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**Company Registration No. 03757424**

**Cabot Financial (UK) Limited**

**Annual Report and Financial Statements  
For the year ended 31 December 2018**

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## **Cabot Financial (UK) Limited**

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## **Cabot Financial (UK) Limited**

### **Officers and professional advisors**

The officers and professional advisors of the Company at the date of this report are as follows:

#### **Directors**

K Stannard  
C Buick

#### **Secretary**

L Bassett

#### **Auditor**

BDO LLP  
Chartered Accountants and Statutory Auditor  
55 Baker Street  
London  
W1U 7EU

#### **Bankers**

National Westminster Bank PLC  
City of London Office  
PO BOX 12258  
1 Princes Street  
London  
EC2R 8BP

#### **Registered office**

1 Kings Hill Avenue  
Kings Hill  
West Malling  
Kent

ME19 4UA

## **Cabot Financial (UK) Limited**

### **Strategic Report For the year ended 31 December 2018**

#### **Overview**

The Directors present the Strategic Report, Directors' Report and the financial statements of Cabot Financial (UK) Limited (the "Company") for the year ended 31 December 2018.

The Company's principal activity is the investment in defaulted consumer loans in the United Kingdom and is a member of the Cabot Credit Management Limited Group (the "Group").

#### **Business review and results**

The loss before tax for the year amounts to £47,078,000 (2017 – loss of £1,857,000).

As the performance of Cabot Financial (UK) Limited is linked to the performance of Cabot Credit Management Limited, Key Performance Indicators relating to the Company's trading which are appropriate for an understanding of the development, performance or position of the business can be found in the financial statements of Cabot Credit Management Limited

#### **Principal risks and uncertainties**

The Company is exposed through its operations to the following financial risks:

- Cash flow and credit risk; and
- Going concern and liquidity risk.

In common with all other businesses, the Company is exposed to risks that arise from its use of financial instruments. This section describes the Company's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

There have been no substantive changes in the Company's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this section.

#### **Principal financial instruments**

The principal financial instruments used by the Company, from which financial instrument risk arises, are as follows:

- cash and cash equivalents;
- trade and other receivables;
- purchased loan portfolios;
- trade and other payables; and
- borrowings.

#### **Cash flow and credit risk**

The Company is a member of the Group and therefore its financial risk management objectives and policies are intrinsically linked to those of the Group.

Credit risk is the risk that a customer or counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group's principal activity is the acquisition and management of underperforming consumer loan portfolios; therefore, the Group are exposed to significant credit risk. Most portfolios by their nature are impaired on acquisition and the Group continually monitors cash collections and the carrying values are impaired where the underlying performance does not meet initial

## **Cabot Financial (UK) Limited**

### **Strategic Report For the year ended 31 December 2018**

expectations. The ongoing risk is managed through a portfolio valuation process including modelling current expectations of recoverability based on historical information on debt types. A pricing review process is in place which includes at least two members of the Board of Directors as well as other key members from all

#### ***Cash flow and credit risk (continued)***

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

#### ***Capital risk***

The Company monitors "adjusted capital" which comprises all components of equity (i.e. share capital, capital contribution reserve, and retained earnings) other than amounts in the cash flow hedging reserve.

The Company's objectives when maintaining capital are:

- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Company sets the amount of capital it requires in proportion to risk. The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

#### ***Price risk***

The market within which the Company operates is highly competitive with a large number of buyers tendering for portfolios that come to market which requires cost-effective collection operations performed by the Company in respect of the portfolios owned by Group companies. The Company assesses the collection costs of each portfolio it services on behalf of related parties and agrees service fees accordingly. The Directors consider that substantial ongoing investment in this area will be key to the future success of the business.

#### ***Going concern and liquidity risk***

The Group has long-term debt financing through Senior Secured Loan notes totalling £872.4 million (2017: £900.5 million). The first tranche of these notes was due for repayment in April 2021\*. The Group also has two Asset Backed Senior Facilities totalling £350.0 million (2017: one of £290.0 million). These facilities are secured until September 2023. The Group has a revolving credit facility of £385.0 million for funding working capital requirements and portfolio purchases as required. At 31 December 2018 £233.9 million had been drawn on this facility (2017: £132.5 million). £375.0 million of this facility is secured until September 2022, and the remaining £10.0 million is secured until September 2021.

