+	Divestment of NPL portfolios		6 030	1 952
–	Acquisition of companies and shares less net cash acquired		0	– 23 279
+/–	Sale of companies and shares less net cash sold		0	467
+	Cash received from the sale of financial assets		0	1 500
–	Acquisition of financial assets		0	– 13
=	**Cash flow from investing activities**	VI.4.	**– 22 090**	**– 14 483**
3.	**Financing activities**			
+	Cash received from the issue of equity instruments		0	30 000
–	Repurchase of shares from former ABIT shareholders		– 11	– 20
–	Repayment of bank loans		– 14 492	– 25 785
+	Cash received from financing for NPL portfolios		18 321	0
–	Repayment of financing for NPL portfolios		– 13 142	– 28 416
=	**Cash flow from financing activities**	VI.5.	**– 9 324**	**– 24 221**
4.	**Development of liquidity**			
	Cash and cash equivalents at the beginning of the period		38 174	58 599
+	Change in cash and cash equivalents		21 897	– 20 424
=	**Cash and cash equivalents at the end of the period**		**60 072**	**38 174**
5.	**Composition of cash and cash equivalents[2]**	VI.1.		
	Cash		**60 072**	**38 174**
	thereof restricted cash		19 796	20 346

1 Prior-year figures were adjusted.

2 Cash and cash equivalents as of December 31, 2013 include the cash from assets classified as held for sale of €1,861k.

Translation from the German language

GFKL Financial Services Aktiengesellschaft, Essen

Notes to the consolidated financial statements as of December 31, 2013 (in accordance with IFRSs)

Translation from the German language

GFKL Financial Services Aktiengesellschaft, Essen

Notes to the consolidated financial statements as of December 31, 2013
(in accordance with IFRSs)

I. General comments

GFKL Financial Services Aktiengesellschaft, Essen, is the parent of the GFKL Group. The company's registered offices are at Limbecker Platz 1 in Essen, Germany. It is entered in the commercial register of the Local Court of Essen under HRB No. 13522. Carl Holding GmbH, Frankfurt am Main,—a subsidiary of Advent International Corp., Boston—is the majority shareholder with a stake of around 92.8%. GFKL is a financial services provider in the receivables management segment. Please refer to the management report for further information on operating activities.

The consolidated financial statements for fiscal year 2013 were authorized for issue by the Executive Board on April 17, 2014.

Domnowski Inkasso GmbH, Proceed Collection Services GmbH, Proceed Portfolio Services GmbH, Sirius Inkasso GmbH, Zyklop Inkasso Deutschland GmbH and GFKL Collections GmbH, formerly SNT Inkasso & Forderungsmanagement GmbH, have been included in full in the consolidated financial statements of GFKL. Indirect or direct control and profit and loss transfer agreements have been concluded with all of the aforementioned companies, which all make use of the exemption option specified in Sec. 264 (3) HGB ["Handelsgesetzbuch": German Commercial Code]. debifact Factoring GmbH & Co. KG and INKASSO BECKER Wuppertal GmbH & Co. KG have also been included in full in the consolidated financial statements of GFKL. They make use of the exemption option specified in Sec. 264b HGB.

II. Basis of presentation and accounting policies

1. Basis of presentation of the consolidated financial statements

The consolidated financial statements of GFKL Financial Services Aktiengesellschaft and its first and second-tier subsidiaries have been prepared in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the EU. In addition to GFKL Financial Services Aktiengesellschaft, the holding company, the GFKL Group includes 16 fully consolidated first and second-tier subsidiaries. An overview of all indirect and direct shareholdings is attached to these notes as an exhibit. Shareholdings are generally accounted for according to the voting shares in capital.

The consolidated financial statements are generally prepared using the cost method. However, non-performing loans and receivables acquired for settlement and derivative financial instruments are measured at fair value rather than at cost.

Unless stated otherwise, all figures are shown in thousands of euros (€k). All stated amounts have been individually rounded, which may give rise to minor discrepancies when these amounts are aggregated. In the notes, the figures as of December 31, 2013 are compared with those as of December 31, 2012.

2. Changes in accounting policies and disclosure

The planned sale of the Spanish companies of the GFKL Group make it necessary to apply IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

As they are separate major lines of business and thus discontinued operations, their current results and any gains on disposal have been presented in a separate section of the consolidated income statement.

3. Effects of new and amended IFRSs

a) Accounting standards implemented in the fiscal year

The International Accounting Standards Board (IASB) published various amendments to existing IFRSs and new interpretations.

II. Basis of presentation and accounting policies (Continued)

GFKL applied the following new and revised IFRSs in fiscal year 2013:

IAS 1 *Presentation of Financial Statements*

As a result of changes to IAS 1 *Presentation of Items of Other Comprehensive Income*, the items of other comprehensive income that may be reclassified to profit or loss at a later date have to be presented separately from those items of other comprehensive income that will not be reclassified to profit or loss in the future.

IAS 19 (2011) *Employee Benefits*

Under the revised IAS 19 *Employee Benefits*, actuarial gains and losses have to be recognized directly and in full in other comprehensive income starting from January 1, 2013. The standard is applied retrospectively. As a result, equity decreased by €1.0 million as of December 31, 2012. Provisions for pensions increased by €1.5 million. Deferred tax liabilities declined by €0.5 million. Please see section II.7. (Significant accounting policies) and section III.25. (Provisions for pensions and) for more information.

The mandatory adoption in fiscal year 2013 of IFRS 7 *Financial Instruments: Disclosures—Offsetting Financial Assets and Financial Liabilities* and IFRS 13 *Fair Value Measurement* did not have any significant effect on the consolidated financial statements of GFKL other than additional disclosures in the notes.

b) Accounting standards that have been issued but are not yet to be implemented

In addition to the above applicable IFRSs, other standards and interpretations were published, some of which have been endorsed by the EU, but will not become mandatory until a later date.

Standard	Interpretation	Issued by the IASB	Application required from	Endorsed by the EU	Effects
IFRS 7/ IFRS 9	Changes—disclosures: Temporal scope and transition provisions	Nov. 20, 2013	Jan. 1, 2013	No	No significant changes
IFRS 9	Financial Instruments: Classification and Measurement	Nov. 12, 2009/ Oct. 28, 2010	Jan. 1, 2015	No	No significant changes
IFRS 9	Financial Instruments: Hedges	Nov. 20, 2013	Jan. 1, 2013	No	Extended disclosures in the notes
IFRS 10	Consolidated Financial Statements: New provisions for full consolidation of subsidiaries	May 12, 2011	Jan. 1, 2014	Yes	No significant changes
IFRS 11	Joint Arrangements: New classification	May 12, 2011	Jan. 1, 2014	Yes	No significant changes
IFRS 12	Disclosure of Interests in Other Entities: Disclosures on consolidated and non-consolidated entities	May 12, 2011	Jan. 1, 2014	Yes	Extended disclosures in the notes
IFRS 10/ IFRS 11/ IFRS 12	Changes—transition provisions: Changes in transition guidance	Jun. 28, 2012	Jan. 1, 2014	Yes	No significant changes

II. Basis of presentation and accounting policies (Continued)

Standard	Interpretation	Issued by the IASB	Application required from	Endorsed by the EU	Effects
IAS 19	Employee Benefits—Defined Benefit Plans: Employee contributions	Nov. 21, 2013	Jul. 1, 2014	No	No significant changes
IAS 27	Separate Financial Statements: Consequential amendments as a result of the new provisions for full consolidation under IFRS 10	May 12, 2011	Jan. 1, 2014	Yes	No significant changes
IAS 28	Investments in Associates and Joint Ventures: Consequential amendments due to the requirement to consolidate jointly controlled entities using the equity method and other changes	May 12, 2011	Jan. 1, 2014	Yes	No significant changes
IAS 32	Financial Instruments: Offsetting Financial Assets and Financial Liabilities	Dec. 16, 2011	Jan. 1, 2014	Yes	No significant changes
IAS 36	Impairment of Assets: Recoverable Amount Disclosures for Non-Financial Assets	May 29, 2013	Jan. 1, 2014	Yes	Changes to disclosures in the notes
IAS 39	Novation of Derivatives and Continuation of Hedge Accounting	Jun. 27, 2013	Jan. 1, 2014	Yes	No significant changes
IFRS (2010 to 2012)	Changes and clarifications to various IFRSs	Dec. 12, 2013	Jul. 1, 2014	No	No significant changes
IFRS (2011 to 2013)	Changes and clarifications to various IFRSs	Dec. 12, 2013	Jul. 1, 2014	No	No significant changes
IFRIC 21	Levies	May 20, 2013	Jan. 1, 2014	No	None

Voluntary early adoption of the standards is not planned, except for the changes to IAS 36 *Impairment of Assets.* Early application of the revised IAS 36 does not require GFKL to present a comparison of recoverable amount and goodwill for all cash-generating units.

4. Changes in accounting estimates

Changes relate in particular to the parameters of NPL measurement, which are regularly adjusted in line with the market and the determination of expected cash flows, which were also adjusted using the same estimation techniques. For more information on the adjustment of the parameters, please refer to section II.5. (Significant accounting estimates and assumptions) below and section III.5. (Non-performing loans and receivables acquired for settlement). No changes were made in estimation techniques in the year under review.

II. Basis of presentation and accounting policies (Continued)

5. Significant accounting estimates and assumptions

The primary assumptions concerning future events and other key sources of estimation uncertainty as of the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next fiscal year are explained below.

Non-performing loans and receivables acquired for settlement

The current and non-current non-performing portfolios acquired for settlement contained loans and receivables valued at €100.7 million as of the balance sheet date (prior year: €116.8 million). The portfolios include distressed loan receivables and other distressed receivables that the Group acquires for settlement at a significant discount from the nominal amounts. Since there is no active market for these assets within the meaning of IFRS 13, they were measured using an investment model, which was also used to set the purchase price. The valuation model involves calculating expected proceeds and determining expected costs. Various valuation techniques may be applied to estimate recoverable payments on unsecured receivables. The valuation technique selected depends on the scope and quality of the data supplied by the seller and the type of receivable. In some cases, the results of different valuation techniques are compared and deviations in the results are analyzed. In doing so, the future estimated cash flows including service costs, refinancing costs, risk costs, and the calculated margin are discounted to obtain the price on the date of purchase.

To determine estimated cash flows from unsecured receivables, payment histories of similar portfolios are generally used during the measurement process.

In the case of secured receivables, emphasis is placed on measuring the value of the collateral, which primarily consists of mortgage liens on real property.

For both unsecured and secured receivables, the expected costs are calculated on the basis of the historical costs of the respective service company and estimated for the future. The relevant factors are the origin of the receivable, the number of individual receivables, their average volume, and the attainable level of servicing automation.

Goodwill impairment test

GFKL tests goodwill (€23.5 million; prior year: €35.6 million) for impairment at least once a year. This requires estimating the value in use of the cash-generating unit to which the goodwill has been allocated. To estimate value in use, the Group must estimate the expected future cash flows from that cash-generating unit as well as an appropriate discount rate in order to determine the present value of these cash flows. Please also refer to the disclosures under section III.3. (Goodwill).

Pension obligations

When measuring provisions for pensions (€4.6 million; prior year: €4.4 million), uncertainty exists in terms of measuring turnover, pension payment and salary trends, the discount rate, and life expectancy. Please also refer to the disclosures under section III.25. (Provisions for pensions).

6. Significant accounting judgments

Write-down of the receivable from Domusvenda S.A.

Due to differences of opinion between the joint venture partners concerning the management of the entity and the rights to information and due to differences in connection with the sale of two portfolios by Domusvenda S.A., Lisbon, Portugal, GFKL filed a number of actions before the courts in Portugal against its partner and against the general managers appointed by that partner. Moreover, the loans granted to Domusvenda and its subsidiaries for the purpose of acquiring NPL portfolios were called in.

The talks between Domusvenda and GFKL failed in mid-2011 because Domusvenda prevented the performance of the portfolio and corporate due diligence planned by GFKL.

II. Basis of presentation and accounting policies (Continued)

In September 2011, Domusvenda then ceased making payments to GFKL under a payment agreement relating to a part receivable. Furthermore, GFKL received information on the economic development of Domusvenda and on significant changes in management and shareholders that prompted GFKL to file an application to open insolvency proceedings against the assets of Domusvenda S.A. in February 2012.

