Garfunkelux Holdco 2&3 S.A.

Risk Factors 2016

RISK FACTORS

In addition to the risk factors presented herein we would further refer to the chapter "Risk Factors" in the Offering Memorandum as of September 14, 2016. Also in this regard or for further discussion of these risks we draw attention to the references made in the section "Risk Factors" to other sections in the Offering Memorandum as of September 14, 2016.

Risks Related to Our Business and Industry

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

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

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

Regulations affecting Lowell

Our UK debt collection business is conducted through a number of subsidiaries, such that the entity conducting the collections business (the "CCA") is not necessarily the "creditor" under the agreement (where under the Consumer Credit Act the "creditor" is the originator or the entity that has purchased the debt). On April 1, 2014, the Financial Conduct Authority (the "**FCA**") took over regulation of consumer credit (including debt purchase and debt collection) from the Office of Fair Trading (the "**OFT**"). Any of our entities in the United Kingdom that collect debt due to other entities under certain types of consumer credit agreements or have purchased debt and hold financial interests in debt due under consumer credit agreements are required to apply for, obtain and maintain authorization from the FCA or be exempt from authorization. Since April 1, 2014, all firms undertaking consumer credit regulated activity that prior to April 1, 2014 had a consumer credit license from the OFT are required to have an interim permission from the FCA until they receive permanent full authorization. All relevant Lowell Group companies have an interim permission. The FCA allocated specific application periods for firms with interim permission to apply for full authorization to conduct consumer credit activities in the United Kingdom by April 1, 2016, and the Lowell Group companies made their applications in December 2015, which was within their applicable period. Although we sought and were awarded all relevant "interim permissions," there is a risk that the FCA will not grant us full authorization to conduct credit activities. If the FCA were to reject our permanent permission applications, we would be required cease carrying on our UK business.

Firms authorized by the FCA must be able to demonstrate that they are "fit" to be authorized. In addition, certain individuals within the firm who exercise a "significant interest" in the business of the firm, must be approved by the FCA and these individuals must demonstrate that they are "fit" and competent to hold the position of an "approved person." The FCA issues rules and guidance on how it expects firms to conduct their business and for the individuals it approves in the capacity of an "approved person." Failure to comply with any rules or guidance issued by the FCA is likely to have serious consequences, for example:

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

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

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

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

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

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

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

A failure to comply with these requirements can have different consequences, but in some cases, failures can cause agreements to be deemed unenforceable (meaning that in some cases the outstanding debt and interest cannot be collected). This could affect our ability to recover on the accounts underlying our debt portfolios in the United Kingdom. An agreement could be deemed unenforceable when we, as the debt collector or purchaser of the debt, or the originator, fail to comply with the applicable requirements. In addition, our UK debt collection (and broader consumer credit) business is subject to an obligation to act fairly, as set out in the Consumer Protection from Unfair Trading Regulations 2008. Breach of certain of these regulations is a criminal offense. From October 1, 2014 consumers also have a right of redress for misleading or aggressive commercial practices.

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

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

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

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

We currently outsource in the United Kingdom to DCAs on a contingent basis, with DCAs being paid a commission based on collections achieved. Any change in laws or regulations restricting or prohibiting this practice of contingent collections could result in a change in our arrangements with DCAs in the United Kingdom to less variable cost structures, such as fixed fee arrangements. This would increase our fixed cost base, thereby causing our collection costs to rise without necessarily increasing collections. Although we are not currently aware of any such proposal in relation to DCAs or other participants in the debt purchase and collection industries, the FCA is currently concluding a review of staff remuneration and incentives in consumer credit firms and also a review of the collection of early arrears. Similar restrictions were introduced for independent financial advisers and other firms as part of the FSA's Retail Distribution Review. These firms can no longer earn provider-determined commissions for successful recommendations of retail investment products but must instead be paid an adviser charge, which is agreed with retail clients in advance. If a similar change of law or regulations were implemented in relation to the debt purchase and collection industries, this could negatively affect our ability to operate successfully using our current business model in the United Kingdom, which could have a material adverse effect on our financial returns and results of operations.

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

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

Regulations affecting GFKL

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

By regulation under the German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht*), companies operating in certain industries are not allowed to sell their overdue and defaulted receivables to third parties (*e.g.*, in the insurance industry for premiums). While it is prohibited to purchase their debt, GFKL may provide these companies with up-front payments, which are made after the receivables have been transferred for service to GFKL. In exchange for providing up-front payment, GFKL receives all further collections as a success fee. The up-front guarantee only reflects a portion of what a similar debt portfolio may cost in an open market purchase, as GFKL purchases only the economic right to collect on a portfolio of debt, not full title to the underlying debt. However, it cannot be excluded that a debt servicing transaction including a third-party collection provider fee may be interpreted by the German regulator to be an illegal sale or purchase of defaulted consumer debt, which may therefore have a material adverse effect on our business, results of operations, financial condition or reputation.

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

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

Laws and Regulations affecting Lowell and GFKL's Collection of Data

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

The process for changing certain privacy regulations that affect our business is currently underway. On April 14, 2016, the EU General Data Protection Regulation (Regulation (EU) 2016/679) was adopted, and it will become effective as of May 25, 2018. On February 2, 2017 the German government decided on the amendments of the German Federal Data Protection Act (Bundesdatenschutzgesetz) to be in line with the EU General Data Protection Regulation. The amendments have to be adopted by the German parliament to become effective.

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

In addition to EU regulations, our UK and German operations must comply with national laws and regulations governing the collection and use of data. In the United Kingdom, until the EU General Data Protection Regulation comes into force, the collection, processing and use of personal data is governed by the Data Protection Act 1998 and rules, regulations and guidance promulgated by the UK Information Commissioner. On June 23, 2016, the people of the United Kingdom voted for the United Kingdom to leave the European Union ("**Brexit**"). On March 29, 2017, the Government of the United Kingdom officially initiated the United Kingdom's exit from the European Union. It is yet unclear what consequences Brexit will have on the data protection rules applicable to our UK operations. In Germany, the German Federal Data Protection Act (*Bundesdatenschutzgesetz*) governs such activities. GFKL Holdco's subsidiary, GPP, is registered as a credit bureau under Section 4d of the German Federal Data Protection Act (*Bundesdatenschutzgesetz*). In order to meet the reporting obligations for automated data processing set out in German Federal Data Protection Act. It is yet unclear if and to what extent the German Federal Data Protection Act will remain in place once the EU General Data Protection Regulation becomes effective in 2018.

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

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

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

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

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

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

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

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

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

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

For the year ended December 31, 2016 Lowell derived 96% of its revenue from its debt purchase business, and for the year ended December 31, 2016, GFKL derived 53% of its revenue excluding lawyer service revenue and other revenue from its debt purchase business. The availability of debt portfolios at profit-generating prices depends on a number of factors, some of which are outside of our control, including: the level of consumer spending; the availability of credit to consumers, which may be driven by a number of factors, including heightened regulation of the credit card and consumer lending industry, changing credit origination strategies, tighter lending criteria introduced by consumer credit providers and general economic conditions; the level of non-performance on consumer debt portfolios and the proportion of such portfolios that are written off by debt originators, which also in turn may affect the availability of credit to consumers identified above; sales of debt portfolios by debt originators, which could be jeopardized by a change in accounting policies or practices, the consolidation of creditors or increased sophistication in internal collection efforts; potential concerns that the small value received for defaulted debt portfolios as a percentage of their face value may not outweigh the potential reputational risks or required management attention associated with selling defaulted debt portfolios; negative publicity or a loss of trust in the CMS industry, whether due to our failure or that of one or more of our competitors to meet applicable legal or regulatory obligations or otherwise; increased government regulation of the circumstances in which debt originators have a right to collect on debt; and the macroeconomic environment in the countries in which we operate, or to the extent that they may impact consumers or the domestic economy in such countries, macroeconomic conditions and other relevant global or European developments. Additionally, an increase in demand for debt portfolios among competitors could result in our not being chosen to purchase a debt portfolio due to more attractive offers from competitors.

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

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

The supply of debt portfolios available for purchase varies over time. This inconsistency in the availability of portfolios for purchase may mean that during certain financial reporting periods we may make few or no debt purchases. This could adversely affect our reported results. In addition, if any originators with which we have committed to purchase debt portfolios should fail to complete such sales, we may be unable to make such committed portfolio purchases. If we do not continually replace the debt portfolios we service with additional portfolios, our business could be materially and adversely affected.

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

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

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

In the period from June 1, 2004 to December 31, 2016, 39% of Lowell's purchased portfolios were acquired pursuant to forward flow agreements or agreements that were a mixture of a forward flow agreement with a spot purchase, representing £475.5 million in purchase price consideration and a principal value of £5.7 billion. In the period from September 30, 2003 to December 31, 2016, 40% of GFKL's purchased portfolios were acquired pursuant to forward flow agreements, representing

€181 million in purchase price consideration and a principal value of €704 million, which excludes any accrued interest and any fees and costs at the time of purchase. A forward flow agreement is an arrangement in which we agree to purchase claims based on specific parameters from a third-party supplier on a periodic basis at a set price over a specified time period. Although our fixed term forward flow agreements mainly include provisions for automatic renewal if none of the parties expressly terminates the agreement, a number of our forward flow agreements may expire in 2017, 2018 and 2019. We could lose a potential source of income if we are unable to renew or replace any volume represented by our forward flow agreements upon termination or expiration. Although we expect that many of these will be renewed, our current forward flow agreements provide no medium to long-term assurance on purchasing levels.