\* On 14 June 2019, the Group issued a floating rate, Euro-denominated, senior secured bond for €400 million, with maturity in 2024. These funds were used to repay the £80 million Senior Secured Note and €310 million Floating Rate Note.

**Cabot Financial (UK) Limited**

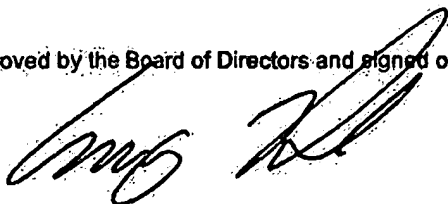
**Strategic Report  
For the year ended 31 December 2018**

***Going concern and liquidity risk (continued)***

The assets of the Group have been pledged as security for the Senior Secured Loan Notes, Asset Backed Senior Facilities, and the Senior Secured revolving credit facility. In the year to 31 December 2018, the Group has remained compliant with all the covenants contained in the notes issued and the Senior credit facility

Management have reviewed the Group forecast performance models, covenant projections and funding availability including consideration of appropriate sensitivities and have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, it is considered appropriate to continue to adopt the going concern basis in preparing the annual report and accounts.

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



C Buick  
Director

27 SEP

2019

## **Cabot Financial (UK) Limited**

### **Directors' Report for the year ended 31 December 2018**

The Directors present their report for the year ended 31 December 2018.

#### **Results and dividends**

The audited financial statements and related notes for the year ended 31 December 2018 are set out on pages 11 to 33. The Company's result for the year after taxation was a loss of £36,403,000 (2017: a loss of £2,137,000)

The Directors paid a dividend of £nil (2017: £nil).

#### **Directors**

The Directors who held office during the year and up to the date of approval of the financial statements were as follows:

- K Stannard
- C Buick
- C Taggart (resigned 1 April 2019)

#### **Disabled employees**

Applications for employment from disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event that members of staff become disabled every effort is made to ensure that their employment with the Company continues. It is the policy of the Company that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

#### **Employee consultation**

The Group places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the Group. This is achieved through formal and informal meetings. Employee representatives are consulted regularly on a wide range of matters affecting their current and future interests both informally and via the quarterly meetings of the "Association of Cabot Employees".

#### **Qualifying third party indemnity provisions**

The Company has arranged qualifying third party indemnity for all of its Directors.

#### **Political donations**

The Company made no political contributions (2017: £nil).

#### **Future developments**

The directors are monitoring the discussions associated with the Brexit process, and whilst they do not consider this will have a material impact on the Group's operations, are monitoring the impact of any associated macro economic changes on customer payment behaviours. The directors believe that any such macro economic changes may increase the demand for credit management services from the Group.

## **Cabot Financial (UK) Limited**

### **Directors' Report for the year ended 31 December 2018**

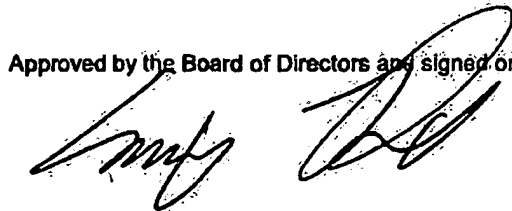
#### **Auditors**

Each of the persons who is a Director at the date of approval of this report confirms that:

- so far as he is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- He has taken all the steps that he/she ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

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



C Buick  
Director

27 SEP 2019



## **Cabot Financial (UK) Limited**

### **Statement of Directors' responsibilities for the year ended 31 December 2018**

The directors are responsible for preparing the strategic report, the directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:  
select suitable accounting policies and then apply them consistently;

make judgements and accounting estimates that are reasonable and prudent;

- state whether United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## **Independent auditor's report to the members of Cabot Financial (UK) Limited**

### **Opinion**

We have audited the financial statements of Marlin Financial Group Limited ("the Company") for the year ended 31 December 2018 which comprise the statement of comprehensive income, the statement of financial position, the statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

### **Other information**

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

## **Independent auditor's report to the members of Cabot Financial (UK) Limited**

### **Opinions on other matters prescribed by the Companies Act 2006**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and Directors' Report has been prepared in accordance with applicable legal requirements.