The above information formed the basis for a write-down on the remaining receivable to €1.3 million as of December 31, 2011. This amount reflects the liquidation value estimated by GFKL.

In addition, the carrying amount of the equity investment in Domusvenda Holding was written down to a pro memoria value of €1 as of December 31, 2011. The write-down came to €7.4 million.

In March 2013, a settlement was reached between the parties to the dispute related to the equity investment in Domusvenda S.A. The settlement included a set-off with liabilities of GFKL to Domusvenda S.A. of €1.3 million, an upfront payment of €0.4 million and other payments due at a later date of around €2.7 million. In return, GFKL relinquished its shares in and waived receivables from Domusvenda. In light of the upfront payment already received and pro rata payments totaling €0.3 million, allowances of €0.4 million were reversed in the consolidated financial statements as of December 31, 2012 and allowances totaling €0.3 million were reversed in the second to fourth quarters of 2013. The equity investment in Domusvenda S.A. was sold for its pro memoria value in connection with the settlement.

<u>Acquisition of minority interests in Multigestión Portfolio S. L. by GFKL Financial Services AG</u>

The remaining minority interests of 0.157% in Multigestión Portfolio S. L. held by Domusvenda S.A. were acquired by GFKL Financial Services AG in the second quarter.

<u>Settlement reached in connection with the termination of the business relationship with a service provider</u>

GFKL reached a settlement in the third quarter in connection with the termination of the business relationship with a service provider. Under the settlement, GFKL is required to pay an amount in the upper single-digit millions for collection fees from prior years. The amount is payable in six installments, the first of which was paid in the third quarter. The other installments are due in 2014 to 2017 and are included under liabilities.

<u>Securitization of NPL portfolios</u>

To diversify the financing structure, GFKL again made use of the capital market in 2013 in order to securitize non-performing loans. The objective was to establish a structure which, once successfully up and running, could be used to place further tranches in subsequent years.

NPL portfolios with a net present value totaling €25.1 million were thus securitized in the reporting period. With GFKL having acquired the junior tranche, this resulted in a net cash inflow of €18.3 million for the company in November 2013.

The plan is to use the established structure for two more securitizations in 2014. The next securitization took place in the first quarter of 2014 and the subsequent transaction is scheduled for the third quarter of 2014.

<u>Write-down of NPL portfolios and recognition of a provision for VAT backpayments</u>

By judgment dated October 27, 2011, the European Court of Justice ruled that the purchase of a portfolio of non-performing loans does not constitute a supply of services for consideration by the acquirer to the seller.

II. Basis of presentation and accounting policies (Continued)

This judgment was mirrored by the German Federal Finance Court in its judgment dated January 26, 2012. However, the judgment also stated that the acquirer of the exposures could therefore not claim the deduction of input VAT in accordance with Sec. 15 UStG ["Umsatzsteuergesetz": German VAT Act] for the input transactions related to the acquisition and collection of the exposures. This means that the company would have to refund to the tax office the input VAT claimed for this line of business for the period starting from 2004.

However, based on the statements made by the Federal Ministry of Finance to date, the company expects that there will be a transitional arrangement for the application of the UStAE ["Umsatzsteueranwendungserlass": Decree on the Application of the German VAT Act] that is still in effect. The company recognized a provision of €16.8 million (including interest; prior year: €16.0 million) for VAT not paid in connection with purchases of exposures in the past. Offsetting income tax effects of €2.5 million are included in the income tax provision.

As the matter is still being discussed with the tax authorities, this amount may change to the benefit or detriment of the company.

7. Significant accounting policies

a) Accounting treatment of acquired portfolios

The acquired portfolios are reported at fair value under "Non-performing loans and receivables acquired for settlement." In line with their accounting treatment, the portfolios are reported at fair value to the competent decision-makers, who manage the assets on this basis. The portfolios are initially recognized at cost.

They are then subsequently measured using a market value-based investment model that also formed the basis for determining the purchase price. The model is based on anticipated payment receipts and costs to which a discount factor is applied. The valuation inputs of costs and discounting are estimated depending on the classification of the portfolio. The calculated cost rates range between 12% and 48% of the expected cash receipts. Discounting is carried out using an internal rate of return (IRR) of 8% to 40%.

The initial discount factor changes over the term of the portfolios due to changes in interest rates on the capital market (risk-free interest rate) and changes to the risk premiums. The risk cost model used for this purpose reflects capital market changes in the amount of the risk premium for investments in the NPL asset class. Changes to discounting lead to additional income or expenses from the portfolios due to changes in market interest rates and risk costs.

The actual payments collected in respect of a receivable are broken down into income and capital components under the investment model taking discounting into account. The income components are reported under revenue, whereas the capital component is reported as a payment of the principal.

b) Recognition and measurement of financial instruments

The application of IAS 39 means that, on initial recognition, all financial assets and financial liabilities must be allocated to one of the six categories explained below. In the case of financial instruments not measured at fair value through profit or loss, the measurement includes transaction costs directly attributable to the acquisition of the financial asset concerned. Subsequent measurement of financial assets and financial liabilities depends on their classification. Regular way purchases or sales of financial assets are recognized and derecognized using trade date accounting.

i) Financial assets at fair value through profit or loss

This category relates to financial assets that must be recognized at fair value through profit or loss. Such assets are initially recognized at cost, which at this point equates to fair value. The assets must also be measured subsequently at fair value. Any gains or losses arising from subsequent

II. Basis of presentation and accounting policies (Continued)

measurement are recognized in profit or loss. The main assets in the Group falling into this category are non-performing loans and receivables acquired for settlement because the Group manages these assets and measures their performance on the basis of fair value. For further information, please refer to “Accounting treatment of acquired portfolios” (section II.7.a). Derivative financial instruments that do not fall under the scope of hedge accounting in accordance with IAS 39 are also measured at fair value through profit or loss. They are used to hedge interest-rate related changes in the market values of NPL portfolios.

ii) Held-to-maturity financial assets

Financial assets must have a fixed maturity and a fixed schedule of payments if they are to be classified under this category. At every balance sheet date, it must be demonstrable that the company has the positive intention of continuing to hold these assets to maturity. Such assets are measured at cost or amortized cost. GFKL does not hold any assets in this category.

iii) Loans and receivables

This category covers loans and receivables recognized as a result of the provision of monies or services, or loans and receivables that the company has acquired. Such assets are initially recognized at cost and subsequently measured at amortized cost. The following balance sheet items fall into this category: “Other financial assets,” to the extent that they do not relate to interests without significant influence, “Trade and other receivables” and “Cash and cash equivalents.”

iv) Available-for-sale financial assets

This category covers all remaining non-derivative financial assets not classified under one of the aforementioned categories. The financial assets recognized in this category are measured at fair value, both on initial recognition and subsequent measurement. Changes in the fair value of the assets are recognized directly in other comprehensive income in a revaluation reserve. When an asset is derecognized, this revaluation reserve must be reversed to the income statement. GFKL recognizes interests in entities over which it has no significant influence in this category. The interests are recognized in the balance sheet under “Other financial assets.”

v) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and other financial liabilities designated as “at fair value through profit or loss” on initial recognition. With the exception of financial derivatives with negative fair values that do not qualify for hedge accounting, GFKL did not hold any financial liabilities in this category as of the balance sheet dates.

vi) Financial liabilities at amortized cost

Following initial recognition, interest-bearing liabilities are measured at amortized cost. The balance sheet items falling into this category are as follows: “Liabilities to banks,” “Other financial liabilities,” and “Trade payables and other liabilities.”

c) Other significant accounting policies

Assets classified as held for sale and liabilities classified as held for sale

Non-current assets classified as held for sale, together with assets in a disposal group classified as held for sale, must be presented on the face of the balance sheet separately from other assets. Please refer to section III.12. (Assets classified as held for sale and liabilities classified as held for sale) for further information.

II. Basis of presentation and accounting policies (Continued)

Trade and other receivables

Receivables are carried at the settlement amount and are due for payment within one year. Specific valuation allowances were recognized for receivables subject to a default risk.

Investments in associates

Investments in associates are accounted for using the equity method. An associate is an entity over which the Group exercises significant influence, but that is neither a subsidiary nor a joint venture.

Under the equity method, an investment in an associate is recognized in the balance sheet at cost plus any change in the Group's share in the entity's net assets that occurs after the acquisition of the investment. Any goodwill related to the associate is included in the carrying amount of the investment. This goodwill is not amortized. When applying the equity method, the Group carries out a test to establish whether the recognition of an additional impairment loss is required in respect of the Group's net investment in the associate. The income statement includes the Group's share of the associate's profit or loss.

The GFKL Group does not have any associates as of the balance sheet date.

Goodwill and impairment testing

Goodwill arising from a business combination is measured at cost on initial recognition. This goodwill cost equates to the excess of the cost of the business combination over the Group's share in the fair value of the identifiable assets, liabilities and contingent liabilities acquired in the transaction. After initial recognition, goodwill is measured at cost less accumulated impairment losses. Goodwill is tested for impairment at least once a year and whenever new factors or changes in circumstances indicate that the carrying amount could be impaired.

Impairment tests require that the goodwill be allocated to one of the cash-generating units from the date the entity concerned is acquired. This applies regardless of whether other assets and liabilities of the acquired entity have already been allocated to these units. Any unit to which goodwill has been allocated represents the lowest level within the Group at which goodwill is monitored for internal management purposes.

Impairment is identified by determining the recoverable amount for the cash-generating unit. If the recoverable amount for the cash-generating unit is below its carrying amount, an impairment loss is recognized.

An impairment test was also carried out on the balance sheet date on all other assets where the factors specified by IAS 36.12 indicated that the asset could be impaired. At every balance sheet date, a test is carried out to establish whether there are indications that the reasons for an impairment loss recognized in prior periods no longer exists or could have diminished. If such indications are found to exist, the recoverable amount of the asset concerned is estimated. Any previously recognized impairment loss must then be reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset must be increased to the recoverable amount. The increased carrying amount of this asset must not exceed the carrying amount that would have been determined (net of amortization/depreciation) had no impairment loss been recognized for the asset in prior years.

Other assets

Other assets and other rights are reported at amortized cost. Intangible assets and property, plant and equipment are carried at cost less amortization/depreciation. Borrowing costs are added to the cost of an asset, provided it is a qualifying asset pursuant to IAS 23. Amortization/depreciation is recognized on a straight-line basis over a period that reflects the standard useful life of these assets in the

II. Basis of presentation and accounting policies (Continued)

industry. These amortization/depreciation periods are as follows: internally developed software, 4 to 6 years; other intangible assets, 3 to 10 years; vehicles, 5 years; and other office furniture and equipment, 2 to 15 years. Residual values of assets, useful lives and amortization/depreciation methods are reviewed at the end of each fiscal year and adjusted where required.

Taxes

Consolidated tax group

GFKL Financial Services Aktiengesellschaft forms a consolidated tax group for trade tax and corporate income tax purposes through control and profit and loss transfer agreements with the following companies: Domnowski Inkasso GmbH, Proceed Collection Services GmbH, Proceed Portfolio Services GmbH, Sirius Inkasso GmbH and Zyklop Inkasso Deutschland GmbH. A control and profit and loss transfer agreement was concluded in 2012 with GFKL Collections GmbH, formerly SNT Inkasso & Forderungsmanagement GmbH, which was acquired in 2012. This entity is therefore included in the consolidated tax group for income tax purposes for the first time in fiscal year 2013.

As of December 31, 2013, the following companies formed a consolidated tax group for value-added tax (VAT) purposes with the parent: Domnowski Inkasso GmbH, Proceed Portfolio Services GmbH, Proceed Collection Services GmbH, SBL Mobilien GmbH, Sirius Inkasso GmbH, Zyklop Inkasso Deutschland GmbH, GFKL Collections GmbH (formerly SNT Inkasso & Forderungsmanagement GmbH).

Current taxes

Current income tax refund claims and income tax liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities. The calculation of the amount is based on the tax rates and tax legislation in force on the balance sheet date.

Deferred taxes

Deferred taxes are recognized using the balance sheet liability method for all temporary differences as of the balance sheet date between the carrying amounts of assets and liabilities on the balance sheet and their corresponding tax base. Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, as yet unused tax loss carryforwards and unused tax credits to the extent that it is probable that taxable income will be available against which the deductible temporary differences and as yet unused tax loss carryforwards and tax credits can be utilized.