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

A significant portion of the Group's revenue is generated from a limited number of industries. For the 12 months ended December 31, 2016, 39% of our revenue from third-party collection services, excluding lawyer service revenue and other services revenue, came from the insurance industry (*assumption here: only DACH-3PC Revenue*), while more than half of our debt portfolios were purchased from retail or financial services clients with retail and financial services clients accounting for 32% and 45% (*for the whole Group*) of our debt purchases, respectively.

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

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

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

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

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

Although the relative significance of individual creditors changes from year to year, a significant percentage of our revenue is generated by contracts with a small number of creditors in any given year. For example, in the Lowell Financial Year 2016, 80% of Lowell's portfolio purchases by purchase value came from six vendors. For the year ended December 31, 2016, GFKL's top five third-party collections clients generated 16% of its total revenue and 52% of its third party collection services revenue. GFKL´s top five portfolio purchases venders represented 5%, 3%, 2%, 2%, and 2% of total revenues respectively. Our top five third-party collections clients represented 6%, 3%, 3%, 2% and 2% of total revenues, respectively.

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

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

In addition, we face supply risks, including certain single-source supply risks. In particular, Lowell relies on Experian for a substantial amount of its consumer credit data, and GFKL relies upon ABIT for certain software solutions and Deutsche Post for mail handling. If any of these suppliers were to significantly limit access to their services, significantly raise their prices, experience labor disputes and work stoppages, become insolvent or cease to exist, this could impede our ability to collect on claims or increase our collections costs and therefore have a material adverse effect on our business, results of operations or financial condition.

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

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

Competition in the UK market

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

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

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

Competition in the German market

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

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

Some of our current competitors, and potential new competitors, in the German market may have substantially greater financial resources, less expensive funding or lower return requirements than we currently have. The receivables management industry in Germany might further consolidate and our competitors might merge, creating size and scale benefits that we might not be able to match. Our competitors in Germany might also engage in securitization programs that might free up more funding sources for debt portfolio purchases. In addition, in the future we may not have the financial resources to make competitive bids for portfolio purchases and debt collection contracts, especially when competing with competitors that have greater financial resources than we have. Competition is not limited to the bidding process, as some of our clients will simultaneously retain multiple receivables management companies to perform collections on their behalf, thereby intensifying the competition for ongoing and new business. There can be no assurances that we will be able to develop and expand our business in Germany or adapt to changing market needs as well as our current or future competitors. Any of these developments could have a material adverse effect on our business, results of operations or financial condition.

Competition in other markets

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

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

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

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

Such processing or other operational errors could lead to an increase in new customer complaints which could harm our reputation with debt originators, customers and/or regulatory authorities. Any of the aforementioned events could thereby result in financial liability for us and could jeopardize our relationships with the debt originators with which we have already established a business relationship or our ability to establish new relationships with other debt originators, have a negative impact on a customer's willingness to pay a debt owed to us or to our clients, diminish our attractiveness as a counterparty or lead to increased regulation of the receivables management industry, each of which could have a material adverse effect on our business, results of operations or financial condition.

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

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

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

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

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

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

The majority of our material debt collection contracts have an initial stated term, typically one to three years, and, in some cases, termination clauses permitting the debt originator to cancel the contract at its discretion following the expiration of an agreed notice period. There can be no assurances that our clients will not exercise their rights to terminate their contracts prior to expiration or that we will be successful in negotiating new contracts with clients as such contracts expire. In addition, we are also exposed to unforeseen changes in the scope of existing contracts, including prices or volumes, that may occur as a result of any changes in the general business or political landscape of our clients. Generally, our debt collection contracts do not have volume commitments, and a client can eliminate or reduce the volume of claims it outsources to us for debt collection without formally terminating the contract. We may have disputes or disagreements with our clients as to the level of services we have agreed to provide or contract terms. The potential effects of these risks may increase as we enter into larger contracts. If we are unable to fulfill our obligations under our contracts for any reason, we risk the loss of revenue and fees under that contract, the potential loss of a client and significant harm to our reputation. Any of our contracts could become more costly than initially anticipated, and as a result, we may experience significant increases in our operating costs and/or potential litigation. Furthermore, we may experience delays in integrating with our existing operations any additional collection platforms that we acquire or the carve-outs of our clients’ in-house collections departments. Accordingly, if we are unable to collect or maximize payments from customers through our various initiatives, our business and financial condition may be adversely affected. Any of these developments could have a material adverse effect on our business, results of operations or financial condition.

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

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

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

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

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

For the year ended December 31, 2016, Lowell derived 96% of its revenue from its debt purchase business and for the year ended December 31, 2016, GFKL derived 47% of its revenue, excluding lawyer service revenue and other services revenue, from its debt purchase business. Contracts entered into with our clients for the purchase of debt portfolios typically impose various restrictions on our realization of value from the debt portfolios, including restrictions on our ability to resell portfolios, even if the legal title to the debt has been transferred to us. Debt originators from both our third-party collection services and purchased debt businesses may also restrict our flexibility in pursuing certain enforcement and collection activities. In addition, our clients may have the right to compel us to undertake or refrain from taking certain actions, including agreeing the fees that we can pass through to the respective customers. Furthermore, debt originators may have rights to repurchase portfolios and require reassignment to protect against factors such as reputational risk. In instances where accounts are fraud-sensitive or where an accountholder has raised a complaint against the debt originator, among other things, debt originators may also have rights to repurchase or require reassignment of the respective debt portfolios. Debt originators may have the right to terminate such agreements upon a direct or indirect change of control of our company. Any of the foregoing factors may adversely impact the profitability of debt portfolios that we purchase and our operational flexibility and, therefore, have a material adverse effect on our financial condition and results of operations.

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

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

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

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

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

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

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

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

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

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

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

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

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

The preparation of our consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. These estimates and associated assumptions are based on historical experience and various other factors that are considered by management to be reasonable under the circumstances at the time. These estimates and assumptions form the basis of judgments about the carrying amounts of assets and liabilities that are not readily available from other sources.

Areas requiring more complex judgments may shift over time, based on changes in accounting policies or on changes in our business profile. In particular, we expect to become subject to IFRS 15 on or after January 1, 2018. We believe that how and when we recognize revenue will be affected by the implementation of IFRS 15. In addition, more complex judgments are required in relation to revenue recognition, impairment of our purchased loan portfolios, collection forecast and impairment tests of our goodwill, among others. For example, the estimates used to calculate our returns on our purchased portfolios are primarily based on historical cash collection experience and payer dynamics. If future cash collections are materially different in amount or timing, our earnings could be affected, either positively or negatively. Higher collection amounts or cash collections that occur sooner than projected will have a favorable impact on revenue in the form of impairment reversals. In addition, higher collection amounts or cash collections that occur sooner than projected could have the effect of reducing the expected future value of our loan portfolios, requiring us to purchase additional loan portfolios in order to maintain our level of expected future cash flows, which we might not be able to do. Lower collection amounts or cash collections that occur later than projected will have an adverse impact and may result in an impairment of the purchased loan portfolio. Impairments, in turn, cause reduced and fluctuating earnings. In the future, should actual results differ from management's estimates and assumptions (particularly with respect to revenue recognition and collection forecast) this could have a material adverse effect on our business, prospects, results of operations and financial condition.

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

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

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

In the period from June 1, 2004 to December 31, 2016, 39% of Lowell's purchased portfolios were acquired pursuant to forward flow agreements or agreements that were a mixture of a forward flow agreement with a spot purchase, representing £475.5 million in purchase price consideration. In the period from September 30, 2003 to December 31, 2016, 15% of GFKL's purchased portfolios were acquired under forward flow agreements, representing €704 million in purchased debt. Commitments under such forward flow contracts are typically for approximately one to three years, although Lowell has, in the United Kingdom, entered into a five year forward flow agreement with one creditor. However, depending upon the length of the contractual arrangements, forward flow agreements generally contain termination clauses that allow the arrangement to be terminated early and on relatively short notice in certain circumstances, such as where there is a change of control of Lowell or GFKL or at will for certain of our clients. We may be required to purchase debt under a forward flow agreement for an amount greater than we would have otherwise agreed to pay at the time of purchase due to pressure from larger clients or major debt portfolio sellers, which could result in reduced returns. In addition, we could be faced with a choice between decreasing our purchasing volume, agreeing to forward flow agreements at a higher average price or agreeing to fewer contractual protections concerning the portfolios we purchase, any of which could have a material adverse effect on our results of operations. We generally allow for some margin for future fluctuations in value of the debt we purchase through forward flow agreements, but future fluctuations in value may exceed that margin due to circumstances beyond our control, such as economic conditions or other market conditions. If the quality of debt purchased varies from our pricing assumptions, we may price the contract improperly, which could have a material adverse effect on our business, results of operations or financial condition.

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

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

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

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

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

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

We rely partly on data provided by multiple credit information suppliers and other sources in order to operate our business, and our UK operations, in particular, rely on the data provided by Experian. Our business, along with the businesses of our competitors, could be negatively affected if any third-party sources were to stop providing this data for any reason, including a change in laws or regulations, or if they were to raise the price of their services. In addition, any disruption of our relationship with Experian could affect the intelligence systems upon which we rely. Furthermore, if data suppliers provide us with inaccurate data, we may have no recourse against them if we are exposed to claims by our clients, customers, or alleged debtors arising from the use of such inaccurate data, which may also lead to reputational damage. Conversely, through our subsidiaries we provide data to third parties as well and there is a risk that data provided by us may prove to be inaccurate or false and third parties could take recourse against us for providing false data.