### **Matters on which we are required to report by exception**

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report and Directors' Report. We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion;

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

### **Responsibilities of Directors**

As explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the Financial Reporting Council's website at:

<https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

## **Independent auditor's report to the members of Cabot Financial (UK) Limited**

### **Use of our report**

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



Nell Fung-On (Senior Statutory Auditor)  
For and on behalf of BDO LLP, Statutory Auditor  
London

27 September 2019

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

## **Cabot Financial (UK) Limited**

### **Statement of comprehensive income For the year ended 31 December 2018**

|  | <b>Notes</b> | <b>2018<br/>£000</b> | <b>2017<br/>£000</b> |
|--|--------------|----------------------|----------------------|
| Revenue  | 4            | 208,013              | 151,802              |
| Operating expenses                                       |              | (86,609)             | (87,184)             |
| <b>Gross profit</b>                                      |              | <b>121,404</b>       | <b>64,618</b>        |
| Administration expenses                                  |              | (13,394)             | (672)                |
| <b>Operating profit</b>                                  |              | <b>108,010</b>       | <b>63,946</b>        |
| Interest receivable and similar income                   | 6            | 24,912               | 16,235               |
| Interest payable and similar charges                     | 7            | (180,000)            | (82,038)             |
| <b>Loss on ordinary activities before taxation</b>       | 5            | <b>(47,078)</b>      | <b>(1,857)</b>       |
| Tax credit/(expense)                                     | 8            | 10,675               | (280)                |
| <b>Total comprehensive loss for the financial period</b> |              | <b>(36,403)</b>      | <b>(2,137)</b>       |

All of the above results are derived from continuing operations. There is no other comprehensive income.

# **Cabot Financial (UK) Limited**

## **Statement of financial position As at 31 December 2018**

|  | Notes | 2018<br>£000     | 2017<br>£000     |
|--|-------|------------------|------------------|
| <b>Current assets</b>  |       |                  |                  |
| Purchased loan portfolios                                      | 9     | 896,935          | 763,335          |
| Trade and other receivables                                    | 10    | 618,673          | 459,544          |
| Cash in bank and on hand                                       |       | 3,270            | 8,216            |
|  |       | <u>1,518,878</u> | <u>1,231,095</u> |
| <b>Creditors: amounts falling due within one year</b>          |       |                  |                  |
| Trade and other payables                                       | 11    | (690,798)        | (488,5119)       |
| Borrowings   | 12    | (232,488)        | (144,602)        |
|  |       | <u>(923,286)</u> | <u>(632,721)</u> |
| <b>Net current assets</b>                                      |       | <u>595,592</u>   | <u>598,374</u>   |
| <b>Total assets less current liabilities</b>                   |       | <u>595,592</u>   | <u>598,374</u>   |
| <b>Creditors: amounts falling due after more than one year</b> | 12    | (616,906)        | (582,759)        |
| <b>Provisions</b>  | 13    | (1,564)          | (2,091)          |
| <b>Net assets</b>  |       | <u>(22,878)</u>  | <u>13,524</u>    |
| <b>Equity</b>  |       |                  |                  |
| Called up share capital  | 14    | 50               | 50               |
| Capital contribution reserve                                   |       | 174,522          | 174,522          |
| Retained earnings  |       | (197,450)        | (161,048)        |
| <b>Total shareholders' funds</b>                               |       | <u>(22,878)</u>  | <u>13,524</u>    |

These financial statements of Cabot Financial (UK) Limited, with registered number 03757424, were approved by the Board of Directors and authorised for issue on 27 SEP 2019.