Deferred tax assets and liabilities are measured using the tax rates expected to apply in the period in which the asset will be realized or the liability settled. These rates are based on tax rates and tax regulations enacted or announced as of the balance sheet date.

Income taxes that relate to items recognized directly in equity or in other comprehensive income are themselves recognized directly in equity or in other comprehensive income and not in the income statement.

Deferred tax assets and deferred tax liabilities are netted if the Group has an enforceable right to offset current tax assets against current tax liabilities and these deferred tax assets and liabilities relate to income tax in the same taxable entity levied by the same tax authority.

VAT

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

- Where the VAT incurred on purchased goods and services cannot be reclaimed from the tax authorities, in which case the VAT is recognized as part of the cost of the asset or as an expense.

II. Basis of presentation and accounting policies (Continued)

- Receivables and liabilities are stated with the amount of VAT included.

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

Provisions

As specified by IAS 37, a provision is recognized if there is a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense in connection with the recognition of a provision is recognized in the income statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in provisions due to the passage of time is recognized as an interest expense.

Provisions for pensions

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

In June 2011, the IASB issued amendments to IAS 19 *Employee Benefits*. The most important change to IAS 19 is that experience adjustments and effects of changes in actuarial assumptions, i.e., actuarial gains and losses, now have to be recognized directly in other comprehensive income. The previous option to either recognize immediately in profit or loss, in other comprehensive income or to defer recognition using the corridor method was abolished. GFKL has used the corridor method to date. As a result of the abolition of the corridor method under the revised IAS 19, the Group’s actuarial losses directly impact the consolidated balance sheet, leading to an increase in provisions for pensions and a decrease in equity. As the actuarial losses are recognized directly in other comprehensive income, the consolidated income statement will no longer be affected by the amortization of the amount exceeding the corridor. In addition, the net interest concept has been introduced. This means that the discount rate used to measure the gross benefit liability is applied to the net benefit liability. As the net benefit liability is net of any plan assets, this calculation assumes a return on plan assets equal to the discount rate. The changes to IAS 19 are mandatory for fiscal years beginning on or after January 1, 2013 and are to be applied retrospectively. GFKL adjusted the prior-year figures to reflect the effects of the changes to IAS 19. It made use of the exemption set out in IAS 19 not to provide any comparative information for the prior year for the sensitivity disclosures that are required for the first time.

Liabilities

Loans are initially recognized at the fair value of the consideration received after deducting any transaction costs incurred in taking out the loan. Interest-bearing liabilities are carried at the expected settlement amount including the accrued interest. Non-interest bearing liabilities arise in the form of trade payables and other liabilities.

Treasury shares

Treasury shares include all shares for which GFKL issued a cash settlement offer as part of the merger with ABIT AG in 2006. For the recognition of these shares, it is irrelevant as to whether they have already been tendered to GFKL. For those shares not yet tendered, a liability has been recognized under other financial liabilities. Proceedings are pending with regard to the settlement amount.

II. Basis of presentation and accounting policies (Continued)

Cash flow and fair value hedges

Derivative financial instruments are used for hedging. As of the balance sheet date, they relate both to hedging the risk of a change in the fair value of a recognized asset or a recognized liability and to hedging the risk of variability in cash flows.

In the case of designated fair value hedges, both the changes in value of the asset or liability as well as the change in the hedging instrument due to changes in market interest rates are recognized in profit or loss.

The accounting treatment of cash flow hedges depends on whether or not a hedging instrument can be allocated to a hedged item.

In the first case, the effective portion of the gain or loss net of deferred taxes is recognized directly in other comprehensive income; the ineffective portion is recognized in profit or loss. If the forecast transaction is no longer expected to occur, any related amounts previously recognized directly in other comprehensive income are reversed and recognized in profit or loss. In the second case, the entire amount of the change in value, both of the hedged item and the hedging instrument, is recognized in profit or loss.

Foreign currencies

The consolidated financial statements are presented in euros, which is the Group's functional and presentation currency. Transactions denominated in foreign currency are initially translated into the functional currency at the spot rate on the day of the transaction. Monetary assets and liabilities denominated in foreign currency are translated at the closing rate. Exchange differences are recognized in profit or loss provided that they do not involve a net investment in a foreign operation and provided that they are not recognized directly in other comprehensive income under hedge accounting arrangements. Any deferred taxes arising in connection with these exchange differences are also recognized directly in equity. Non-monetary items measured at historical cost in a foreign currency are translated at the rate prevailing on the date of the transaction. Non-monetary items measured at fair value in a foreign currency are translated at the rate prevailing on the date the fair value was determined.

d) Income statement

The income statement is prepared using the nature of expense method.

Revenue

Revenue is recognized as soon as it is probable that the economic benefit will flow to GFKL and the amount of the revenue can be reliably determined.

Income in respect of non-performing loans and receivables acquired for settlement is reported under revenue. This revenue relates to changes in fair values, arising primarily from the income from the investment in the receivable and any income derived from ongoing servicing.

Revenue in respect of unbilled services in the sold software segment is recognized in accordance with IAS 11 using the percentage of completion method. The percentage of completion used to determine the partial revenue for such projects is calculated by comparing the services performed as of the balance sheet date against the estimated total services to be performed in the project.

8. Consolidation disclosures

a) Basis of consolidation

The basis of consolidation has not changed compared to December 31, 2012.

SNT Inkasso & Forderungsmanagement GmbH changed its name to GFKL Collections GmbH with effect from November 6, 2013.

II. Basis of presentation and accounting policies (Continued)

As of April 2, 2012, GENEVA-ID GmbH and has program service GmbH were sold. Sales proceeds from the sale of companies amounted to €850k in the reporting period.

The significant assets and liabilities of the entities sold in the first half of 2012 break down as follows:

in €k	Deconsolidated assets and liabilities
Other receivables and assets	2 496
Cash and cash equivalents	383
Subtotal	**2 878**
Other liabilities	5 871
Provisions	598
Deferred tax liabilities	624
Net assets	**− 4 214**
Cash inflow from the disposal of companies:	
Cash deconsolidated with the subsidiary	− 383
Cash inflow due to the disposal	25 450
Cash flow (balance)	**25 067**

The balance of cash inflows and outflows from disposals of companies consists of the cash and cash equivalents received until December 31, 2012 net of the cash and cash equivalents held by the sold companies on the disposal date.

In addition, the cash inflow due to disposals includes €24.6 million in purchase price payments from the sale of Universal Leasing GmbH in 2011. In June 2012, GFKL's purchase price receivable from ADA Financial Services Verwaltungsgesellschaft mbH from the sale of Universal Leasing GmbH was sold to Carl Holding GmbH at its carrying amount, which was €36.4 million. €24.6 million of the sale price was paid in cash and €11.8 million was offset against a shareholder loan from Carl Holding GmbH.

Moreover, GFKL sold its equity investments in the associates HFI Finanz- und Investitions-Beratungsgesellschaft Hamm mbH and VR Inkasso Leasing & Consulting GmbH in the fourth quarter of 2012.

The basis of consolidation also changed as a result of the acquisition of all shares in GFKL Collections GmbH, formerly SNT Inkasso & Forderungsmanagement GmbH, on June 28, 2012. This entity is a debt collection agency specialized in receivables management for telecommunications providers and has its registered office in Potsdam. The acquisition strengthens the Group's market position within the telecommunications industry.

II. Basis of presentation and accounting policies (Continued)

The assets acquired and liabilities assumed from GFKL Collections GmbH, formerly SNT Inkasso & Forderungsmanagement GmbH, break down as follows:

Assets acquired and liabilities assumed

in €k	Acquisition-date fair value
Assets	
Property, plant and equipment	19
Intangible assets	10 779
Non-performing loans and receivables acquired for settlement	15 146
Receivables	3 535
Cash and cash equivalents	1 102
	30 581
Liabilities	
Non-current financial liabilities	4 794
Deferred tax liabilities	4 417
Other liabilities	1 243
	10 454
Total identifiable net assets at fair value	**20 127**
Goodwill arising on acquisition	4 254
Total consideration	**24 381**

The fair value of the receivables was €3,535k. The gross amount of the receivables was €3,681k.

In the first half of 2012, the consolidated financial statements do not include any proceeds or profits or losses of the subsidiary (date of first-time consolidation is June 28, 2012). No information is provided on proceeds or profits or losses from January 1, 2012 because financial statements for GFKL Collections GmbH have only been prepared in accordance with GFKL's accounting policies since GFKL obtained control of the entity.

In the second half of 2012, consolidated profit/loss for the period includes revenue of GFKL Collections GmbH of €4.0 million and earnings of −€1.1 million.

b) Principles of consolidation

The separate financial statements for all the companies included in the consolidated financial statements are prepared to the balance sheet date of the consolidated financial statements. Uniform accounting policies are applied to all these financial statements.

The acquisition of subsidiaries consolidated up to 2003 was accounted for in accordance with IAS 22. Subsidiaries acquired after March 31, 2004 were accounted for in accordance with IFRS 3 and IFRS 3 (2008) on the basis of the fair value of the acquired identifiable assets and liabilities. On first-time consolidation in each case, the carrying amount of GFKL Financial Services Aktiengesellschaft's investment was offset against its share of equity in the subsidiary concerned. Intragroup receivables and liabilities between fully consolidated companies are netted, any residual differences being consolidated to the extent required. In the consolidation of income and expense, internal revenue and intragroup income and expense is eliminated, as is any intragroup profit or loss arising from transactions between consolidated companies. Deferred taxes had to be recognized as a result of the use of uniform group accounting policies, the consolidation of intercompany balances and the elimination of intercompany profits and losses; these items were grouped together with the deferred taxes from the separate financial statements.

II. Basis of presentation and accounting policies (Continued)

9. Business risks and capital management

a) Business risks

The business risks in the GFKL Group are described in the risk report. For further information, please refer to the details in the management report, which includes disclosures in accordance with IFRS 7.31-42 and further disclosures as part of the description of the risk management system.

b) Capital management

The objective of capital management is to ensure that the GFKL Group has an equity capital base appropriate to the risk structure of the business. This is a precondition that must be satisfied if GFKL is to have sufficient access to funds on money and capital markets at all times. The GFKL Group is not subject to regulatory capital requirements. However, the Risk Control department reviews economic capital adequacy internally on a continuous basis. For the purposes of capital management, the loans from Carl Holding GmbH are managed in the same way as equity. The loans amounted to €53.9 million as of December 31, 2013.

Any emerging capital requirement is identified at an early stage; appropriate corporate action is then decided and implemented.

GFKL does not make use of preferred shares.

III. Balance sheet disclosures

1. Property, plant and equipment

Property, plant and equipment developed as follows:

in €k	Other office furniture and equipment	Advance payments made
Cost		
Balance as of January 1, 2013	10 734	0
Reclassification to non-current assets classified as held for sale	2 061	0
Additions	996	206
Reclassifications	206	-206
Disposals	612	0
Balance as of December 31, 2013	**9 263**	**0**
Accumulated depreciation and impairment losses		
Balance as of January 1, 2013	8 139	0
Reclassification to non-current assets classified as held for sale	1 814	0
Additions	932	0
Write-down due to impairment test	179	0
Disposals	527	0
Balance as of December 31, 2013	**6 909**	**0**
Residual carrying amounts as of December 31, 2013	**2 354**	**0**

III. Balance sheet disclosures (Continued)

In the prior year, changes were as follows:

in €k	Other office furniture and equipment
Cost	
Balance as of January 1, 2012	10 184
Additions from business combinations	19
Additions	779
Disposals	248
Balance as of December 31, 2012	**10 734**
Accumulated depreciation and impairment losses	
Balance as of January 1, 2012	7 319
Additions	1 059
Disposals	239
Balance as of December 31, 2012	**8 139**
Residual carrying amounts as of December 31, 2012	**2 595**

Office furniture and equipment was acquired at a cost of €328k in the current fiscal year in connection with a project to install an emergency computer center in Essen. In addition, the move to the new service center in Gelsenkirchen necessitated the purchase of new office furniture and equipment. The related cost was €286k.

Depreciation is recognized on a straight-line basis over the useful lives of the assets, which is 2 to 13 years for other office furniture and equipment.