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

Any of these developments could hinder or prevent us from using our data analysis as part of our business and could have a material adverse effect on our business, results of operations or financial condition.

Our recent acquisitions, the Acquisition or our future acquisitions or business combinations may prove unsuccessful or they may strain or divert our resources, and we may not be able to manage our growth effectively.

Our strategy involves selectively acquiring businesses to increase our market share. Since January 1, 2013 we have acquired Interlaken, DMA, IS Inkasso Service, Tesch Group, Apontas and the remaining shares in ITT.

The continuation of this strategy depends on, *inter alia*, identifying suitable acquisition or investment opportunities and successfully completing those transactions. There can be no assurances that we will be able to identify or complete purchases or acquisitions in the future. Furthermore, it may take longer than expected to realize projected benefits from such future purchases or acquisitions because we often cannot control the timing of the closing of such transactions. Moreover, successful completion of an acquisition may depend on consents from third parties, including regulatory authorities and private parties, which are beyond our control.

If we carve-out in-house collections operations from our clients or wholly acquire other receivables management companies, we may not be able to successfully integrate these businesses with our own and we may be unable to maintain our standards, controls and policies, which may result in compliance issues, goodwill write offs and damage to our reputation. Our successful integration of acquired businesses will depend on our ability to effect any required changes in operations or personnel, and may require other capital expenditure or the funding of unforeseen liabilities. In addition, the integration and operation of any future acquisitions may expose us to certain risks, including difficulties in integrating the acquired businesses in a cost effective manner and establishing effective management information and financial control systems, the diversion of management's attention from our day-to-day business, the failure to maintain the quality of services that we have historically provided, transition difficulties with clients and unforeseen legal, regulatory, contractual, labor or other issues arising out of the acquisitions. Any failure to assess suitable acquisitions or to properly integrate them once acquired could have a material adverse effect on our business, financial condition and results of operations.

There can be no assurances that any of the anticipated benefits from our recent acquisitions or the Acquisition will be realized or that we will be able to realize such benefits from any future acquisition. In addition, our recent acquisitions, the Acquisition, and future acquisitions may place additional constraints on our resources, including diverting the attention of our management from other business concerns. Further, acquisitions expose us to the risks associated with write-downs and impairments to goodwill.

Integration of the businesses and carve-out assets we acquire, including the Target, may require significant financial and operating resources and exposes us to a variety of risks. For example, our ability to maintain our standards, controls, policies and the quality of services that we have historically provided could be compromised while we are in the process of integrating a recently acquired business, and this could result in compliance issues, goodwill write-downs and damage to our reputation. Additionally, our successful integration of any businesses we acquire depends on our ability to make required changes in operations or personnel quickly and effectively, and achieving this may require further capital expenditure or the funding of unforeseen liabilities. Moreover, difficulties with establishing effective management information and financial control systems, the diversion of management's attention from our day-to-day business, difficulties with transitioning clients and unforeseen legal, regulatory, contractual, labor or other issues arising out of the acquisitions could also arise in connection with our integration of acquired businesses.

In July and October 2014, GFKL acquired a 51% interest in ITT and fully acquired DMA, respectively. Lowell and GFKL have made efforts to integrate these new entities into each of their corporate groups. However, it may take longer than anticipated to integrate both entities in their respective corporate group or we may face costs and IT risks in integrating their respective IT platforms with our platforms and accordingly, such factors may divert the attention of our management from other business concerns. In addition, GFKL acquired DMA as part of a strategy to improve data analytics and monetize data mining services to external clients. It may take longer than anticipated to build the data mining capability and ensure a seamless interface between DMA and other GFKL entities, which could accordingly strain our internal resources. In 2016, GFKL acquired the remaining interest in ITT.

In May 2016, we acquired IS Inkasso Service and in September we acquired Tesch Group. We have made efforts to integrate these new entities into our corporate group. However, there can be no assurance that these efforts will be successful or that we will realize the expected benefit, or any benefit at all, from this acquisition. Furthermore, we may be unable to integrate IS Inkasso Service or Tesch Group as quickly as anticipated, and the costs of integration may exceed our estimates.

Further, although we regularly acquire purchased debt portfolios, if we acquire a significant debt portfolio, and we are unable to realize our estimated collections on such debt portfolio, then the results of such an acquisition could have a material adverse effect on our returns.

We currently operate primarily in the United Kingdom and Germany with limited operations in Austria, Switzerland, Croatia and Slovenia. If we expand into new jurisdictions through future acquisitions, our business will be subject to applicable laws, regulations and licensing requirements in those new jurisdictions, which may be different or more stringent than those currently applicable to our business. Such expansion would also subject us to additional risks related to inflation, recession, currency and interest rate fluctuations, an inability to enforce remedies, difficulty in adequately establishing, staffing and managing operations, risk of non-compliance and business integrity issues, variations in regulation and governmental policies, including additional fees, costs and licenses, and risk of political and social instability within those jurisdictions.

There can be no assurances that we will be able to manage our growth effectively and that our infrastructure, facilities and personnel will be adequate to support our future operations or to effectively adapt to future growth. Any of these developments could have a material adverse effect on our business, results of operations or financial condition.

We are highly dependent on our intelligence systems and proprietary customer profiles.

LIMA, Lowell's automated tracing and customer intelligence system, along with its proprietary PPM, provides information that is critical to our UK business. In order to operate this system, develop our proprietary customer profiles and run our business generally, we rely to a large extent on data provided to us by a single private credit reference agency. If this private supplier were to terminate its agreement with us or stop providing us with data for any reason, or if such private supplier were to considerably raise the price of its services, our business would be materially and adversely affected. Also, if any of the information or data that we use became public, for example due to a change in government regulations, or if the United Kingdom were to introduce measures that have the effect of facilitating the tracing of consumers, we would lose a significant competitive advantage and our business could be negatively impacted. Furthermore, private or public sources of our data could make claims that the way in which we collect or use information and data violates terms and conditions applicable to such use, and whether or not such claims have any merit, our reputation could be harmed and our ability to continue to use such information and data in the manner in which it is currently used could be impaired. If our competitors are able to develop or procure similar systems or methods to develop data, or if we become unable to continue to acquire or use such information and data in the manner in which it is currently acquired and used, we would lose a significant competitive advantage and our business could be materially and adversely affected. If we were prohibited from accessing or aggregating the data in these systems or profiles for any reason, our operations and financial condition would be negatively and materially impacted.

In addition, for certain of the systems, technologies and programs that we use, we rely on specialist IT providers. Some of these providers are small companies and their long-term financial viability cannot be assured. We cannot assure you that we will be able to find and retain alternative providers or acquire the rights to intellectual property important to our operations if our current or future providers become financially unstable. To the extent any of these systems, technologies or programs do not function properly and we cannot find and retain a suitable IT provider to help remedy the fault, we may experience material adverse effects on our business that require substantial additional investments to remedy, or which we may not be able to remedy at all.

Further, as some of the systems, technologies and programs that we use have been developed internally, we cannot be assured that our level of development documentation is comparable to that of third party software packages and we may have certain employees that possess important, undocumented knowledge of our systems. If any such employee were no longer to work for us, our ability to maintain, repair or modify our collections platform may be limited.

We may not be able to successfully maintain and develop our IT infrastructure platform or data analytics systems, anticipate, manage or adopt technological advances within our industry or prevent a breach or disruption of the security of our IT infrastructure platform and data analytics systems.

We rely on our IT infrastructure platform and data analytics systems and our ability to integrate these technologies into our business is essential to our competitive position and our success. This dependency subjects us to inherent costs and risks associated with maintaining, upgrading, replacing and changing these systems, including impairment of our information technology, substantial capital expenditures and demands on management time. For example, the carve-out of in-house collection operations or the acquisition of another debt collection company may force us to upgrade the IT platform and data analysis systems of the newly acquired operations or entity to meet our standards, causing increased capital expenditures and demands on management time.

IT and telecommunications technologies are evolving rapidly and are characterized by short product life cycles. We may not be successful in anticipating, managing or adopting technological changes on a timely basis. We may not be successful in implementing improvements of our IT or data analytics systems and improving operation efficiency through further IT development, which could result in additional costs. The cost of these improvements could be higher than anticipated or result in management not being able to devote sufficient attention to other areas of our business. We depend on having the capital resources necessary to invest in new technologies to purchase and service claims, and there can be no assurances that adequate capital resources will be available to us at the appropriate time. Furthermore, if we become unable to continue to acquire, aggregate or use such information and data in the manner or to the extent in which it is currently acquired, aggregated and used, due to lack of resources, regulatory restrictions or any other reason, we may lose a significant competitive advantage. For example, DMA holds a data trading license that provides us with the future potential to enter into the data trading field and leverage our extensive databases. However, this and other potential initiatives are not yet fully developed and may not achieve their desired results, which could cause us to lose valuable market opportunities and fall behind our competition in advanced data analytics.