Signed on behalf of the Board of Directors by:

  
C. Buick  
Director

**Cabot Financial (UK) Limited**

**Statement of changes in equity  
As at 31 December 2018**

|   | Share Capital | Capital<br>contribution<br>reserve | Retained<br>earnings | Total    |
|---|---------------|------------------------------------|----------------------|----------|
|   | £000          | £000                               | £000                 | £000     |
| <b>As at 1 January 2017</b>                 | 50            | 174,522                            | (158,911)            | 15,661   |
| <i>Comprehensive income for the period:</i> |               |                                    |                      |          |
| Profit for the period                       | -             | -                                  | (2,137)              | (2,137)  |
| Total comprehensive income                  | -             | -                                  | (2,137)              | (2,137)  |
| <b>As at 31 December 2017</b>               | 50            | 174,522                            | (161,048)            | 13,524   |
| <i>Comprehensive income for the period:</i> |               |                                    |                      |          |
| Profit for the period                       | -             | -                                  | (36,402)             | (36,402) |
| Total comprehensive income                  | -             | -                                  | (36,402)             | (36,402) |
| <b>As at 31 December 2018</b>               | 50            | 174,522                            | (197,450)            | (22,878) |

## **Cabot Financial (UK) Limited**

### **Notes to the financial statements For the year ended 31 December 2018**

#### **1. General information**

Cabot Financial (UK) Limited is a limited company incorporated and domiciled in England and Wales. The registered office is located at 1 Kings Hill Avenue, Kings Hill, West Malling, Kent.

The principal activity of the Company is the purchase and recovery of consumer debt in the UK.

#### **2. Basis of preparation and significant accounting policies**

##### **2.1. Basis of preparation**

The financial statements of the Company have been prepared in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101). The financial statements have been prepared under the historical cost convention, except for the revaluation at current value of certain financial assets. These standards have been applied consistently throughout the current and preceding year.

The financial statements are presented in UK pounds sterling (£), which is the company's functional currency.

The Company has taken advantage of the following reduced disclosure requirements under FRS 101:

- the requirements of paragraph 38 of IAS 1 *Presentation of Financial Statements* to present comparative information requirements in respect of paragraph 79(a)(iv) of IAS 1;
- The requirements of paragraph 10(d), 10(f) and 134-136 of IAS 1 *Presentation of Financial Statements*;
- the requirements of IAS 7 *Statement of Cash Flows*; and
- the requirements of paragraph 8(k) not to disclose transactions with Group companies wherein any subsidiary undertaking which is a party to the transactions is wholly owned by a member of that Group

These financial statements have been prepared in accordance with International Financial Reporting Standards and International Accounting Standards as issued by the International Accounting Standards Board (IASB) and Interpretations (collectively IFRSs).

The Company has taken advantage of the exemption from preparing consolidated financial statements afforded by section 400 of the Companies Act 2006 as it is a wholly owned indirect subsidiary of Cabot Credit Management Limited and its results are included in the consolidated financial statements of that company. These financial statements therefore present information about the Company as an individual entity alone.

##### **2.2. Going concern**

The Company's core business is the purchase and recovery of consumer debt and has servicing contracts with other members of the Group who collect monies on behalf of the Company. The Company's financial position is therefore partly dependent on the financial condition of the rest of the Group.

After making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.



## **Cabot Financial (UK) Limited**

### **Notes to the financial statements For the year ended 31 December 2018**

#### **2.3. Summary of significant accounting policies**

##### **Revenue**

Revenue represents income derived from purchased loan portfolios and fees receivable from the servicing of loans on behalf of third parties.

Income derived from purchased loan portfolios comprises receipts that relate to the current reporting period, adjusted for changes in the current values of the loan portfolios arising from periodic changes in estimates of future cash flows.

##### **Taxation**

The tax expense represents the sum of the tax currently payable and deferred tax. It is recognised in the statement of comprehensive income except to the extent that it relates to a business combination, or items recognised directly in equity or other comprehensive income.

##### **Current tax**

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

Current tax assets and liabilities are offset only if certain criteria are met.

##### **Deferred tax**

Deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary difference, the carry forward of unused tax credits and any unused losses. Such assets and liabilities are not recognised if they arise from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. Deferred tax liabilities are recognised for taxable differences arising on investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting date and reduced to the extent that it is not probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on the tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right of offset exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

## **Cabot Financial (UK) Limited**

### **Notes to the financial statements For the year ended 31 December 2018**

#### **Summary of significant accounting policies (continued)**

##### **Finance income and costs**

Interest income and expense are recognised on an accruals basis.