Due to the planned move of the Essen location to a new building complex in the coming year, impairment losses of €179k (prior year: €0k) were recognized on other office equipment and furniture.

Please refer to section III.12. (Disclosures on discontinued operations) with respect to the "Reclassifications to non-current assets classified as held for sale."

III. Balance sheet disclosures (Continued)

2. Intangible assets

Intangible assets developed as follows:

in €k	Purchased software	Internally developed software	Customer relationships	Advance payments made
Cost				
Balance as of January 1, 2013	19 207	3 984	14 569	85
Reclassification to non-current assets classified as held for sale	697	0	3 250	0
Additions	131	0	0	826
Reclassifications	758	0	0	– 758
Disposals	489	0	0	0
Balance as of December 31, 2013	**18 910**	**3 984**	**11 319**	**153**
Accumulated amortization and impairment losses				
Balance as of January 1, 2013	11 642	3 984	3 144	0
Reclassification to non-current assets classified as held for sale	578	0	2 514	0
Additions	1 450	0	1 561	0
Disposals	479	0	0	0
Balance as of December 31, 2013	**12 035**	**3 984**	**2 192**	**0**
Residual carrying amounts as of December 31, 2013	**6 875**	**0**	**9 127**	**153**

In the prior year, changes were as follows:

in €k	Purchased software	Internally developed software	Customer relationships	Advance payments made
Cost				
Balance as of January 1, 2012	16 877	3 984	3 250	1 063
Additions from business combinations	60	0	10 719	0
Additions	845	0	600	647
Reclassifications	1 540	0	0	– 1 540
Disposals	115	0	0	85
Balance as of December 31, 2012	**19 207**	**3 984**	**14 569**	**85**
Accumulated amortization and impairment losses				
Balance as of January 1, 2012	9 140	3 984	2 198	0
Additions	2 458	0	947	0
Write-up	62	0	0	0
Disposals	18	0	0	0
Balance as of December 31, 2012	**11 642**	**3 984**	**3 145**	**0**
Residual carrying amounts as of December 31, 2012	**7 565**	**0**	**11 424**	**85**

Software is amortized on a straight-line basis over its estimated useful life or remaining useful life, which may be a period of between 3 and 10 years.

The useful life of the software licenses recognized as assets in the third quarter of fiscal year 2011 in the context of the reorganization of finance processes was re-assessed and increased from 5 to

10 years starting from January 1, 2013. This adjustment of the useful life by 5 years leads to a reduction of amortization by €921k in fiscal year 2013 compared to the originally estimated 5-year useful life.

The "Reclassifications to non-current assets classified as held for sale" relate to customer relationships of the Multigestión Group recognized as assets in the context of the purchase price allocation. Please see section III.12. (Disclosures on discontinued operations) for more information. The customer relationships allocated to GFKL Collections GmbH, formerly SNT Inkasso & Forderungsmanagement GmbH, upon its acquisition in 2012 are being amortized over a useful life of 8.5 years. Apart from goodwill, there are no intangible assets with indefinite useful lives.

3. Goodwill

This balance sheet item comprises goodwill in the cash-generating units. The reconciliation of the carrying amounts of goodwill at the beginning and end of the reporting period as well as the distribution over the cash-generating units is presented below.

in €k	Goodwill
Cost	
Balance as of January 1, 2012	35 585
Acquisition of subsidiaries	4 253
Balance as of December 31, 2012	**39 838**
Reclassification to non-current assets classified as held for sale	15 586
Balance as of December 31, 2013	**24 252**
Write-downs and impairment losses	
Balance as of January 1, 2012	729
Impairment losses	3 481
Balance as of December 31, 2012	**4 210**
Reclassification to non-current assets classified as held for sale	3 481
Balance as of December 31, 2013	**729**
Carrying amounts as of December 31, 2012	**35 628**
Carrying amounts as of December 31, 2013	**23 523**

in €k	Dec. 31, 2013	Dec. 31, 2012
Zyklop Inkasso Deutschland	12 542	12 542
GFKL Collections[1]	4 253	4 253
Domnowski Inkasso	3 410	3 410
Proceed Collection Services	3 318	3 318
Multigestión Group	0	12 105
Total	**23 523**	**35 628**

1 Trading as SNT Inkasso & Forderungsmanagement GmbH until November 5, 2013

Please refer to section III.12. (Disclosures on discontinued operations) with respect to the "Reclassifications to non-current assets classified as held for sale" and the development of the goodwill of the Multigestión Group.

There was no allocation of goodwill to groups of cash-generating units.

III. Balance sheet disclosures (Continued)

An impairment test must be carried out at least once a year to verify that the carrying amount of goodwill is recoverable. Impairment tests were carried out on December 31, 2013 for those cash-generating units that included goodwill and the goodwill was measured at the recoverable amount.

Since there was no active market for any of the cash-generating units, the recoverable amount was determined on the basis of value in use calculated using a discounted cash flow analysis (DCF). The cash flows used in the analysis for the calculation of the value in use were derived from a five-year financial plan for the GFKL Group based on IFRS requirements. At the receivables management companies, the planned cash flows were taken from the performance of the managed portfolios recognized in the financial statements as well as from future planned portfolios. The discount rate for the detailed planning period was determined using the weighted average cost of capital (WACC) and, before tax, amounts to some 13.8% (prior year: 12.7%) for the receivables management segment in Germany. The weighted average cost of capital is a composite rate derived from the weighted cost of equity and debt; it reflects the average cost of capital in a company taking into account the company's financing structure. A standard growth discount of 0.7% (prior year: 0.7%) on the discount rate after tax was applied in determining the discount rate for the subsequent period. The carrying amount of the cash-generating units (including goodwill) in the GFKL Group amounted to a total of €37.4 million (prior year: €56.5 million), whereas the corresponding recoverable amount was €46.7 million (prior year: €114.8 million).

Domnowski Inkasso GmbH had a recoverable amount of €3,735k compared with a carrying amount of €3,696k. Negative developments in financial planning or the discount rate would lead to a reduction in goodwill.

Given the planned disposal of the Spanish companies, the fair value less costs of disposal was used for the impairment test as of December 31, 2013. The value was determined on the basis of available purchase offers (Level 2 inputs).

The key value driver for cash flow planning is a significant increase in revenue coupled with fixed costs growing at a lower rate or remaining constant in some areas. The Executive Board sees particular revenue potential for receivables management services as a result of new regulatory requirements in the banking and insurance sectors as well as in the growth industries of telecommunications and energy supply, increasing outsourcing efforts on the part of customers and significant expansion of e-commerce. The basis for reducing relative costs has been established by concentrating on the core business of receivables management, setting up central services, implementing a new IT environment and adjusting and streamlining operational processes.

In fiscal year 2012, the Group's share in the goodwill of the Spanish subsidiary Corfisa S.A.U. was written down by €3.5 million on the basis of considerations regarding the strategic realignment of GFKL in Spain. Goodwill had to be allocated to Corfisa S.A.U. in order to calculate the amount of this impairment loss. The allocation was made on the basis of the relative fair values of the Spanish companies. In fiscal year 2013, the entire amount of the remaining goodwill of €12.1 million was written off. These impairment losses are presented under discontinued operations.

4. Investments in associates

Investments in associates comprise the shareholdings in HFI Finanz- und Investitions-Beratungsgesellschaft Hamm mbH (HFI) and VR Inkasso Leasing & Consulting GmbH (VRI), the shareholding in both cases being 48%. GFKL sold these investments in the fourth quarter of 2012.

III. Balance sheet disclosures (Continued)

5. Non-performing loans and receivables acquired for settlement

The following table shows the total of current and non-current non-performing loans and receivables acquired for settlement:

in €k	Dec. 31, 2013	Dec. 31, 2012
Secured, terminated loans	3 860	8 026
Unsecured, terminated loans	31 020	33 410
Unsecured, overdue other receivables	65 812	75 335
Total	**100 692**	**116 771**

For 2013, non-performing loans and receivables acquired for settlement broken down by residual maturity were as follows:

in €k	Residual maturity Less than 1 year	1 to 5 years	More than 5 years	Total
Non-performing loans and receivables acquired for settlement	41 011	51 455	8 226	100 692

For the prior year, residual maturities were as follows:

in €k	Residual maturity Less than 1 year	1 to 5 years	More than 5 years	Total
Non-performing loans and receivables acquired for settlement	45 874	60 773	10 124	116 771

The changes in non-performing loans and receivables acquired for settlement were as follows:

in €k	2013	2012
Opening balance	116 771	121 493
Reclassification to assets classified as held for sale	4 103	0
Acquisitions	26 064	31 632
Disposals	6 030	1 952
Subtotal	**132 702**	**151 173**
Payment receipts	85 884	84 667
Investment income	13 434	14 596
Service income	32 968	31 863
Repayment	**39 481**	**38 207**
Write-ups	26 343	15 689
Impairment expense	– 18 872	– 11 883
Measurement at fair value	**7 471**	**3 806**
Closing balance	**100 692**	**116 771**

In the current fiscal year, GFKL generated income of €53.9 million (prior year: €50.3 million) from the non-performing loans and receivables acquired for settlement.

The disposals are attributable to the return of receivables that did not meet the contractually agreed requirements or to the sale of secured portfolios.

III. Balance sheet disclosures (Continued)

Measurement at fair value is set out in detail below:

in €k	2013	2012
Additional amounts collected	10 048	6 215
Plan adjustments	14 036	7 234
Changes in market interest rates	2 259	2 240
Write-ups	**26 343**	**15 689**
Shortfall in amounts collected	−2 615	−4 476
Plan adjustments	−11 902	−6 285
Risk adjustments	0	−26
Service cost adjustments	−220	−127
Changes in market interest rates	−4 136	−970
Impairment expense	**−18 872**	**−11 883**
Total changes in value	**7 471**	**3 806**

The items "Additional amounts collected" and "Shortfall in amounts collected" show deviations between actual payment receipts and planned payment receipts. For changes made in relation to future expected payment receipts, the adjustments are reported under "Plan adjustments." Plan adjustments in fiscal year 2013 amounted to €2,134k (prior year: €949k).

The "Risk adjustments" and "Changes in market interest rates" items relate to changes in value attributable to interest rates. Unrealized gains and losses relate to changes from plan and risk adjustments and changes in market interest rates.

Scenario calculations simulate the effects of changes in the input factors used to determine the fair value of the NPL portfolio investments. There are four input factors, the sensitivity of which is shown in the table below. If there is a shift in the term structure of interest rates, an interest rate of less than zero is not taken into account.

Please refer to section II.6. (Significant accounting judgments).

Input factor	Change	Simulated change in value
Cash flow	+/− 10%	+/− € 9.73 million
Cost rate	+/− 5%	−/+ € 7.80 million
Risk premium rate	+ 1%	− € 1.95 million
Risk premium rate	− 1%	+ € 2.02 million
Term structure	+ 1%	− € 2.30 million
Term structure	− 1%	+ € 1.94 million

Changes in value due to changes in the term structure are partly hedged by interest rate derivatives.

6. Derivatives with positive and negative fair values

As of the balance sheet date, interest rate swaps with a total negative fair value of €2.0 million (prior year: €3.4 million) were held; there were still no interest rate swaps with positive fair values. The purpose of the swaps was to hedge changes in the value of NPL portfolios caused by changes in interest rates. These interest rate derivatives were not designated as hedges for hedge accounting purposes because changes in the fair value of the derivatives offset changes in the fair value of the NPL portfolios caused by interest rate changes.

In the prior year, GFKL held interest rate swaps with a negative fair value of €0.1 million (prior year: €0.6 million). Until June 28, 2012, these swaps served to hedge the interest payments on borrowings with a floating rate of interest. They were designated as cash flow hedges. Changes in value were recognized directly in other comprehensive income. They ceased to be designated as hedges on

III. Balance sheet disclosures (Continued)

June 29, 2012 due to the refinancing. Since this date, all changes in value have been recognized in profit or loss. The item previously recognized in other comprehensive income is being released to profit or loss over the residual maturity of the swaps.

The residual maturity was determined on the basis of the expected cash inflows and outflows over the residual maturities of the derivatives.