Any security breach in our IT infrastructure platform and data analytics systems, or any temporary or permanent failure in these systems, could disrupt our operations. We may be required to enhance capabilities and resilience and we may be subject to future attempts to gain unauthorized access to confidential or sensitive information. Our websites could potentially suffer cyber-attacks, which could disrupt our IT infrastructure platform and data analytics systems and impair our ability to provide online services. In addition, in the event of a catastrophic occurrence, our ability to protect our infrastructure and maintain ongoing operations could be significantly impaired. Our business continuity and disaster recovery plans cover the majority of our systems and services, but may not be successful in mitigating the effects of a catastrophic occurrence, such as fire, flood, tornado, power loss, sabotage or telecommunications failure for some or all of our IT infrastructure platform and data analytics systems. Any of these developments could hinder or prevent us from using our IT infrastructure platform or data analytics systems as part of our business and could have a material adverse effect on our business, results of operations or financial condition.

Our operations could suffer from telecommunications or technology downtime, increased technology costs or an inability to successfully anticipate, manage or adopt technological advances within our industry.

Our success depends on sophisticated telecommunications and computer equipment, as well as software systems. In the normal course of our business, we must record and process significant amounts of data quickly and accurately to access, maintain and expand the databases we use for our pricing and collection activities. We also use these systems to identify and contact large numbers of customers and record the results of our collection efforts. These systems could be interrupted by terrorist acts, natural disasters, power losses, computer viruses or similar events. Any failure of our systems, especially if it also impacts our backup or disaster recovery systems, would disrupt our operations and materially and adversely affect our business. Any temporary or permanent loss of our ability to use our telecommunications or computer equipment and software systems could disrupt our operations and have a material adverse effect on our financial condition, financial returns or results of operations.

Further, our business depends heavily on services provided by various internet service providers and local and long distance telephone companies. Our ability to use telecommunications systems to contact customers is governed by data protection, telecommunications and privacy requirements and regulatory rules and guidance issued by regulators. These may change and may make using, accessing, transferring or storing customer documentation more onerous in the future. If our equipment or systems cease to work or it becomes difficult to continue to use them in the same manner as we do today as a result of any regulatory development, we may be prevented from providing services and we may not be able to collect on the receivables we have purchased. We may face similar consequences if there is any change in the telecommunications market that would affect our ability to obtain favorable rates on communication services or if there is any significant interruption in internet or telephone services. Since we generally recognize revenue and generate operating cash flow primarily through collections, any failure or interruption of services and collections would mean that we would continue to incur payroll and other expenses without any corresponding income.

Additionally, computer and telecommunications technologies are evolving rapidly and are characterized by short product life cycles. We may not be successful in anticipating, managing or adopting technological changes on a timely basis, which could reduce our profitability or disrupt our operations and harm our business. While we believe that our existing information systems are sufficient to meet our current demands and continued expansion, our future growth may require additional investment in these systems. We depend on having the capital resources necessary to invest in new technologies to acquire and service our debt portfolios. We cannot ensure you that adequate capital resources will be available to us when we need to make such investments.

Improper disclosure of our clients' sensitive data, customer data or a breach of data protection laws could negatively affect our business or reputation.

We handle and process large amounts of potentially sensitive or confidential information, such as personal information of customers, including names and account numbers, locations, contact information and other account specific data. Any security or privacy breaches of these databases could expose us to liability, increase our expenses relating to resolution of these breaches, harm our reputation and deter clients from conducting business with us. We rely on our data analytics systems to record and process significant amounts of data quickly and accurately to access, maintain and expand the databases we use for our debt collection and for our analysis of potential debt purchases. Our ability to conduct our business, including our ability to price the purchase of portfolios, trace customers and develop tailored repayment plans, depends on our ability to use customer data in our data analytics systems.

Our ability to obtain, retain, share and otherwise process customer data is governed by data protection laws, privacy requirements and other regulatory restrictions. For example, in Germany and the United Kingdom, personal data may only be collected for specified, explicit and legitimate purposes, and may only be processed in a manner consistent with these purposes. Further, to comply with the German Federal Data Protection Act (*Bundesdatenschutzgesetz*) and the UK Data Protection Act 1998, both implementing Directive 95/46/EC of the European Parliament and of the Council dated October 24, 1995 on the protection of individuals with regard to the processing of personal data and on the free movement of such data, personal data collected within the scope of these Acts must be adequate, relevant and not excessive in relation to the purposes for which it is collected and/or processed, and it must not be kept in a form that permits identification of customers for a longer period of time than necessary for the purposes of the collection or other legal obligations, *e.g.*, in Germany, obligations pursuant to the German Commercial Code (*Handelsgesetzbuch* (HGB)).

We may not be able to prevent the improper disclosure or processing of such sensitive information in breach of contract and applicable law. These databases and customer data are vulnerable to damage from a variety of sources, including telecommunications and network failures and natural disasters. The databases are also vulnerable to human acts both by individuals outside of the Group as well as our employees, including fraud, identity theft and other misuse of personal data. Moreover, our systems may be subject to physical or electronic break-ins, computer viruses and similar disruptive problems. Any security or privacy breach of these databases could expose us to liability, increase our expenses relating to the resolution of these breaches, harm our reputation and deter vendors from selling debt to us. Any material failure to process customer data in compliance with applicable laws could result in the revocation of our licenses, monetary fines, criminal charges and breach of contractual arrangements. Any issue of data protection could have a material adverse effect on our business, results of operations or financial condition.

Failure to protect our customer data from unauthorized use or provide adequate data protection could negatively affect our business.

Failure to protect, monitor and control the use of our customer data could cause us to lose a competitive advantage. We rely on a combination of contractual provisions and confidentiality procedures to protect our customer data, and our customer data is stored and protected in our IT infrastructure platform with access limitations in accordance with our technical and organizational measures. These measures afford only limited protection, and competitors or others may gain access to our customer data. Our customer data could be subject to unauthorized use, misappropriation or disclosure, despite our having required our employees, consultants and clients to enter into confidentiality agreements. There can be no assurances that such confidentiality agreements will not be breached or will be of sufficient duration and that adequate remedies will be available in the event of an unauthorized use or disclosure. Policing unauthorized use of such rights can be difficult and expensive, and adequate remedies may not be available or available in an acceptable time frame. A failure to protect our customer data from unauthorized use, or to comply with current applicable or future laws or regulations, could have a material adverse effect on our business, results of operations or financial condition.

Our confidentiality agreements may be breached, or may fail to protect our proprietary processes and systems.

We rely upon unpatented proprietary know-how and continuing technological innovation and other trade secrets to develop and maintain our competitive position. Certain of our employees possess valuable trade secrets about our models, customer databases and our business processes, and the risk of disclosure of such proprietary know-how could be heightened if any such employee ceases to work for us. While it is our policy to enter into confidentiality agreements with our employees and third parties to protect our proprietary know-how, there can be no assurance that:

- our confidentiality agreements will not be breached or will be of sufficient duration;
- such agreements will provide meaningful protection for our trade secrets or proprietary know-how; or
- adequate remedies will be available in the event of an unauthorized use or disclosure of these trade secrets and know-how.

In addition, there can be no assurances that others will not obtain knowledge of these trade secrets through independent development or other access by legal means.

We may initiate lawsuits to enforce our confidentiality agreements and the ownership of our intellectual property. Initiating litigation relating to intellectual property rights is costly and may divert technical and management personnel from their day-to-day responsibilities. In many cases it may not be possible to initiate a lawsuit prior to the disclosure of our trade secrets or proprietary know-how, at which point the damage to our competitive position may be severe or irreparable. Furthermore, we may not prevail in any such litigation or proceeding. A determination in a proceeding that results in a finding of non-infringement or non-violation by others of our intellectual property or confidential agreements may result in the use by competitors of our technologies or processes, which may have a material and adverse effect on our financial condition, financial returns and results of operations.

Our risk management procedures may fail to identify or anticipate future risks.

We continually review our risk management policies and procedures and will continue to do so in the future. Although we believe that our risk management procedures are adequate, many of our methods of managing risk and exposures are based upon observed historical market behavior and statistic-based historical models. As a result, these methods may not accurately predict future exposures, which could be significantly greater than historical measures indicate. Other risk management methods depend on the evaluation of information regarding markets, debt originators, DCAs, customers or other matters that are publicly available or otherwise accessible to us. We rely on intermediaries such as DCAs, and we may be held liable for the acts of intermediaries if we cannot demonstrate that we have adequate procedures in place to prevent risks such as bribery. For example, debt originators typically require us to assume responsibility for the acts of their respective third-party intermediaries in relation to ongoing compliance matters. Further, we keep track of employee misconduct and have policies and procedures in place to minimize its impact, but these procedures may not prove sufficient (for example, to avoid employee fraud). Failure (or the perception that we have failed) to develop, implement, monitor and, when necessary, preemptively upgrade our risk management policies and procedures could, at the very least, give rise to reputational issues for both us and any associated debt originators, and may result in breaches of contractual obligations by us, for which we may incur substantial losses and face removal from debt originators' purchasing panels. Risks that we fail to anticipate, and/or adequately address, could have a material adverse effect on our business, prospects, results of operations and financial condition.

Loss of one or more members of senior management or a significant number of trained personnel could negatively affect our business.

Our future success depends on the skills, experience and efforts of our senior management and other key personnel and our ability to retain such members of our senior management team and other key employees. We may not be able to retain our executive officers and key management personnel or attract additional qualified management in the future. The loss of the services of our senior management and other key personnel could seriously impair our ability to continue to purchase portfolios or collect claims and to manage and expand our business, which could have a material adverse effect on our business, results of operations or financial condition.