Finance costs include facility fees on bank loans and similar costs and fair value adjustments on interest rate derivatives.

##### **Foreign exchange**

Transactions in foreign currencies are recorded at the rates of exchange for Sterling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated at the rates of exchange prevailing at that date. Differences arising on settlement or translation of monetary items are recognised in the statement of comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign current are translated using the exchange rates at the date of the initial transaction.

##### **Cash and cash equivalents**

Cash and cash equivalents include cash in hand and deposits held at call with banks.

##### **Financial instruments**

##### ***IFRS 9***

The Group applied the simplified approach and recorded lifetime expected losses on all trade receivables and intercompany borrowings.

Intercompany borrowings Management have deemed that loans to other group undertakings are at a market rate and therefore the carrying value of the loans are an accurate approximation of fair value. Management determine impairment based on the borrowers' historically observed data, adjusted for forward-looking information. With regard to lifetime expected losses Management have assessed that any such losses are immaterial.

##### ***Financial assets***

The Company classifies its financial assets into one of the categories discussed below, depending on the purpose for which the asset was acquired.

##### **Fair value through profit or loss**

This category comprises in-the-money derivatives and out-of-the-money derivatives where the time value offsets the negative intrinsic value. They are carried in the statement of financial position at fair value with changes in fair value recognised in the statement of comprehensive income in the recurring finance income or recurring finance cost line.

## **Cabot Financial (UK) Limited**

### **Notes to the financial statements For the year ended 31 December 2018**

#### **Summary of significant accounting policies (continued)**

##### **Amortised cost**

This category comprises purchased loan portfolios, trade and other receivables or other types of financial assets where the objective is to hold these assets in order to collect contractual cash flows and the contractual cash flows are solely payments of principal and interest. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest method, less any impairment.

Impairment provisions for current and non-current trade and other receivables are recognised based on the simplified approach within IFRS 9 using a provision matrix in the determination of the lifetime expected credit losses. During this process the probability of the non-payment of trade and other receivables are assessed. This probability is then multiplied by the amount of the expected loss arising from default to determine the lifetime expected credit loss for financial assets. Financial assets are reported net of any provisions. On confirmation that the financial asset will not be recoverable, the carrying value of the asset is written off.

Purchased loan portfolios comprise financial assets which have been acquired at a significant discount from their face value, which reflects incurred credit losses.

On initial recognition, purchased loan portfolios (comprising loans and receivables) are recognised at fair value, being the fair value of the consideration paid or payable, plus directly attributable transaction costs. The initial yield is derived by establishing the rate that discounts expected future cash receipts from the portfolio to its carrying amount on initial recognition.

Subsequently, the carrying amount of the portfolio is adjusted to its current value by updating expected future cash receipts and discounting them using the initial yield.

On the sale of portfolio assets, and subsequent de-recognition of the financial assets, the difference between the current value on the statement of financial position and the total consideration received is recognised within Revenue in the statement of comprehensive income.

##### ***De-recognition of Financial Assets***

On the sale of portfolio assets, and subsequent de-recognition of the financial assets, the difference between the current value on the balance sheet and the total consideration received is recognised within Revenue in the Statement of Comprehensive Income.

##### ***Financial liabilities***

The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the liability was acquired.

##### **Fair value through profit or loss**

This category comprises out-of-the-money derivatives where the time value does not offset the negative intrinsic value. They are carried in the statement of financial position at fair value with changes in fair value recognised in the statement of comprehensive income. The Group does not hold or issue derivative instruments for speculative purposes, but for hedging purposes.

## **Cabot Financial (UK) Limited**

### **Notes to the financial statements For the year ended 31 December 2018**

#### **Summary of significant accounting policies (continued)**

##### **Other financial liabilities**

Other financial liabilities are initially recognised at fair value and in the case of borrowings and payables, net of directly attributable transaction costs. Subsequently, they are carried at amortised cost using the effective interest rate method.