7. Other financial assets

Financial assets break down as follows:

in €k	Dec. 31, 2013	Dec. 31, 2012
Cash reserve	0	1 044
Miscellaneous non-current financial assets	78	1 530
Total other non-current financial assets	**78**	**2 574**
Receivables from bill discounting and factoring	0	15 408
Cash reserve	39	1 716
Miscellaneous financial assets	12 593	4 463
Total other current financial assets	**12 632**	**21 588**
Total	**12 710**	**24 162**

The “Cash reserve” item relates in particular to receivables from special purpose entities from the securitization of NPL portfolios.

The decrease in current assets is largely attributable to the bill discounting business in Spain, which was almost fully wound up as of September 30, 2013 and is no longer part of the core business activities of GFKL. Against this background, all the refinancing facilities were also repaid. The assets still existing as of September 30, 2013 were reclassified to “Assets classified as held for sale” in accordance with IFRS 5 from this date.

The miscellaneous financial assets are current assets and mainly relate to guarantees granted under a service agreement as well as advance payments made for the ongoing collections related to the securitization of portfolios.

8. Deferred tax assets and liabilities

The deferred tax assets in the balance sheet largely arose from the measurement of tax loss carryforwards. Deferred tax assets whose recoverability was not already guaranteed by the availability of deferred tax liabilities of the same amount were measured using a forecasting process. Overall, loss carryforwards were measured, and related deferred tax assets of €12.2 million (prior year: €15.2 million) were then recognized. The losses relate to GFKL AG. No losses from the period prior to the change in shareholders in December 2009 were recognized as assets.

The deferred tax liabilities are chiefly due to the valuation of NPL portfolios.

III. Balance sheet disclosures (Continued)

The following table shows the main accounting areas for which deferred taxes arise from temporary differences:

in €k	Dec. 31, 2013	Dec. 31, 2012
NPL measurement	– 17 286	– 18 138
Derivatives	653	1 192
Intangible assets	– 2 812	– 3 200
Provisions	1 200	1 274
Trade receivables/payables	1 794	685
Elimination of intercompany balances	– 1 244	– 1 427
Loss carryforwards	12 174	15 206
Other	428	115
Balance of deferred taxes	**– 5 093**	**– 4 293**

The table below shows the changes in deferred taxes:

in €k	2013	2012
Deferred tax assets	516	530
Deferred tax liabilities	– 4 809	– 5 197
Opening balance	**– 4 293**	**– 4 667**
Reclassification to assets classified as held for sale and liabilities classified as held for sale	– 516	0
Change in equity	– 67	67
Addition from business acquisitions	0	– 4 417
Change arising from current results	– 217	4 724
Change in the period	**– 800**	**374**
Deferred tax assets	0	516
Deferred tax liabilities	– 5 093	– 4 809
Closing balance	**– 5 093**	**– 4 293**

For further information, please refer to the disclosures under section IV.9. (Income taxes).

9. Trade and other receivables

The item mainly relates to receivables from customers for services.

in €k	Dec. 31, 2013	Dec. 31, 2012
Expenses from the collection process	2 348	2 231
Refund claims from other taxes	2 454	1 595
Prepaid expenses and other items	1 300	1 306
Trade receivables	6 283	13 550
Specific valuation allowances on receivables	– 2 250	– 5 191
Total	**10 136**	**13 490**

Valuation allowances are recognized on a case-by-case basis on separate valuation allowance accounts. Uncollectible receivables are directly written off and thereby derecognized, taking into account valuation allowances previously recognized. The decrease in trade receivables is due in

III. Balance sheet disclosures (Continued)

particular to the application of IFRS 5 in relation to the Spanish companies. The change in valuation allowances is chiefly attributable to the use of the allowance of €2.6 million recognized for a dispute in the prior year.

10. Income tax refund claims

The year-on-year change is due to the income tax refund claims relating to consolidated tax groups retrospectively recognized for past years.

11. Cash and cash equivalents

Of the cash and cash equivalents of €60.1 million (prior year: €38.2 million), €1.9 million was reclassified to discontinued operations. Cash and cash equivalents primarily comprise credit balances on current accounts and short-term deposits. The balance (> 5 million) on the cash pool master account bears interest on the basis of EONIA. This account had a balance of €21.4 million as of the balance sheet date. Balances on other accounts do not bear interest. Of these cash and cash equivalents, €19.5 million (prior year: €20.3 million) are earmarked funds, which relate to pass-through obligations from portfolio management and administered trust accounts in receivables management.

As of the balance sheet date, the Group had made full use of its credit lines, as in the prior year. All the preconditions for the drawdown of funds were satisfied at all times.

12. Disclosures on discontinued operations

Assets and liabilities related to discontinued operations are recognized in the items "Assets classified as held for sale" and "Liabilities classified as held for sale" and comprise the assets and liabilities of the Spanish operations held for sale as of December 31, 2013. This segment comprises the following entities held for sale: Multigestión Portfolio S.L., Multigestión Cartera 2004 S.A.U., Multigestión Iberia S.A.U. and CORPORACIÓN DE GESTIÓN Y ASESORAMIENTO DE SERVICIOS Y FINANZAS ASOCIADOS S.A.U.

The following table shows the breakdown of assets classified as held for sale:

in €k	Dec. 31, 2013
Property, plant and equipment	221
Intangible assets	806
Non-performing loans and receivables acquired for settlement	3 911
Trade and other receivables	2 734
Other financial assets	417
Deferred tax assets	1 483
Cash and cash equivalents	1 861
Assets classified as held for sale	**11 433**

Liabilities classified as held for sale break down as follows:

in €k	Dec. 31, 2013
Liabilities to banks	13
Other provisions	238
Deferred tax liabilities	380
Trade payables and other liabilities	1 415
Other financial liabilities	2 604
Liabilities classified as held for sale	**4 650**

Please refer to section IV.10. for more information on discontinued operations.

III. Balance sheet disclosures (Continued)

13. Share capital

As of the balance sheet date, share capital amounted to €25,883,790.00. It is divided into 25,883,790 no-par value bearer shares.

14. Capital reserves

The objective of the regulations governing statutory reserves and capital reserves is to ensure that capital is preserved and thus to protect creditors by creating restricted assets above and beyond the assets required to cover share capital. These restricted assets may be used to offset losses without affecting the assets covering share capital. The assets are restricted in the sense that the relevant amounts cannot be made available for dividend distributions.

The changes in capital reserves can be seen in the consolidated statement of changes in equity attached as an exhibit to these notes.

15. Hybrid capital

GFKL was granted another shareholder loan of €30 million by its majority shareholder on June 28, 2012. The loan has an unlimited term and may be terminated by GFKL for the first time as of December 30, 2015, giving 30 days' notice. The loan accrues interest at 8% p.a. and is reported as equity due to the terms of the loan agreement.

16. Treasury shares

The shareholder meeting held on June 22, 2005 approved the merger of ABIT AG, Meerbusch, into GFKL Financial Services Aktiengesellschaft. The merger agreement between ABIT AG and GFKL Financial Services Aktiengesellschaft gave the former shareholders of ABIT AG, who became shareholders of GFKL Financial Services Aktiengesellschaft as a result of the merger with GFKL Financial Services Aktiengesellschaft, the right to offer their newly acquired GFKL Financial Services Aktiengesellschaft shares for sale to GFKL at a price of €13.93 per share. The merger came into effect upon entry in the commercial register of GFKL Financial Services Aktiengesellschaft on August 16, 2006. As of the balance sheet date, GFKL Financial Services Aktiengesellschaft had repurchased a total of 915,934 shares, which corresponds to a share of €915,934 (3.54%) of the share capital. As of the balance sheet date, GFKL Financial Services Aktiengesellschaft held these shares as treasury shares. The shareholder meeting held on August 15, 2012 resolved to authorize the purchase of treasury shares pursuant to Sec. 71 (1) No. 8 AktG ["Aktiengesetz": German Stock Corporation Act].

Those shares not yet tendered are also disclosed under "Treasury shares" as a result of the cash settlement offer. This disclosure is accompanied by the recognition of the as yet untendered shares as debt (synthetic liability).

17. Retained earnings

Retained earnings relate to the statutory reserve of €38k (prior year: €38k), the profit participation capital of €26k (prior year: €26k) and the retained earnings of €33k (prior year: €0k) created by the acquisition of the minority interests in Multigestión Portfolio S.L.

18. Valuation reserves

Valuation reserve for financial instruments

In accounting for the designated interest rate derivatives, the relevant fair values net of income taxes were recognized directly in other comprehensive income. As a result of the reclassification of derivatives in November 2007, the fair values recognized in other comprehensive income at this time were reversed on a straight-line basis over the residual maturity of the hedged item. The fair values of non-designated interest rate derivatives were recognized in profit or loss. GFKL also held interest rate swaps with a negative fair value of €0.1 million. Until June 28, 2012, these swaps served to hedge the interest payments on borrowings with a floating rate of interest. They were designated as cash flow hedges.

Changes in value were recognized directly in other comprehensive income. They ceased to be designated as hedges on June 29, 2012 due to the refinancing. Since this date, all changes in value have been recognized in profit or loss. The item previously recognized in other comprehensive income was released to profit or loss over the residual maturity of the swaps. The consolidated profit/loss for the period included €542k (prior year: €666k) from the reversal of the valuation reserve.

Valuation reserve for actuarial gains and losses

For more information on the valuation reserve for actuarial gains and losses, please see section III.25. "Provisions for pensions."

19. Non-controlling interests

Non-controlling interests relate to the minority interests in Universal Lease Iberia Properties S.L. The remaining minority interests of 0.157% in Multigestión Portfolio S. L. held by Domusvenda S.A. were acquired by GFKL Financial Services AG in the second quarter of 2013.

20. Conditional capital

The company had no conditional capital at its disposal as of the balance sheet date.

21. Authorized capital

The shareholder meeting held on July 14, 2010 authorized the Executive Board, subject to the consent of the Supervisory Board, to increase the share capital of the company by issuing up to 12,941,895 no-par value bearer shares for cash and/or non-cash contributions on one or more occasions up to July 13, 2015, subject to maximum total increase of €12,941,895.00. Existing shareholders are to be granted subscription rights. However, subject to the consent of the Supervisory Board, the Executive Board was authorized to exclude fractional amounts from the shareholders' subscription rights. The Executive Board is also authorized, subject to the consent of the Supervisory Board, to exclude these subscription rights if the capital increase is performed in return for non-cash contributions, in particular during the acquisition of entities, parts of entities, investments in entities or other assets including rights and receivables or as part of a business combination.

22. Liabilities to banks

The following table sets out the principal non-current and current liabilities to banks:

in €k

Bank/arranging party	Type	Maturity	Base interest rate	Dec. 31, 2013	Dec. 31, 2012
Bayerische Landesbank	Syndicated credit facility	Jun. 30, 2015	1M EURIBOR	100 008	108 223
Various	Loan	Various	Various	0	43
Total non-current liabilities to banks				**100 008**	**108 266**

in €k

Bank/arranging party	Type	Maturity	Base interest rate	Dec. 31, 2013	Dec. 31, 2012
Bayerische Landesbank	Syndicated credit facility	Jun. 30, 2015	1M EURIBOR	10 042	5 000
Various	Current account facility	Various	Various	0	9 037
Total current liabilities to banks				**10 042**	**14 037**

III. Balance sheet disclosures (Continued)

The arrangement fees that fell due in connection with the syndicated credit facility at the beginning of the term were deducted from the loan amount in accordance with IAS 39. Using the effective interest method, the arrangement fees are added back to the loan over its term, with the expense recognized in profit or loss.

GFKL's liabilities to banks are secured by senior notarized pledges of shares/limited partnership interests in the following entities:

– Domnowski Inkasso GmbH, Essen

– Inkasso Becker Wuppertal GmbH & Co.KG, Wuppertal (including pledge of the shares in the general partner GmbH)

– Proceed Collection Services GmbH, Essen

– Proceed Portfolio Services GmbH, Essen

– Sirius Inkasso GmbH, Düsseldorf

– Zyklop Inkasso Deutschland GmbH, Krefeld

– GFKL Collections GmbH (formerly SNT Inkasso & Forderungsmanagement GmbH), Potsdam

Moreover, the liabilities to banks are secured by the cash pool accounts at DZ Bank.