In addition, our growth requires that we continually hire and train new customer account associates (each, a "**CAA**"). As is typical among companies that rely on call center operations in the UK market, employee turnover among CAAs at Lowell has been significant. For example, as of December 31, 2016, the average tenure of CAAs in Lowell in the United Kingdom was 33 months. Increases in the turnover rate among our CAAs at Lowell or any of our other companies could increase our recruiting and training costs and limit the number of experienced personnel available to service our and our clients' portfolios. If this were to occur, we would not be able to service such portfolios effectively and the constraint on our resources may reduce our ability to continue our growth and to operate profitably. The demand in our industry for personnel with the relevant capabilities and experience is high and our success in attracting and retaining employees is not guaranteed. There can be no assurances that we will be able to continue to hire, train and retain a sufficient number of qualified personnel to maintain adequate staffing levels or to be flexible enough to react to changing market environments.

We also have a number of employees who possess critical knowledge about our IT infrastructure platform, data analytics systems and our debt purchase operations, and an inability to retain these employees could negatively impact our business. Any of these developments could have a material adverse effect on our business, results of operations or financial condition.

Increases in labor costs, potential labor disputes and work stoppages could negatively affect our business.

Our financial performance is affected by the cost of labor. As of December 31, 2016, Lowell had 1,394 FTE employees and GFKL-Group (*DACH-Region*) had a total of 1,278 FTE employees. An increased demand for our employees from competitors could increase costs associated with employee compensation, which could have a material adverse effect on our business, results of operations or financial condition.

In the United Kingdom, although no union has reached the membership threshold required for formal recognition, if any union were to reach membership levels of 10% or more of Lowell's total employees and were to be formally recognized, such union would need to be consulted on a number of business decisions affecting its members' terms of employment. In addition, if the unions to which our UK employees currently belong were to consolidate, or if any union were to attract more employees, that union may seek employment terms that could adversely affect the stability of our work force and increase our costs.

Our German employees have established a company works council (*Konzernbetriebsrat*), two joint works councils (*Gesamtbetriebsräte*) and seven works councils (*Betriebsräte*). We also have two collective bargaining agreements (*Manteltarifverträge*) currently in force for German employees who were carved out of our clients' operations. In accordance with the German One-Third Participation Act (*Drittelbeteiligungsgesetz*) in connection with the Stock Corporation Act (*Aktiengesetz*), we have established a Supervisory Board (*Aufsichtsrat*).

Any move by our employees toward further unionization or any other labor relations disputes or work stoppages and/or strikes could disrupt our operations and have a material adverse effect on our business, results of operations or financial condition.

Litigation, investigations and proceedings may negatively affect our business.

We may be adversely affected by judgments, settlements, unanticipated costs or other effects of legal and administrative proceedings now pending or that may be instituted in the future, or from investigations by authorities, regulatory bodies or administrative agencies. There are certain lawsuits pending, which, if the outcomes are resolved against us, could have a material adverse effect on our business, results of operations or financial condition. For example, GFKL is engaged in ongoing appraisal right proceedings in relation to the 2006 merger of GFKL Holdco and a listed stock corporation ABIT AG, where ABIT AG shareholders were offered a GFKL share conversion or cash compensation for their ABIT shares. Twenty-seven ABIT shareholders initiated an appraisal rights proceeding and while an initial decision was rendered in 2012, the decision was set aside and the matter was remitted to the district court. The outcome of this proceeding is inherently uncertain. As of December 31, 2015, GFKL has recognized provisions of €7.5 million for potential payments. However, we cannot predict when the matter will be resolved or assure you that any such litigation will not result in payment of settlement amounts or the granting of other remedies in excess of what we have provisioned. In addition, several former minority shareholders of GFKL Holdco initiated appraisal proceedings (*Spruchverfahren*) against Garfunkel Holding seeking a higher cash compensation (*Barabfindung*) in connection with the squeeze-out in late 2015 on the grounds that the cash compensation as determined by Garfunkel Holding as then majority shareholder was inadequate.

We may become subject to claims and a number of judicial and administrative proceedings, including consumer credit disputes with customers, labor disputes, contract disputes, intellectual property disputes, environmental proceedings, government audits and proceedings, tax audits and disputes and client disputes. In some proceedings, the claimant may seek damages as well as other remedies, which, if granted, would require expenditures on our part, and we may ultimately incur costs relating to these proceedings that exceed our present or future financial accruals or insurance coverage. Even if we or our directors, officers and employees (as the case may be) are not ultimately found to be liable, defending claims or lawsuits could be expensive and time consuming, divert management resources, damage our reputation and attract regulatory inquiries. Any of these developments could have a material adverse effect on our business, results of operations or financial condition.

In recent years, there has been a substantial increase in consumers' propensity to bring claims related to debt collection to the courts in their attempts to claim refunds of sums paid under consumer credit agreements or to avoid making payments going forward. This litigation has been fueled by a substantial rise in claims management companies that aggressively advertise for potential claimants and then bring claims in the hope and expectation that they will be paid a portion of any debt written off. Substantial claims volumes have been made in relation to premiums for mis-sold PPI (which can form part of the debt being collected) and other types of charges added onto credit accounts. Claims could also be brought in relation to other areas of alleged noncompliance, which could affect a large portfolio of agreements. We may in the future be named as defendants in litigation, including under consumer credit, collections and other laws. We may also have disagreements or disputes with sellers from which we purchase debt, parties to which we outsource accounts or other counterparties. Such claims against us, complaints, disputes or disagreements, regardless of merit, could result in or subject us to costly litigation and divert our management personnel from their regular responsibilities. Furthermore, if such claims are adversely determined against us, we could be forced to suspend certain collection efforts or pay damages, and our reputation, financial condition, financial returns and results of operations could be materially and adversely affected.

Our collections may decrease and/or the timing of when we collect be delayed if the number of consumers becoming subject to personal insolvency procedures increases.

We recover on claims that may become subject to insolvency procedures under applicable laws and we also purchase portfolios containing claims that are currently subject to insolvency proceedings. In the United Kingdom, these include individual customers who may have an individual voluntary arrangement with their creditors. In Germany, these include insolvency proceedings regarding natural persons (*Verbraucher*).

Various economic trends and potential changes to existing legislation may contribute to an increase in the number of consumers subject to personal insolvency procedures. Under some insolvency procedures, a person's assets may be sold to repay creditors, but because the debt portfolios that we service are generally unsecured, we are generally unable to collect on such debt portfolios through these proceedings. Therefore, our ability to successfully collect on portfolios may decline, or the timing of our collections on portfolios may be delayed, as a result of an increase in personal insolvency procedures. These scenarios could have a material adverse effect on our business, results of operations or financial condition.

We may be unable to enforce accounts where any underlying debt documentation is legally defective.

When we commence enforcement actions through legal proceedings, courts may require a copy of the account statements or applications to be attached to the pleadings in order to obtain a judgment against a particular customer. Where we are unable to produce account documents in response to a customer's request, that account would be legally unenforceable. Furthermore, if any of the account documents we do have were found to be legally unenforceable, courts may deny our claims. Any changes to laws, regulations or rules that affect the manner in which we initiate enforcement proceedings, including rules affecting documentation, could result in increased administration costs or limit the availability of litigation as a collection tool, which could have a material adverse effect on our business and results of operations. Additionally, our ability to collect by means other than legal proceedings may be impacted by laws that require that certain types of account documentation be in our possession prior to the institution of any collection activities, which could also have a material adverse effect on our business and results of operations.

We may purchase portfolios that contain accounts that are not eligible to be collected, including due to defects in customer documentation that may make the credit agreements unenforceable, and an enforcement of related claims may be difficult.

In the normal course of our debt portfolio purchases, and in the management of any forward flow agreements that we may enter into from time to time, some individual accounts may be included in the portfolios that fail to conform to the terms of the purchase contracts, and we may seek to return these accounts to the debt originator for payment or replacement. Such debt originator may, however, be unable to meet its obligations to us or we may not identify non-conforming accounts soon enough, or at all, to qualify for recourse to the debt originator. Further, our debt purchase agreements impose or may impose restrictions on our ability to return non-conforming accounts by imposing a minimum threshold value that must be met. Each contract specifies which accounts are eligible and which are not. Examples of ineligible accounts could include those that have a foreign address, those that have been subject to fraud, those that have an incorrect balance or those involving a customer serving time in prison. Accounts that would be eligible for recourse if discovered in a timely fashion, but that we do not discover in time for such recourse, are likely to yield no return.

If we fail to identify whether our requirements are met during the due diligence process undertaken during a debt purchase transaction, the applicable credit agreement may become unenforceable and require us to undertake a remediation exercise that may result in balance adjustments and/or cash refunds due on the purchased accounts. In some cases, such remediation exercises may result in the amounts of compensation exceeding the purchase price and therefore resulting in total loss of the portfolio value and potentially additional expenditure on our part. The quality of historical customer documentation may not allow, in each case, the discovery of past breaches relating to form and content requirements that would impair our ability to correctly assess the value of the portfolio, resulting in the risk of loss or reduction in the particular purchased portfolio's value.