##### **Borrowings**

Interest bearing loans are recorded at the proceeds received net of direct issue costs. Finance fees are accounted for in the statement of comprehensive income using the effective interest method and are added to the carrying amount of the instrument.

##### **Provisions**

Provisions are recognised when the Company has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are discounted to their present value.

#### **2.4. Changes in accounting policies and disclosures**

##### **Recent accounting pronouncements**

The standards and interpretations that are issued are disclosed below.

##### **IFRS 9 Financial Instruments**

As a result of the adoption of IFRS 9, from 1 January 2018 the Company adopted consequential amendments to IAS 1 Presentation of Financial Statements which requires impairment of financial assets to be presented in a separate line item in the statement of profit or loss and OCI.

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income and fair value through profit or loss. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

The Company's business model is to hold assets to collect solely payments on the principal and interest (SPPI) of the loan balances, as such the group holds loan portfolios at amortised cost.

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost.

The Company purchase credit impaired assets that are typically outside the original credit terms, as such 100% of ECL are already recognised.

Any differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.

## **Cabot Financial (UK) Limited**

### **Notes to the financial statements For the year ended 31 December 2018**

#### **Summary of significant accounting policies (continued)**

The loan portfolio asset has been assessed applying IFRS 9 to the 31 December 2017 closing balance under IAS 39. As the Group passes the SPPI test and 100% of ECL are already recognised under IAS 39, there was no adjustment arising in respect of the net book value of these assets as a result of adopting IFRS 9.

#### **IFRS 15 Revenue from Contracts with Customers**

IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard supersedes all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018, and the Company has adopted the new standard on the required effective date, 1 January 2018.

Following an assessment of the impact of adopting IFRS 15, management have concluded that IFRS 15 will not have a material impact on the results of the Company.

#### **IFRS 16 Leases**

IFRS 16 Leases applies to accounting periods beginning on or after 1 January 2019. It requires lessees to bring all leases within its scope on the statement of financial position, showing an asset for the right of use and a liability for the discounted amount of future payments. The Directors have assessed the impact and intend to adopt the retrospective approach, with the value of the assets and carrying value of the liability calculated as though IFRS 16 had been applied on the lease commencement date. This will be implemented on 1 January 2019, with comparatives being restated in order to give more comparable information.

### **3. Significant accounting judgements, estimates and assumptions**

The preparation of the Company's financial statements requires the Directors to make judgements, estimates and assumptions that impact the reported amounts of revenue, expenses, assets and liabilities and the associated disclosures.

The following are the judgements that have been made in the process of applying the Company's accounting policies and the key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have the most significant effect on the amounts recognised in the financial statements.

#### ***Purchased loan portfolios***

The purchased loan portfolios held on the statement of financial position are classified as current assets in line with IAS1, as they represent the trading assets of the business and are expected to be realised within the normal operating cash cycle. The key judgements and assumptions relate to the future cash receipts expected. A purchased loan portfolio is initially recognised at the price paid plus any attributable transaction costs. A yield is established at the initial recognition of a loan portfolio, based on the purchase price and the timing and size of the estimated future cash receipts.

## **Cabot Financial (UK) Limited**

### **Notes to the financial statements For the year ended 31 December 2018**

#### **Significant accounting judgements, estimates and assumptions (continued)**

At each reporting date expected cash receipts are revisited and updated if appropriate. Expected cash receipts for any future period comprise amounts that the Group anticipates recovering from the purchased loan portfolios. The forecast of expected future cash receipts is a probability weighted estimate based on modelling a number of scenarios all of which include consideration of factors such as the actual collections performance experience in the preceding months, a long term trend analysis, monthly decay rate assumptions, maturities of the underlying portfolios as well as macro-economic factors such as interest rates, unemployment rates and inflation. An unbiased probability weighted forecast is produced to use in evaluating the cash flow forecast to utilise. The resulting cash flows are then discounted at the yield established at initial recognition.