23. Other financial liabilities

Other financial liabilities break down as follows:

in €k	Dec. 31, 2013	Dec. 31, 2012
Liabilities arising from NPL portfolios	5 656	5 208
Liabilities to affiliates	20 055	19 465
Pass-through obligations arising from portfolio management	1 861	7 907
Other	3 205	82
Total non-current	**30 777**	**32 661**
Liabilities arising from NPL portfolios	9 851	5 431
Pass-through obligations arising from portfolio management	12 411	11 561
Employee-related liabilities	2 746	2 458
Liabilities arising from the cash settlement offer	7 104	6 864
Deferred income and other items	9 343	6 748
Total current	**41 456**	**33 061**
Total	**72 233**	**65 722**

The item liabilities arising from NPL portfolios relates to sold but not derecognized NPL exposures.

The non-current liabilities to affiliates relate to a loan from Carl Holding GmbH.

Pass-through obligations arising from portfolio management comprise payments received from debtors to be forwarded to customers. For the most part, the decrease in non-current pass-through obligations is attributable to the purchase by GFKL of the receivables contained in a service agreement. The customer waived settlement of the deferred pass-through obligations in return for immediate payment of the purchase price for the acquisition of the receivables.

GFKL reached a settlement in the third quarter of 2013 in connection with the termination of the business relationship with a service provider. Under the settlement, GFKL is required to pay an amount in the upper single-digit millions for collection fees from prior years. The amount is payable in six

III. Balance sheet disclosures (Continued)

installments, the first of which was paid in the third quarter of 2013. The other installments are due in 2014 to 2017. This settlement is responsible in particular for the increase in other non-current and current liabilities.

The following table shows the principal liabilities of the Group as of December 31, 2013, by maturity:

in €k	Less than 1 year	Residual maturity 1 to 5 years	More than 5 years	Total
Liabilities to banks	10 042	100 008	0	110 050
Other financial liabilities	41 456	30 777	0	72 233
Trade payables and other liabilities	8 509	0	0	8 509
Total	**60 007**	**130 785**	**0**	**190 791**

24. Provisions

The item “Other taxes” mainly relates to provisions for VAT backpayments. By judgment dated October 27, 2011, the European Court of Justice ruled that the purchase of a portfolio of non-performing loans does not constitute a supply of services for consideration by the acquirer to the seller.

This judgment was mirrored by the German Federal Finance Court in its judgment dated January 26, 2012. However, the judgment also stated that the acquirer of the exposures could therefore not claim the deduction of input VAT in accordance with Sec. 15 UStG for the input transactions related to the acquisition and collection of the exposures. This means that the company would have to refund to the tax office the input VAT claimed for this line of business for the period starting from 2004.

However, based on the statements made by the Federal Ministry of Finance to date, the company expects that there will be a transitional arrangement for the application of the UStAE that is still in effect. The company recognized a provision of €16.8 million (including interest; prior year: €16.0 million) for VAT not paid in connection with purchases of exposures in the past.

In addition, provisions for restructuring and provisions for archiving are recognized. The provisions are recognized in the amount of the expected obligation. They take into account all identifiable risks related to obligations of uncertain amount. Warranty provisions are mainly attributable to GFKL Financial Services Aktiengesellschaft. They were recognized partly for possible purchase price adjustments as a result of tax guarantees for sold subsidiaries. As they were no longer expected to be used, provisions of €503k were reversed in the reporting year.

The provisions for restructuring of €3.1 million were recognized as of December 31, 2012 for the centralization of the companies’ file archives in 2013 and for the severance of employees and Executive Board members. €0.8 million of the provision recognized was used in the reporting year. Certain negative expectations did not materialize in the fiscal year, such that €1.0 million was reversed.

The provisions for archiving costs arose because of the legal obligation to archive business documents for up to 10 years. The changes in other provisions over the fiscal year are shown in the following table. The increase in the discounted amount during the year under review to reflect the passage of time and changes in the discount rate did not have any material impact in the reporting period.

The “Other” item mainly comprises an allocation of €555k for consulting services for the planned sale of the Multigestión Group and for VAT still payable of €265k. The utilization line mainly shows the use of the provision for an onerous contract (€931k). €1,104k of this provision was reversed to profit or loss.

III. Balance sheet disclosures (Continued)

The provisions of the Multigestión Group that were reclassified to discontinued operations due to the application of IFRS 5 are presented under "Reclassification to non-current assets classified as held for sale."

in €k	Other taxes	Tax audit interest	Warranties	Restructuring	Archiving	Other	Total
Opening balance	16 259	837	1 323	3 148	585	6 215	28 367
Reclassification	– 1 279	1 400	0	0	0	– 121	0
Allocation	265	1 913	35	175	264	941	3 594
Utilization	58	198	0	831	0	1 652	2 738
Reversal	0	0	503	973	243	2 161	3 880
Reclassification to non-current assets classified as held for sale	0	0	0	0	0	217	217
Closing balance	**15 187**	**3 953**	**855**	**1 519**	**606**	**3 006**	**25 125**
Current	15 187	3 953	855	1 519	71	2 522	24 107
Non-current	0	0	0	0	535	483	1 019
Closing balance	**15 187**	**3 953**	**855**	**1 519**	**606**	**3 006**	**25 125**

25. Provisions for pensions

GFKL has defined benefit pension obligations. Pension obligations benefits were calculated in accordance with the requirements set out in IAS 19. An interest rate of between 3.13% and 3.7% (prior year: 3.0% and 3.9%), depending on the group of beneficiaries, was used for this purpose. The defined benefit obligation arising from the defined benefit plans was determined in accordance with IAS 19.67-74. The calculations took into account estimated increases in pensions and salaries as well as an employee turnover rate. Pension increases were estimated in a range from 1.5% to 2.5% (prior year: 1.5% to 2.5%), salary increases in a range from 0.0% to 2.0% (prior year: 0.0% to 2.0%), and the employee turnover rate in a range from 0.0% to 2.0% (prior year: 0.0% to 1.5%). The employee turnover rate, in particular, depends on the age of the pension beneficiaries. Mortality and invalidity rates were measured for the German companies using the 2005G Heubeck mortality tables. In June 2011, the IASB issued amendments to IAS 19 *Employee Benefits.* The most important change to IAS 19 is that experience adjustments and effects of changes in actuarial assumptions, i.e., actuarial gains and losses, now have to be recognized directly in other comprehensive income. The previous option to either recognize immediately in profit or loss, in other comprehensive income or to defer recognition using the corridor method was abolished. GFKL has used the corridor method to date. As a result of the abolition of the corridor method under the revised IAS 19, the Group's actuarial losses directly impact the consolidated balance sheet, leading to an increase in provisions for pensions and a decrease in equity. As the actuarial losses are recognized directly in other comprehensive income, the consolidated income statement will no longer be affected by the amortization of the amount exceeding the corridor. In addition, the net interest concept has been introduced. This means that the discount rate used to measure the gross benefit liability is applied to the net benefit liability. As the net benefit liability is net of any plan assets, this calculation assumes a return on plan assets equal to the discount rate. The changes to IAS 19 are mandatory for fiscal years beginning on or after January 1, 2013 and are to be applied retrospectively. GFKL adjusted the prior-year figures to reflect the effects of the changes to IAS 19.

III. Balance sheet disclosures (Continued)

The amendments to IAS 19 *Employee Benefits* issued by the IASB in June 2011 had the following effects on the balance sheet of GFKL as of January 1, 2012 and December 31, 2012:

in €k	Jan. 1, 2012			Dec. 31, 2012		
	Before adjustment	Adjustment	After adjustment	Before adjustment	Adjustment	After adjustment
Total equity	– 14 988	381	– 14 607	– 8 027	– 1 007	– 9 034
Total provisions for pensions	3 061	– 558	2 503	2 871	1 516	4 386
Total deferred tax liabilities	5 197	177	5 374	5 318	– 509	4 809

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

The net liability is calculated as follows:

in €k	2013	2012	2011
Present value of unfunded defined benefit obligation	7 600	7 230	5 093
Plan assets	– 3 036	– 2 843	– 2 466
Net liability	**4 564**	**4 386**	**2 627**

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

in €k	2013	2012
Opening balance of defined benefit obligation	**7 230**	**5 093**
Interest expense	253	242
Pension payments	– 151	– 75
Current service cost	66	151
Actuarial losses	202	1 819
Closing balance of defined benefit obligation	**7 600**	**7 230**

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

in €k	2013	2012
Opening balance of plan assets	**2 843**	**2 466**
Return/income	107	96
Actuarial gains/losses (-)	– 188	– 213
Contributions	141	228
Balance-dependent reclassification	132	266
Closing balance of plan assets	**3 036**	**2 843**

III. Balance sheet disclosures (Continued)

Since the plan assets have been pledged as collateral, they are netted against the present value of the unfunded defined benefit obligation. The plan assets are insurance policies entered into by GFKL. These assets have been pledged to the beneficiaries, resulting in a netting requirement under IAS 19. Contributions to the plan assets over the next year are expected to amount to €111k (prior year: €228k).

Disclosed provisions for pensions developed as follows in the fiscal year:

in €k	2013	2012
Opening balance	**4 386**	**2 627**
Payments arising from pension obligations	– 151	0
Allocation to defined benefit obligation	211	70
Allocation to plan assets	– 141	– 387
Actuarial gains (-)/losses	390	2 033
Balance-dependent reclassification	– 132	43
Closing balance	**4 564**	**4 386**

For further disclosures regarding changes to the provisions for pensions recognized in profit or loss, please refer to section IV.3. (Personnel expenses and number of employees).

A quantitative sensitivity analysis of the key assumptions as of December 31, 2013 is as shown below:

in €k	Dec. 31, 2013
Interest rate	
Increase 0.50%	– 646
Decrease 0.50%	710
Salary trend	
Increase 0.50%	91
Decrease 0.50%	– 86
Benefit trend	
Increase 1%	1 181
Decrease 1%	– 1 020

The sensitivity analyses above were determined based on a method that extrapolates the impact on the defined benefit obligation as a result of realized changes in key assumptions occurring at the end of the reporting period.

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

in €k	Dec. 31, 2013
Within the next 12 months (next fiscal year)	153
Between 2 and 5 years	940
Between 5 and 10 years	1 671
More than 10 years	16 368
Total expected payments	**19 132**

The average duration of the defined benefit obligation at the end of the reporting period is 20 years.

III. Balance sheet disclosures (Continued)

26. Trade payables and other liabilities

This item comprises liabilities from other taxes, which include liabilities from wage and church taxes as well as social security and VAT liabilities. Advance payments received mainly relate to prepayments by customers for the collection process.

in €k	Dec. 31, 2013	Dec. 31, 2012
Liabilities from other taxes	1 700	3 489
Trade payables	2 735	4 441
Advance payments received	2 854	3 167
Deferred income and other items	1 219	1 719
Total	**8 509**	**12 816**

27. Income tax provisions

The income tax provisions largely relate to provisions for corporate income tax and solidarity surcharge totaling €4.8 million (prior year: €4.7 million), trade tax of €5.4 million (prior year: €4.7 million) and provisions for the tax audit of €4.0 million (prior year: €9.0 million). The decrease in the amount for the tax audit is due to the retrospective recognition of the consolidated tax groups for prior years.

IV. Income statement disclosures

1. Revenue

Revenue breaks down as follows:

in €k	Dec. 31, 2013	Dec. 31, 2012
Fees from the collection process	94 487	76 605
Cost refunds from the collection process	34 527	28 978
Revenue from acquired portfolios	61 365	51 324
Other	17	70
Total	**190 396**	**156 976**

Revenue is derived primarily from portfolio-related and performance-based fees for the management of receivables, the settlement of non-performing loans and receivables, realized surpluses on purchased overdue receivables that are supported by an enforcement judgment, and from the reimbursement of costs. The expenses incurred in connection with this revenue primarily relate to personnel expenses and other operating expenses, which are particularly shaped by reimbursed costs. In addition, the revenue from acquired portfolios represents the recognition of revenue from non-performing loans and receivables acquired for settlement. GFKL bears the entire risk of holding these portfolios. The recognized revenue reflects the change in the fair value of the recognized assets. The underlying measurement model is based on standard market terms and conditions.

For details of the revenue attributable to the Multigestión Group in 2012 and 2013, see section IV.10. (Discontinued operations).

2. Other operating income

In connection with new refinancing arranged at the end of June 2012, a bank loan with a carrying amount of €15.0 million was redeemed in return for payment of €10.5 million. The amount of €4.5 million in excess of the redemption payment was recognized as other operating income.