As our business relies on our ability to enforce the contracts underlying our owned customer accounts, a contract found to be invalid or unenforceable could hinder our ability to recover from purchased accounts. If we purchase debt portfolios containing too many accounts that do not conform to the terms of the purchase contracts or contain accounts that are otherwise uncollectable or unenforceable, we may be unable to recover a sufficient amount, or anything at all, and such a portfolio purchase could be unprofitable. Additionally, we may be unable to ascertain whether the debt originator has been in compliance in connection with the underlying accounts at a sufficiently early stage. With respect to any future acquisitions of other debt collection companies, we may not have any contractual protection in relation to liabilities or operating or other problems in relation to the loan portfolios of the acquired company, and we may not discover such shortcomings until after completion of such acquisitions. This could lead to adverse accounting and financial consequences, such as the need to make substantial provisions against the acquired assets or to write down acquired assets.

For a significant number of portfolios, particularly in Germany, we act as beneficial owner. We may not be able to collect on a portfolio to which someone else holds legal ownership, or we may need to spend time and resources establishing our own legal ownership of the portfolio if such ownership was unclear. Moreover, in instances where underlying documentation does not prove the existence, ownership or enforceability of an account, or where an account balance is incorrect, we may not always have the right to transfer such accounts back to the debt originator. Additionally, in such instances, we may be contractually required to repurchase accounts that we have subsequently sold to third parties.

Furthermore, enforcement of claims under German law generally requires a creditor to obtain an execution title (*Vollstreckungstitel*). An execution title is not automatically transferred with the underlying claim. An execution title is generally rendered in the name of a specific creditor that has the sole right to enforce the claim. Although for many of our German portfolio debt purchases we benefit from acting as a beneficial owner with the original creditor as trustee, which allows us to enforce on the basis of existing execution titles, we may not be able to enforce the claim using the existing execution title if the original creditor is no longer available to serve as trustee, *e.g.*, in the event that the creditor is liquidated. We also may not use an existing execution title if we are the legal owner of the claim. In such situations, an execution title must be amended by way of a circumscription of title (*Titelumschreibung*), subject to certain legal requirements set forth by the German Code of Civil Procedure (*Zivilprozeßordnung*). This procedure allows other persons who are not named in the respective execution title to use it for enforcement. The circumscription of title bears additional cost that is incurred for any single claim and may result in considerable additional expense. Additionally, under certain circumstances it may be difficult or impossible to achieve a circumscription of title, *e.g.*, if the documentation required by law is not available or the original creditor ceases to exist, which may prevent us from enforcing a claim.

Any of the foregoing factors could materially and adversely affect our financial condition, financial returns and results of operations.

Historical operating results and quarterly cash collections may not be indicative of future performance.

Our past performance may not be indicative of future operating results. Our results of operations and financial condition are dependent on our ability to generate collections from overdue receivables, which in turn is impacted by the ability of customers to pay. The ability of customers to refinance their existing debt, as well as annual cycles in disposable income, could result in a reduction in the volume of NPLs available for collection or purchase. Furthermore, collections within portfolios in the United Kingdom tend to be seasonally higher in the second and third quarters of our financial year due to customers generally having lower expenses during these months, for example because of lower heating costs. Conversely, collections within portfolios tend to be lower in months where there are fewer working days, for example months with public holidays. In addition, we are exposed to quarterly variations in our operating results, which may be affected by the timing of the closing of debt portfolio purchases, which we often cannot control and may be uneven during the year, and the speed with which we can integrate the portfolios into our systems. Any of the foregoing factors could have a material adverse effect on our business, results of operations or financial condition.

Due to our financial history, certain of our financial information included in the Group´s financial statements as of and for the year ended December 31, 2016 and the Offering

Memorandum dated September 14, 2016 needs to be carefully considered, as it is not directly comparable to other financial information.

Certain financial information included in the Offering Memorandum dated September 14, 2016 (the "Offering Memorandum") and in the Group´s financial reports as of and for the year ended December 31, 2016 is not directly comparable. The Offering Memorandum includes historical financial information of the Group, Metis Bidco Limited and its consolidated subsidiaries and GFKL Holdco and its consolidated subsidiaries. Consolidated reporting for the Group has been carried out at the Parent since it was incorporated on June 1, 2015. However, the Parent had no operations, and thus no financial results, until the GFKL Acquisition Completion Date, and the financial results of the Parent were the product of GFKL's operations alone from this date until the Lowell Acquisition Completion Date. Accordingly, the Parent Consolidated Financial Statements for 2015 incorporate only the Parent's results for the period from June 1, 2015 through December 31, 2015, and these statements incorporate the results of GFKL for only the period from June 30, 2015 through December 31, 2015, and of Lowell for only the period from October 13, 2015 until December 31, 2015. Thus, these results will not be directly comparable to the Parent's future financial statements or any of the other financial statements included in the Offering Memorandum.

In addition, Metis Bidco Limited's consolidated financial information is not directly comparable to GFKL Holdco's consolidated financial information for various reasons, and the historical financial information of Metis Bidco Limited and its consolidated subsidiaries presented in the Offering Memorandum for certain years may not be directly comparable to the corresponding information from other years. The Lowell Consolidated Financial Statements were prepared on the basis of a September 30 or December 31 year end and represent 15-month, 13-month and 12-month periods (as applicable), while the GFKL Consolidated Financial Statements were prepared on the basis of a December 31 year end and represent 12-month periods. Moreover, the Lowell 2013 Audited Consolidated Financial Statements were prepared in accordance with UK GAAP, while the Lowell 2014 Audited Consolidated Financial Statements and the Lowell 2015 Audited Consolidated Financial Statements were prepared in accordance with IFRS. The GFKL Consolidated Financial Statements were prepared in accordance with IFRS and the additional requirements of German commercial law pursuant to Section 315a (1) of the German Commercial Code (*Handelsgesetzbuch*). Consolidated financial statements prepared in accordance with UK GAAP differ in certain significant respects from those prepared in accordance with IFRS.

Furthermore, GFKL changed its accounting policies with respect to its portfolio assets in 2015 in order to harmonize its approach to that of Lowell. The GFKL 2015 Audited Consolidated Financial Statements, including the prior-year comparative presented therein, reflect this change whereas the GFKL 2014 Audited Consolidated Financial Statements and the GFKL 2013 Audited Consolidated Financial Statements do not. Although we derived the financial information presented in the Offering Memorandum as of and for the years ended December 31, 2014 and 2015 from the GFKL 2015 Audited Consolidated Financial Statements, the financial information as of and for the year ended December 31, 2013 was derived from the GFKL 2013 Audited Consolidated Financial Statements. Accordingly, GFKL's 2013 financial information may not be directly comparable to its 2014 and 2015 financial information or to that of Lowell. The differences described above could be material to the information contained herein, and the discussions herein of the financial results of Metis Bidco Limited and GFKL Holdco are necessarily limited by the lack of comparability among their financial information.

The 2016 figures include Metis Bidco Limited and its consolidated subsidiaries and GFKL Holdco and its consolidated subsidiaries for the whole year. However, because the IS Inkasso Service Acquisition was completed at the end of June 2016 and Tesch Group at the end of September 2016, both are only included in the Consolidated Financial Statements since their respective acquisition dates in 2016.

Fluctuations in currency exchange rates may have a negative impact on our results of operations presented in euro.

We present our consolidated financial reports in pounds sterling but the operations of the GFKL Group are conducted in euro. Our business is therefore sensitive to fluctuations in foreign currency exchange rates, especially euro-pound sterling exchange rates. The presentation of our results of operations may be affected by the translation of foreign currencies into pounds sterling for the purpose of our consolidated financial statements.

Uneven debt portfolio supply patterns may prevent us from pursuing all of the debt purchase opportunities we would like to pursue and may result in our experiencing uneven cash flows and financial results.

Debt portfolios do not become available for purchase on a consistent basis throughout the year. Accordingly, there may be times when a number of portfolios, or particularly large portfolios, are available for purchase at similar times, which may prevent us, due to restrictions in our funding ability, from pursuing all of the then available debt purchase opportunities. As a result, we may fail to maintain our market share. The inconsistency in the availability of debt portfolios for purchase may mean that during certain financial reporting periods we may make few or no purchases of debt portfolios. In addition, large purchases at the end of a financial period would likely have a material and adverse effect on our reported financial ratios.

It is not unusual to experience a gap between the time of acquisition of a debt portfolio and the time that we begin earning returns on the acquired portfolio as we need to locate customers, build a consolidated profile of each such customer's circumstances and formulate an appropriate repayment solution before we can start to collect on an acquired portfolio. As a result, we may experience uneven cash flows and delays in generating income from purchased loan portfolios. For example, if we were to acquire a material portfolio at the end of a reporting period, then this would increase our net debt or reduce our cash on hand without generating cash or contributing to Adjusted EBITDA for the relevant period.

Rising interest rates could impair the ability of our customers to pay their debt, which could have a material adverse effect on our financial condition, financial returns and results of operations.

Rising interest rates could impair the financial viability of customers who have variable interest rate obligations or other significant debt that bears floating rate interest. If our customers experience a reduced ability to pay their debt, debt collection agencies may require higher commissions to address increased collection activity costs, and we could face higher payment plan default rates and lower average payments, any of which could reduce our cash generation or prolong the time required to collect cash, and reduce our return on capital and ERC. Even if we are able to develop payment plans in relation to certain of these obligations, such measures may prove unsuccessful. Further, we could more quickly reach a point of saturation with certain customers (*i.e.*, the number of accounts matched to a customer may reach a point at which that customer lacks the financial means to pay on all of the accounts that we own). Even if our efforts were to prove successful in avoiding some defaults, total collections may still decline or the timing of receipt of payments may lengthen, any of which would impair our financial condition and results of operations.