In addition, other operating income includes revenue from cost allocations, reversals of specific valuation allowances that were recognized in prior years and were no longer required as well as

IV. Income statement disclosures (Continued)

income from exchange differences. The increase in other income is due in particular to subsequent purchase price adjustments in connection with the sale of a former subsidiary.

For details of the other operating income attributable to the Multigestión Group in 2012 and 2013, see section IV.10. (Discontinued operations).

Other operating income breaks down as follows:

in €k	Dec. 31, 2013	Dec. 31, 2012
Reversal of provisions and accrued liabilities	4 070	1 271
Purchase price adjustments	3 804	0
Income from the reversal of valuation allowances on receivables	936	1 190
Income from exchange differences	4	1
Income from the disposal of non-current assets	15	0
Other income	2 239	6 555
Total	**11 069**	**9 017**

3. Personnel expenses and number of employees

The following summary shows the change in the number of employees (full-time equivalents—FTEs), broken down by segment:

	Dec. 31, 2013	Dec. 31, 2012
Receivables management	709	728
Holding company	113	128
Continuing operations	**822**	**856**
Discontinued operations	196	220
Employees	**1 018**	**1 076**
thereof employees in Germany	*822*	*856*
Average number of employees	**1 033**	**1 089**

The average number of employees is determined on the basis of a monthly analysis. The employees in discontinued operations are those of the Spanish companies Multigestión Portfolio S.L., Multigestión Cartera 2004 S.A.U., Multigestión Iberia S.A.U. and CORPORACIÓN DE GESTIÓN Y ASESORAMIENTO DE SERVICIOS Y FINANZAS ASOCIADOS S.A.U.

Long-service bonus commitments have been made to some of the employees in the GFKL Group. The provision (€317k; prior year: €298k) was recognized based on the length of service to date, the current employee turnover rate, and a market-based discount rate.

For information on the severance of employees and Executive Board members, please see section III.24. (Provisions).

The following amounts were recognized in the income statement in respect of pensions obligations:

in €k	Dec. 31, 2013	Dec. 31, 2012
Current service cost	66	151
Interest income	– 107	– 96
Interest expense	253	242
Total	**211**	**297**

IV. Income statement disclosures (Continued)

In addition to the expenses for pensions obligations, personnel expenses include employer contributions to the statutory pension insurance scheme in Germany. The German pension insurance scheme is classified as a defined contribution plan. The contributions paid amount to €2,878k (prior year: €4,109k).

Please see section III.25. (Provisions for pensions) for further information.

4. Depreciation, amortization and impairment expense

Depreciation, amortization and impairment expense relates to the depreciation and impairment of property, plant and equipment and the amortization and impairment of intangible assets. Please refer to the information under sections III.1. (Property, plant and equipment) and III.2. (Intangible assets).

For an explanation of impairment losses on goodwill from discontinued operations, please refer to section IV.10. (Discontinued operations).

5. Other operating expenses

Other operating expenses break down as follows:

in €k	Dec. 31, 2013	Dec. 31, 2012
Costs of the collection process	102 639	75 859
Valuation allowances and write-downs on receivables	1 475	4 896
Valuation allowances and write-downs on financial assets	0	450
General and administrative expenses, contributions and rent	13 072	15 482
Personnel recruitment and freelancers	4 566	6 904
Consulting and auditing fees	4 225	4 999
Expense from the measurement of NPL receivables	6 560	3 236
Other taxes	0	325
Commissions, incidental refinancing costs	66	15
Expenses from exchange differences	0	3
Expenses arising from the disposal of assets	2	107
Other operating expenses	1 965	13 052
Total	**134 570**	**125 328**

Costs of the collection process relate in particular to legal, court and dunning expenses as well as postage and other expenses incurred in the collection of receivables. The increase in expenses year on year is largely due to higher expenses for collection lawyers of €12.3 million, costs for the settlement of legal disputes of €7.9 million and fees for address services of €1 million. The settlement costs include collection fees for prior years.

The item “General and administrative expenses, contributions and rent” includes expenses from operating leases for vehicles and office equipment amounting to €3.1 million (prior year: €2.9 million).

Expenses from the measurement of NPL receivables relate to non-performing loans and receivables acquired for settlement which generated a negative profit contribution in the fiscal year, one reason for which being write-downs.

For details of the other operating expenses attributable to the Multigestión Group in 2012 and 2013, see section IV.10. (Discontinued operations).

6. Interest and similar income

Interest and similar income mainly relates to the fair value measurement of derivatives. For details of the interest and similar income attributable to the Multigestión Group in 2012 and 2013, see section IV.10. (Discontinued operations).

IV. Income statement disclosures (Continued)

7. Interest and similar expenses

Interest expenses arise mainly from loan liabilities of the holding company and expenses from fair value measurement as well as interest expenses from derivatives. For details of the interest and similar expenses attributable to the Multigestión Group in 2012 and 2013, see section IV.10. (Discontinued operations).

8. Profit/loss from investments accounted for using the equity method

The contribution to consolidated earnings from the profit/loss of associates amounted to €0k (prior year: €56k). The largest individual figure within this contribution in 2012 was €86k from HFI Finanz- und Investitions-Beratungsgesellschaft Hamm mbH.

9. Income taxes

Group tax expense is calculated using a tax rate of around 32% (prior year: 32%). This tax rate is also used for the calculation of deferred taxes.

The following table shows the tax reconciliation:

in €k	Dec. 31, 2013	Dec. 31, 2012
Earnings before income tax	6 908	−20 403
Expected income taxes	**2 191**	**−6 472**
Modification of the determination of taxable income	327	1 170
Measurement and utilization of loss carryforwards	318	728
Out-of period taxes	−8 987	4 646
Permanent effects	−1 423	239
Other	38	102
Effective income taxes	**−7 536**	**413**

The modification to the determination of taxable income relates in particular to add-backs of non-tax deductible expenses of GFKL Financial Services Aktiengesellschaft.

Out-of-period taxes mainly relate to the reversal of provision for the tax audit.

The permanent effects largely concern the interest on the hybrid loan from the shareholder.

The tax expenses are as follows:

in €k	Dec. 31, 2013	Dec. 31, 2012
Current taxes	1 234	505
Current taxes from prior years	−8 987	4 646
Deferred taxes	217	−4 738
Total	**−7 536**	**413**

10. Discontinued operations

Retrospective restatement of prior-year figures

The planned sale of the Spanish companies of the GFKL Group make it necessary to apply IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations.* The operations which must be presented as discontinued operations are no longer included in the profit/loss from continuing operations in the period under review or in any other comparative period. The profit/loss from these operations is now included in the profit/loss from discontinued operations in the income statement. The adjustments prescribed by IFRS 5 are made retrospectively.

IV. Income statement disclosures (Continued)

The following table shows the effects of applying this classification retrospectively to the items of the income statement as of December 31, 2012:

in €k	Dec. 31, 2012
Revenue	–14 189
Other operating income	–33
Personnel expenses	–8 903
Depreciation, amortization and impairment expense	–3 954
Other operating expenses	–6 307
Interest and similar income	–3 198
Interest and similar expenses	–915
Income taxes	–190

Information on results and cash flows from discontinued operations is provided below. The results generated in both periods covered are presented on a separate line in the income statement.

For the purposes of presentation in accordance with IFRS 5.33, intragroup balances and transactions between discontinued and continuing operations are not consolidated if it is probable that the business relationships will be continued after the disposal.

The depreciation/amortization of non-current assets of discontinued operations was suspended.

Aside from the Spanish companies, the prior year also includes the companies of the former software segment which were sold in 2012.

The result from discontinued operations breaks down as follows:

in €k	Dec. 31, 2013	Dec. 31, 2012
Discontinued operations income	13 845	21 382
thereof in respect of affiliates	*0*	*0*
Discontinued operations expenses	13 300	21 107
thereof in respect of affiliates	*260*	*224*
Earnings before tax	**545**	**275**
Taxes on earnings	–117	285
Profit/loss from measurement/deconsolidationless costs to sell	–12 585	–3 165
Taxes on profit/loss from measurement/deconsolidation	0	0
Profit/loss from discontinued operations	**–12 157**	**–3 174**
Cash flow from operating activities	14 118	–291
Cash flow from investing activities	–56	–172
Cash flow from financing activities	–15 763	215
Total	**–1 702**	**–248**

Assets and liabilities related to discontinued operations are recognized in the items “Assets classified as held for sale” and “Liabilities classified as held for sale” (section III.12.) and comprise the assets and liabilities of the operations held for sale as of December 31, 2013.

V. Other disclosures

1. Basic/diluted earnings per share and dividends

Earnings per share are calculated on the basis of the profit attributable to the equity holders of the parent and the number of outstanding shares in the Group’s parent, GFKL Financial Services Aktiengesellschaft. As of December 31, 2013, the average number of shares was 24,783,567 (prior year: 24,783,567). Treasury shares (1,100,223 shares; prior year: 1,100,223 shares) are not taken into account in the calculation of earnings per share.

V. Other disclosures (Continued)

The average number of shares is derived from the number of shares in GFKL Financial Services Aktiengesellschaft including the issue of new shares. In order to determine diluted earnings per share, the shares not yet tendered under the cash settlement offer and the corresponding interest must be taken into account.

Beginning of period	End of period	No. days	No. shares	Weighting
Jan. 1, 2013	Dec. 31, 2013	365	24 783 567	24 783 567
Total/average:		**365**		**24 783 567**

Basic earnings per share were calculated by dividing the profit attributable to the equity holders of the parent by the weighted average number of shares, as follows:

	Dec. 31, 2013	Dec. 31, 2012
Profit/loss from continuing operations after non-controlling interests in €k	14 457	−20 812
Profit/loss from discontinued operations in €k	−12 157	−3 174
Profit/loss attributable to equity holders of the parent in €k	**2 301**	**−23 986**
Weighted number of shares	24 783 567	24 783 567
Earnings per share in €	**0,09**	**−0,97**

Diluted earnings per share was calculated as follows:

	Dec. 31, 2013	Dec. 31, 2012
Profit/loss from continuing operations after non-controlling interests in €k	14 541	−20 721
Profit/loss from discontinued operations in €k	−12 157	−3 174
Profit/loss attributable to equity holders of the parent in €k	**2 384**	**−23 895**
Weighted number of shares	25 005 526	25 062 693
Earnings per share in €	**0,10**	**−0,95**

The profit/loss used for determining diluted earnings per share is adjusted for interest expenses and corresponding taxes for outstanding share repurchases of €84k (prior year: €91k). The weighted average number of shares is influenced by the number of shares outstanding as of January 1, 2013 from the cash settlement offer to former ABIT shareholders. The required issue of new ordinary shares at the current share price that would be necessary to settle the outstanding amount under the cash settlement offer is determined in this context.

As for 2012, there are no plans to distribute a dividend for 2013.

2. Additional disclosures on financial instruments

The following table shows the breakdown of assets and liabilities as of December 31, 2013 by IAS 39 category:

in €k	Category	Carrying amounts	Fair values
Assets			
Loans and receivables	LaR	81 058	81 058
Held-to-maturity investments	HtM	0	0
Available-for-sale financial assets	AfS	0	0
Financial assets at fair value through profit or loss	FAaFV	100 692	100 692
Liabilities			
Financial liabilities at amortized cost	FLAC	190 791	190 791
Financial liabilities at fair value through profit or loss	FLaFV	2 059	2 059

V. Other disclosures (Continued)

GFKL holds financial instruments in the categories "Loans and receivables" and "Financial assets at fair value through profit or loss." In the "Financial assets at fair value through profit or loss" category, the carrying amount is equal to the fair value because these items are recognized at market value. In the case of financial instruments in the "Loans and receivables" category, the carrying amount is also equal to the fair value because these items are recognized at the expected settlement amount taking into account appropriate valuation allowances. Assets and liabilities are mostly subject to floating-rate interest. An exception is the fixed-rate subordinated loan from Carl Holding GmbH, which is non-current.

As of December 31, 2012, the breakdown is as follows:

in €k	Category	Carrying amounts	Fair values
Assets			
Loans and receivables	LaR	75 827	75 827
Held-to-maturity investments	HtM	0	0
Available-for-sale financial assets	AfS	0	0
Financial assets at fair value through profit or loss	FAaFV	116 771	116 771
Liabilities			
Financial liabilities at amortized cost	FLAC	200 841	200 841
Financial liabilities at fair value through profit or loss	FLaFV	4 013	4 013

NPL portfolios and derivatives that do not qualify for hedge accounting are recognized in the "Financial assets at fair value through profit or loss" and "Financial liabilities at fair value through profit or loss" categories. Derivatives fall under Level 2 of the fair value hierarchy in IFRS 7; NPL portfolios under Level 3.

The derivatives recognized (Level 2) relate exclusively to interest rate swaps that GFKL concludes with its banking partners in OTC trade. In order to recognize the fair value of these derivatives, the fair value calculation performed by GFKL as of the balance sheet date is used, which is based on the customary market method and is regularly compared with fair value calculation provided by the counterparties. The fair value of interest rate swaps is determined by discounting expected future cash flows over the residual term of the contract based on current market rates and the term structure of interest rates.

Please see section II.7.a (Accounting treatment of acquired portfolios) for more information on the valuation techniques for determining the fair value of the NPL investments.

The "Financial liabilities at amortized cost" are mostly floating-rate loans. There is no evidence that the agreed credit spreads have changed significantly since the loans were entered into. Thus the carrying amounts remain equivalent to the fair values of the financial liabilities.

As of December 31, 2013, the breakdown of contributions to net gain/loss by IAS 39 category was as follows:

in €k Category	Interest income	Interest expenses	Fees	Impairment losses and reversals of impairment losses	Net gain/loss
LaR	4	0	–489	10	**–475**
HtM	0	0	0	0	**0**
AfS	0	0	0	0	**0**
FAaFV	0	0	0	53 062	**53 062**
FLAC	0	10 183	0	56	**–10 127**
FLaFV	53	2 837	0	0	**–2 784**

V. Other disclosures (Continued)

As of December 31, 2012, the amounts were as follows:

in €k Category	Interest income	Interest expenses	Fees	Impairment losses and reversals of impairment losses	Net gain/loss
LaR	229	0	−553	−4 987	**−5 311**
HtM	0	0	0	0	**0**
AfS	0	0	0	0	**0**
FAaFV	13	0	0	48 455	**48 468**
FLAC	0	11 183	−1	3 724	**−7 460**
FLaFV	0	4 206	0	5	**−4 200**

As part of refinancing arrangements for securitization transactions, various financial assets were pledged to third parties as collateral. The changes in financial assets pledged as collateral were as follows:

in €k	Dec. 31, 2013	Dec. 31, 2012
Assigned NPL portfolios	26 446	36 617
Pledged current accounts	0	12 961
Total	**26 446**	**49 578**

There are no financial instruments that include multiple embedded derivatives.

For disclosures on compliance with the terms and conditions of loan agreements, please refer to the information on capital management under section II.9. (Business risks and capital management).

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

in €k	Dec. 31, 2013	Dec. 31, 2012
Derivative financial instruments with negative fair values		
—not designated as part of a hedge relationship	−2 058	−4 013

There were no derivative financial instruments to hedge fair value risks in accordance with IAS 39 either as of the current or prior-year balance sheet date. It was not possible to apply the rules of hedge accounting to the derivatives as of December 31, 2013. Derivative financial instruments with a negative fair value of €2,058k are held to hedge against fluctuations in the fair value of the NPL portfolios arising from changes in the general level of interest rates.

3. Derecognition of assets

a) Refinancing of NPL portfolios

Some NPL portfolios are refinanced by the sale of these portfolios to special purpose entities. In this case, the assets are not derecognized, nor is it necessary to recognize any continuing involvement. GFKL retains substantially all the risks and rewards of the NPL portfolio through the subordinated financing of the special purpose entity and the settlement terms for incoming payments from debtors. The assets continue to be recognized under “Non-performing loans and receivables acquired for settlement” (€24.3 million) and the liabilities under “Other financial liabilities” (€15.8 million).

V. Other disclosures (Continued)

b) Derecognitions in relation to the change in shareholders in 2009

In relation to the change in GFKL's shareholders in 2009, assets were transferred to the former shareholders, or a special purpose entity set up by them. The assets partly related to a compensation claim against Resba GmbH. A settlement was reached in fiscal year 2013 in the legal dispute between SBL Mobilien and Resba GmbH.

Due to differences of opinion between the joint venture partners concerning the management of the entity and the rights to information and due to differences in connection with the sale of two portfolios by Domusvenda S.A., Lisbon, Portugal, GFKL filed a number of actions before the courts in Portugal against its partner and against the general managers appointed by that partner and filed an application to open insolvency proceedings against the assets of Domusvenda S.A. in February 2012. In March 2013, a settlement was agreed with the partner, Domusvenda and other parties.

4. Contingent liabilities

GFKL is subject to continued liability in some instances in respect of former group companies that have been sold.

5. Other financial obligations

The following tables set out the expected changes in rent obligations for company offices, in the lease obligations for vehicles, IT and communications equipment the company uses itself and in maintenance agreement obligations.

As of December 31, 2013, the Group had the following financial obligations:

in €k	In the following year	1 to 5 years	More than 5 years
Rent	2 913	1 429	0
Maintenance agreements	259	283	0
Operating leases	300	201	0

As of December 31, 2012, the financial obligations were as follows:

in €k	In the following year	1 to 5 years	More than 5 years
Rent	3 640	6 535	0
Maintenance agreements	24	40	0
Operating leases	399	281	0

The company enters into leases for vehicles and communications and IT equipment that it uses itself in the course of its business. These leases are operating leases as defined by IAS 17.

6. Auditor's fees

The group auditor's fees for the fiscal years break down as follows:

in €k	Dec. 31, 2013	Dec. 31, 2012
Audit services	249	382
Audit-related services	210	200
Tax services	92	526
Other services	165	681
Total	**715**	**1 789**

VI. Cash flow statement disclosures

The cash flow statement shows how the cash and cash equivalents in the GFKL Group changed during the course of the year under review as a result of cash inflows and outflows. Cash flows in the cash flow statement are broken down by operating, investing and financing activities (IAS 7).

In the receivables management segment, GFKL's activities include the acquisition and settlement of NPL portfolios for its own account. The related cash flows are separated and allocated to the cash flow from investing activities (acquisition of portfolios), cash flow from financing activities (financing of NPL investments) and cash flow from operating activities (recovery of payments from servicing). This means that cash is allocated more accurately.

The following specific disclosures are made

1. Cash and cash equivalents comprised cash amounting to €60.1 million (prior year: €38.2 million). €19.8 million (prior year: €20.3 million) of this amount is earmarked funds as of December 31, 2013. Cash and cash equivalents in the cash flow statement correspond to the cash and cash equivalents in the balance sheet and contain cash from discontinued operations of €1.9 million (prior year: €0 million).
2. The cash flow from operating activities is primarily shaped by the payments received for NPL portfolios (€88.7 million; prior year: €84.7 million).
3. As of December 31, 2013, the Group's cash flow from operating activities amounted to €53.3 million (prior year: €18.3 million).
4. The cash flow from investing activities of -€22.1 million (prior year: -€14.5 million) includes payments for the purchase of NPL portfolios, property, plant and equipment, intangible assets, changes in loans granted, payments received from the disposal of assets and acquisitions and disposals of companies and shares. The cash flow from investments in NPL portfolios amounted to -€26.1 million (prior year: -€16.5 million). Please see section II.8.a (Basis of consolidation) for further information on cash flows from corporate transactions.
5. Apart from the repayment of loans, the cash flow from financing activities of -€9.3 million (prior year: -€24.2 million) comprised cash received from the financing of NPL portfolios (€18 million; prior year: €0 million) and, in the prior year, cash inflows from the issue of equity instruments (€30 million).
6. In the period under review, the Group generated cash flow from interest paid of €8.8 million (prior year: €9.7 million) and interest received of €1.3 million (prior year: €3.2 million). The cash flow from income taxes was €0.1 million (prior year: -€2.7 million).

VII. Events after the balance sheet date

In January 2014, the company entered into a long-term lease for a new administrative building in Essen. The move is scheduled for mid-2014.

A further tranche with NPL portfolios of €25.0 million was sold to a US investor as planned in March 2014 through the securitization structure established in 2013.

There were no other events after the balance sheet date which would have had an effect on the consolidated financial statements as of December 31, 2013.

VIII. Related party relationships and Executive Board and Supervisory Board disclosures

1. Related parties

Carl Holding GmbH, a subsidiary of Advent International, is the majority shareholder with a stake of 92.81%. The following tables show transactions with related parties. In the tables, individual dealings, whether recognized in profit or loss or recognized directly in equity, have been aggregated under

VIII. Related party relationships and Executive Board and Supervisory Board disclosures (Continued)

"Transactions." The tables do not include any disclosures regarding the remuneration paid to the members of the Executive Board and Supervisory Board. These disclosures are set out in detail under section VIII.2. (Executive Board and Supervisory Board disclosures).

Liabilities and transactions relating to services received break down as follows:

	Transactions		Balances	
	2013	2012	Dec. 31, 2013	Dec. 31, 2012
Advent International	1 590	2 000	20 055	19 465
Equity holders with a significant influence	**1 590**	**2 000**	**20 055**	**19 465**
Related parties of the equity holder with a significant influence	**0**	**0**	**4**	**4**
Associates	0	0	0	0
Entities over which key persons have a significant influence	0	0	0	0
Other related parties	141	9	0	0
Total	**1 731**	**2 009**	**20 059**	**19 469**

Liabilities to Advent International are primarily due to loans granted by Carl Holding GmbH. Please also see section III.15. (Hybrid capital).

Receivables and transactions relating to services rendered break down as follows:

in €k	Transactions		Balances	
	2013	2012	Dec. 31, 2013	Dec. 31, 2012
Advent International	11	20	0	0
Equity holders with a significant influence	**11**	**20**	**0**	**0**
Related parties of the equity holder with a significant influence	**377**	**17**	**64**	**1**
Associates	0	13	0	0
Entities over which key persons have a significant influence	0	0	0	0
Management in key positions	1	1	0	0
Total	**389**	**51**	**64**	**1**

Related party transactions are conducted on an arm's length basis.

The Executive Board members simultaneously hold investments in an Advent entity that indirectly holds shares in GFKL. The shares were acquired at market prices. This therefore did not have an effect on GFKL's profit or loss. Rather, the shareholders are entitled to any potential exit income. Management may not freely sell the shares.

2. Executive Board and Supervisory Board disclosures

Over the past few years, the following gentlemen were members of the Executive Board:

Members of the Executive Board	Appointed on	Left on
Christoph Pfeifer, Oberursel	Nov. 12, 2012	
Kamyar Niroumand (Chairman of the Executive Board), Berlin	Oct. 1, 2012	
Marc Knothe, Vienna	May 1, 2011	
Stefan Brauel, Bodenheim	Mar. 15, 2011	Nov. 5, 2012
Christian Weber, Düsseldorf	Apr. 1, 2010	Nov. 7, 2012

VIII. Related party relationships and Executive Board and Supervisory Board disclosures (Continued)

The following table shows the changes in the year under review in the total remuneration paid to the Executive Board and in the remuneration entitlement for the members of the Supervisory Board specified by the articles of incorporation:

in €k	Dec. 31, 2013	Dec. 31, 2012
Current remuneration	1 887	1 915
Termination benefits	0	1 120
Executive Board remuneration	**1 887**	**3 036**
Supervisory Board remuneration	92	92
Total remuneration	**1 979**	**3 128**

A pension obligation in favor of a former member of the Executive Board resulted in expenses of €68k in the reporting period (prior year: €49k). Please see section III.25. (Provisions for pensions) for further information.

In the past two years, the Supervisory Board members were:

Members of the Supervisory Board	Joined on	Left on
Nicole Linke, Mülheim an der Ruhr (employee representative)	Aug. 15, 2012	
Hans-Hermann Anton Lotter, Frankfurt am Main (Chairman)	Dec. 15, 2009	
Wilhelm Plumpe, Hamburg (Deputy Chairman)	Dec. 15, 2009	
Geoffrey Philip Ognall, London, UK (Deputy Chairman)	Dec. 15, 2009	Aug. 15, 2012

Essen, April 17, 2014

sgd Kamyar Niroumand
(Chairman of the
Executive Board)

sgd Marc Knothe
(Member of the
Executive Board)

sgd Christoph Pfeifer
(Member of the
Executive Board)