Our hedges may be ineffective or may not be implemented correctly.

We are subject to the risk of changes in interest rates and their impact on our derivative instruments. We use interest rate swaps to hedge the effect of changes in the interest rate on our profit and loss. We further hedge parts of our cash-flow risk that arises out of variable interest agreements on the refinancing side. We enter into a derivative contract by paying fixed interest payments in exchange for receiving floating rate interest payments. When interest rates rise, our unhedged floating rate and new financing costs rise, thereby reducing our profit or increasing our loss, but we also receive higher interest income from our derivative instruments, which offsets (to the extent of such increase in income) the decline in profit or increase in loss from the rise in financing costs. Conversely, when interest rates decline, our unhedged floating rate and new financing costs decline, thereby increasing our profit or decreasing our loss, but our interest income from our derivative instruments also declines, thus offsetting (to the extent of such decrease in income) any changes to profit and loss due to interest rate movements. We are subject to the risk that there is a mismatch either between the interest swap performance and the change in the underlying funding cost that the derivative instruments are structured to hedge. We are also exposed to the risk that our hedges could be implemented or priced incorrectly. Volatility in interest rates could impact valuation of interest rate swaps and therefore impair our ability to enter into these contracts on terms that enable us to achieve the hedging we need. If interest rates turn negative, our derivative instruments would not achieve our hedging needs. In addition to paying fixed interest payments, a negative interest rate would increase our interest payment instead of our receiving a floating rate interest payment in return. Furthermore, our derivative contracts may be subject to termination or break clauses, which may force us to renegotiate or replace those contracts on unattractive terms. Any of these events could cause losses and have a material adverse effect on our business, results of operations or financial condition.

We may not be successful in achieving our strategic goals.

We may not be successful in developing and implementing our strategic plans for our businesses. If the development or implementation of such plans is not successful, we may not produce the revenue, margins, earnings or synergies that we need to be successful and to offset the impact of adverse economic conditions that may exist currently or develop in the future. We may also face delays or difficulties in implementing process and system improvements, which could adversely affect our ability to successfully compete in our core markets. In addition, the costs associated with implementing such plans may exceed anticipated amounts and we may not have sufficient financial resources to fund all of the desired or necessary investments required in connection with our plans, including one-time costs associated with our business consolidation and operating improvement plans.

The existing and future execution of our strategic and operating plans will, to some extent, also be dependent on external factors that we cannot control, such as legislative changes, systemic failures in our industry or the industry sectors of our clients and changes in fiscal and monetary policies. In addition, these strategic and operational plans need to be continually reassessed to meet the challenges and needs of our businesses in order for us to remain competitive. The failure to implement and execute our strategic and operating plans in a timely manner or at all or the failure to realize the cost savings or other benefits or improvements associated with such plans could have a material adverse effect on our business, results of operations or financial condition.

Pending and future tax audits within our Group and changes in fiscal regulations could lead to additional tax liabilities.

We are subject to routine tax audits by local tax authorities. Lowell’s tax returns are prepared in accordance with UK tax legislation and prevailing case law. Certain tax positions taken by Lowell are based on industry practice, tax advice and drawing similarities from our facts and circumstances to those in case law. These positions may relate to tax compliance, sales and use, value added, franchise, gross receipts, payroll, property and income tax issues, including tax base and apportionment. Challenges made by tax authorities to Lowell’s application of tax rules may result in adjustments to the timing or amount of taxable income or deductions. If any such challenges are made and are not resolved in our favor, they could have an adverse effect on our financial condition and result of operations.

In addition, we are exposed to potential tax risks related to acquisitions, disposals and reorganizations, if our position with regard to the tax consequences of the acquisitions, disposals and reorganizations is challenged in a tax audit. Further, Lowell’s effective tax rate in a given financial year reflects a variety of factors that may not be present in the succeeding financial year or years. One such factor affecting this effective tax rate is the relevant standard rate of corporation tax assessed against Lowell, which is subject to change. This rate is currently (from April 2017) 19%. In addition, changes in fiscal regulations or the interpretation of tax laws by the courts or the tax authorities including those tax laws relating to the utilization of tax loss or credit carry forwards, and changes in our assessment of certain matters, such as the ability to realize deferred tax assets, may also have a material adverse effect on our business. For example, in the UK, value added tax is not currently required to be paid on the collections we make on telecommunications or retail debt, as the sale of such debt triggers a tax exemption. However, a change in the rules of application of value added tax on telecommunications or retail debt, providing that such tax would be payable, could have a material and adverse effect on our business. Any additional tax payments could have a material adverse effect on our margins and results of operations and financial condition.

GFKL’s tax audits in Germany have been finalized for corporate income tax (*Körperschaftsteuer*), trade tax (*Gewerbesteuer*) and VAT (*Umsatzsteuer*) for financial years up to and including the year ended (i) December 31, 2003 in the case of GFKL Holdco and (ii) December 31, 2006 in the case of most other GFKL Group companies. Ongoing tax audits for the GFKL Group, which comprise, for most GFKL Group companies, the period up to and including the financial year ended December 31, 2013, tax audits for later periods not yet subject to a tax audit or tax audits in other countries may lead to higher tax assessments in the future. For example, GFKL operates a number of tax groups (*Organschaften*) in Germany and these tax structures may be challenged in future tax audits. Non-recognition of our tax groups by the German tax authorities could lead to additional tax liabilities. In addition, tax authorities ordered an extraordinary VAT audit with respect to Garfunkel Holding.

The Tesch Group's tax audits have been finalized for corporate income tax (*Körperschaftsteuer*), trade tax (*Gewerbesteuer*) and VAT (*Umsatzsteuer*) for financial years up to and including the year ended (i) December 31, 2012 in the case of the Target, Tesch Inkasso GmbH and Tesch Inkasso Forderungsmanagement GmbH , (ii) December 31, 2011 in the case of Tesch Inkasso Finance GmbH, (iii) December 31, 2010 in the case of Tesch mediafinanz GmbH and (iv) December 31, 2008 in the case of ST BusinessManagement GmbH & Co KG. Other tax audits for the Tesch Group, ongoing tax audits, tax audits for periods not yet subject to a tax audit or tax audits in other countries may lead to higher tax assessments in the future. For example, tax groups (*Organschaften*) operated in Germany by entities of the Tesch Group may be challenged in future tax audits. Non-recognition of the Tesch Group's tax groups by the German tax authorities could lead to additional tax liabilities.

In connection with the last tax audit of the Target, part of the interest on shareholder loans was considered as a constructive dividend by the tax authorities resulting in an additional corporate income tax, trade tax and withholding tax at the level of Tesch Inkasso GmbH of approximately €64,000 and at the level of the Target of approximately €67,000. This treatment has been challenged by tax appeals and leap-frog actions (*Sprungklagen*). For the pending appeals and court proceedings suspensions of proceedings (*Ruhen des Verfahrens*) and suspensions of execution (*Aussetzung der Vollziehung*) have been granted. An adverse outcome in the tax appeals and proceedings could lead to additional tax liabilities (including interest) and could have an adverse effect on our financial condition and result of operations.

Further shareholder loans have been granted on similar terms and conditions in the course of the acquisition of former Tesch Verwaltungs GmbH (now merged into DC Debitoren Management GmbH) and Tesch Inkasso Finance GmbH (formerly Transcom CMS Forderungsmanagement GmbH. Future tax audits may challenge the treatment resulting in an additional corporate income tax, trade tax and withholding tax of up to €1.2 million to €1.3 million. An adverse outcome from such tax audits and from possible tax appeals and proceedings could have an adverse effect on our financial condition and result of operations.

Due to the forfeiture of loss carry forwards under German tax laws, we may be unable to use loss carry forwards to set off future gains.

Tax loss carry forwards and unused losses of the current financial year are forfeited in full if more than 50% of the subscribed capital, membership rights, participation rights or voting rights in certain of our German companies are transferred, directly or indirectly, to an acquirer or related parties of such acquirer (or a group of acquirers with common interests) within a period of five years or of comparable measures (the so-called "harmful acquisition"). As regards transfers of more than 25% and up to 50% under the same prerequisites, tax loss carry forwards and unused losses of the current financial year are forfeited on a *pro rata* basis. If and to the extent the tax loss carry forwards and unused losses of the current financial year are covered by the built-in gains of the loss-making company's business assets that are subject to domestic taxation, a forfeiture of such items would generally not apply.

With respect to the acquisition of GFKL Holdco by Carl Holding GmbH (which subsequently merged into Garfunkel Holding) in 2009, we have applied for a binding tax ruling to confirm that the loss carry forwards will not be affected on the basis of the application of the so-called "restructuring exception" granted by the applicable tax laws. The ruling was granted in September 2009, but revoked in April 2011 on the basis of a decision of the European Commission. GFKL has filed court rulings and appeals against, *inter alia*, the European Commission. Appeals and court rulings are still pending. GFKL has made accruals for the taxes and interest relating to the appeals and court rulings, which amounted to €11.4 million for suspended taxes and €3.6 million for interest as of December 31, 2016. Any payments resulting from losing the court rulings and appeals could have a material adverse effect on our results of operation and financial position.

With respect to the acquisition of Carl Holding GmbH by Garfunkel Holding in 2015, we believe that tax loss carry forwards of Carl Holding GmbH (now merged into Garfunkel Holding) will be forfeited, but tax loss carry forwards of GFKL Holdco will be protected by the built-in gains clauses and thus remain available for offsets against future profits. If tax authorities and the tax court do not follow that position and thus claim for forfeiture of tax loss carry forwards, a deferred tax asset accrued for at the GFKL Holdco level with an amount of €7.6 million may be forfeited, thus such forfeiture may have a material adverse effect on our business, financial condition and results of operations.

Due to restrictions on the deduction of interest expenses under German tax laws, we may be unable to fully deduct interest expenses on our financial liabilities.

Interest payments on our debt may not be fully deductible for tax purposes, which could adversely affect our financial results. Subject to certain prerequisites, the German interest barrier rules (*Zinsschranke*) impose certain restrictions on the deductibility of interest for tax purposes. Since 2008, the German interest barrier rules in general have disallowed the deduction of net interest expenses exceeding 30% of the tax-adjusted EBITDA. For purposes of the interest barrier rules, all businesses belonging to the same tax group (*Organschaft*) for corporate income and trade tax purposes are treated as one single business. Such consolidation is, *inter alia*, relevant for the calculation of tax-adjusted EBITDA. There are certain exemptions from the restrictions of the German interest barrier rules allowing for a tax deduction of the entire annual interest expenses, which, however, may not be available in the case at hand. Any non-deductible amount of interest expenses exceeding the threshold of 30% is carried forward and may, subject to the interest barrier rules, be deductible in future fiscal years. In the past, Carl Holding GmbH's interest expenses were not entirely deductible. The interest carry forward will be forfeited in full in connection with a change of the ownership structure (*i.e.*, the acquisition of Carl Holding GmbH by Garfunkel Holding in 2015) as described in the preceding risk factor "*—Due to the forfeiture of loss carry forwards under German tax laws, we may be unable to use loss carry forwards to set off future gains.*" Such forfeiture may have a material adverse effect on our business, financial condition and results of operations.

With respect to the Tesch Group entities we expect that any interests should be fully deductible for tax purposes. However, subject to certain prerequisites, the German interest barrier rules (*Zinsschranke*) might apply and may have material adverse effect on our business, financial condition and results of operations.

The VAT treatment of the purchase of non-performing loans performed by us may be challenged or changed resulting in additional cash out for VAT.

A substantial part of the business of the GFKL Group is the purchase of portfolios of NPLs. The GFKL Group collects the receivables for its own account, taking the risk of final payment default. Generally, the purchase price for the NPL is determined by estimating the value of collectable receivables ("**economic nominal value**")—which is less than the nominal value of the receivables—less the cost of debt collection and of pre-financing and discounted using an appropriate discount rate. In 2003, the European Court of Justice ("**ECJ**") decided that the purchase of receivables for a subsequent cash collection (factoring) is to be treated as a supply of a taxable service from the purchaser to the seller (C-305/01, MKG). The seller would be relieved from the collection of the receivables as well as from the risk of (final) payment default. The ECJ decision was also adopted by the German tax authorities for the purchases of NPL (old version of Section 2.4 para. 1 and para. 8 German VAT Guidelines, "**UStAE**"). On October 27, 2011, ECJ decided that acquisitions of NPL are not subject to VAT (C-93/10, GFKL). This court decision was adopted by the German Federal Tax Court ("**BFH**") in a decision dated January 26, 2012 (V R 18/08). The BFH decision also said that no input VAT could be claimed on costs incurred in connection with NPL acquisitions as well as on costs incurred in connection with the collection of the receivables, and referred back to the local Tax Court Düsseldorf. The GFKL Group has since withdrawn its initial lawsuit. Consequently the cases are not binding on the GFKL Group. These court cases as well as another comparable case (BFH decision dated July 4, 2013 (V R 8/10)) have been adopted by the German tax authorities in a tax decree issued by the German Federal Ministry of Finance dated December 2, 2015 and in updated VAT Guidelines (Section 2.4 para. 1, para. 7 and para. 8 German VAT Guidelines) .

This includes the possibility to apply for previous guidance from the German tax authorities with respect to NPLs acquired before July 1, 2016 and the respective transfers performed before January 1, 2019, i.e., that the purchase of NPL still qualifies as a VAT-taxable service allowing for deduction of input VAT for the respective historical periods. As the GFKL Group did not entirely treat the purchases of NPL as subject to VAT according to the MKG jurisprudence, i.e. in some cases no VAT was collected and paid to the tax authorities, in the period from the year ended December 31, 2004 to June 30, 2016, the GFKL Group built up an accrual of €8,1 million (including interest).

Any VAT payments could have a material adverse effect on our margins and results of operations and financial condition. In addition, changes in fiscal regulations or the interpretation of tax laws by the courts or the tax authorities may also have a material adverse effect on our business.

Failure to register under the Investment Company Act may result in a material adverse effect on the Issuer.

The Issuer has not been and will not be registered with the SEC as an investment company pursuant to the Investment Company Act in reliance on the exemption from registration provided by Section 3(c)(7) of the Investment Company Act. No action positions are available for non-U.S. obligors (a) whose outstanding securities owned by U.S. persons are owned exclusively by Qualified Purchasers and (b) which do not make a public offering of their securities in the United States. Accordingly, investors in the Notes will not be accorded the protections of the Investment Company Act. Counsel for the Issuer will opine, in connection with the sale of the Notes, that the Issuer is not at such time an investment company required to be registered under the Investment Company Act (assuming, for the purposes of such opinion, the accuracy and completeness of all representations and warranties made or deemed to be made by investors in the Notes). No opinion or no-action position has been requested of the SEC.

If the SEC or a court of competent jurisdiction were to find that the Issuer is required, but has failed, to register in violation of the Investment Company Act, possible consequences include, but are not limited to, the following: (i) the SEC could apply to a district court to enjoin the violation; (ii) investors could sue the Issuer and recover any damages caused by the violation of the registration requirement of the Investment Company Act; and (iii) any contract to which the Issuer is party that is made in, or whose performance involves a, violation of the Investment Company Act would be unenforceable by any party to the contract unless a court were to find that under the circumstances enforcement would produce a more equitable result than non-enforcement and would not be inconsistent with the purposes of the Investment Company Act. Should the Issuer be subjected to any or all of the foregoing, there would be a material adverse effect on the Issuer.

If the Issuer determines that a purchaser of the Notes that is a U.S. person was not a Qualified Purchaser at the time of its acquisition of the Notes, the Issuer will have the right, at its option, to require such person to dispose of its Notes to a person or entity that is qualified to hold the Notes immediately upon receipt of a notice from the Issuer that the relevant purchaser was not a Qualified Purchaser.

Terrorist attacks, war and threats of attacks and war may materially and adversely affect consumer spending, and in turn, our financial condition, financial returns and results of operation.

Terrorist attacks in the United Kingdom, Germany and abroad, as well as war and threats of war or actual conflicts involving the United Kingdom, Germany or other countries, may dramatically and adversely impact the economies of the countries in which we operate and cause consumer confidence and spending to decrease. Any of these occurrences could affect our ability to collect our receivables and result in a material adverse effect on our financial condition, financial returns and results of operation.

The results of the United Kingdom's referendum on withdrawal from the European Union may have a negative effect on global economic conditions, financial markets and our business.

We are a European company incorporated in Luxembourg with business operations in the United Kingdom, Germany and Austria, Switzerland and Croatia. Following the British public referendum to leave the European Union on June 23, 2016, the government of the United Kingdom has served notice under Article 50 of the Treaty of the European Union, pursuant to which the United Kingdom has a two year period to agree to the terms for its withdrawal. The result of the referendum created concerns with respect to the future relationship between the United Kingdom and the European Union as well as the overall stability of the European Union and the suitability of a single currency to appropriately deal with specific fiscal management and sovereign debt issues in individual Eurozone countries.

These developments have had and may continue to have a material adverse effect on global economic conditions and the stability of global financial markets, and could significantly reduce global market liquidity and restrict the ability of key market participants to operate in certain financial markets. Any reduction in our customers' willingness or ability to pay their debts due to Brexit-related changes in the economic environments of the United Kingdom and Germany could materially affect our revenue and our ability to perform debt collection in a manner consistent with our past practice. In addition, any fundamental shift in the macroeconomic environment in the United Kingdom or the parts of Europe in which we operate could adversely affect the accuracy of our predictions regarding the expected returns from the debt portfolios we purchase and service.

Lack of clarity about future UK laws and regulations as the United Kingdom determines which European Union laws to replace or replicate in the event of a withdrawal, including financial laws and regulations, data privacy and collection laws and regulations and tax and free trade agreements, may increase costs associated with operating in either or both of the United Kingdom and Germany, depress economic activity and restrict our access to capital. In particular, Lowell is subject to a number of EU laws and regulations governing its operations, and uncertainty regarding the future applicability of these regulations may increase our compliance costs. Additionally, any substantial change in the regulations applicable to our United Kingdom business could jeopardize our ability to continue to operate in a manner consistent with our past practice.

If the United Kingdom and the European Union are unable to negotiate acceptable withdrawal terms or if other EU member states pursue withdrawal, barrier-free access between the United Kingdom and other EU member states or among the European economic area overall could be diminished or eliminated. To the extent that such changes increase the costs or difficulties associated with operating in both the United Kingdom and Germany, they could adversely affect our financial condition, financial returns or results of operations.