A loan portfolio will not be revalued above its purchase price until sufficient collections experience is obtained, typically 12 months from purchase. After a loan portfolio has been held for between 12 months and (up to) 24 months, it is added to a consolidated portfolio. Consolidated portfolios comprise multiple individual loan portfolios which are grouped on the basis of their financial year of purchase. A weighted average discount rate and forecast period are calculated based on all of the individual portfolios which are included in the consolidated portfolio.

Expected cash receipts for any future period comprise amounts that the Group anticipates recovering from the purchased loan portfolios. The forecast of expected future cash receipts is a probability weighted estimate based on modelling a number of scenarios all of which include consideration of factors such as the actual collections performance experience in the preceding months, a long term trend analysis, monthly decay rate assumptions, maturities of the underlying portfolios as well as macro-economic factors such as interest rates, unemployment rates and inflation.

# Cabot Financial (UK) Limited

## Notes to the financial statements For the year ended 31 December 2018

### 4. Revenue

Revenue predominantly arises in the UK. An analysis of revenue by activity is as follows:

|  | 2018<br>£000   | 2017<br>£000   |
|--|----------------|----------------|
| Income on owned portfolios                   | 162,607        | 150,465        |
| Positive impairment of portfolio investments | 44,118         | -              |
| Sale of owned portfolios                     | 1,149          | -              |
| Other Income                                 | 139            | 1,337          |
|  | <u>208,013</u> | <u>151,802</u> |

### 5. Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging auditor's remuneration of £nil (2017: £nil). Auditor's remuneration of £43,800 (2017: £30,000) with respect to the Company's audit fees for the year was borne by another group company. Included within administration expenses is £13.2m relating to refinancing costs incurred in July 2018, as disclosed in Note 12.

The Company employs no staff directly and the directors of the Company did not receive any remuneration in the period.

### 6. Finance income

|   | 2018<br>£000  | 2017<br>£000  |
|---|---------------|---------------|
| Bank interest income  | 23            | -             |
| Interest income from parent and other Group undertakings <sup>(a)</sup> | 21,330        | 10,878        |
| Foreign exchange on borrowings  | 3,459         | 3,766         |
| Fair value movement on hedging instrument                               | 100           | 1,591         |
|   | <u>24,912</u> | <u>16,235</u> |

<sup>(a)</sup> Interest receivable from parent and other Group undertakings is accrued but not paid at a rate of LIBOR plus 4% on trading balances and loans.

### 7. Finance expense

|  | 2018<br>£000   | 2017<br>£000  |
|--|----------------|---------------|
| Interest on borrowings   | 8,168          | 4,771         |
| Fees on borrowings   | 1,589          | 1,632         |
| Interest on Senior Secured Notes and related charges                       | 1,949          | 2,399         |
| Interest expense due to parent and other Group undertakings <sup>(a)</sup> | 168,294        | 73,196        |
| Bank interest charge   | -              | 40            |
|  | <u>180,000</u> | <u>82,038</u> |

# Cabot Financial (UK) Limited

## Notes to the financial statements For the year ended 31 December 2018

<sup>(a)</sup> Interest payable to parent and other Group undertakings is accrued but not paid at a rate of LIBOR plus 4% on trading balances and loans.

### 8. Tax

The income tax expense comprises:

|  | 2018<br>£000    | 2017<br>£000 |
|--|-----------------|--------------|
| <b>Current tax</b>                             |                 |              |
| Corporation tax                                | (10,429)        | (357)        |
| Total current tax                              | (10,429)        | (357)        |
| Prior period adjustments                       | (246)           | 637          |
| <b>Deferred tax</b>                            |                 |              |
| Origination and reversal of timing differences | -               | -            |
| <b>Total income tax (credit)/expense</b>       | <b>(10,675)</b> | <b>280</b>   |

The differences between the total tax expense shown above and the amount calculated by applying the standard rate of UK corporation tax to the accounting profit are as follows:

|   | 2018<br>£000    | 2017<br>£000 |
|---|-----------------|--------------|
| Loss before tax   | (47,078)        | (1,857)      |
| Income tax expense calculated at standard UK hybrid corporation tax rate of 19.00% (2017: 19.25%) | (8,945)         | (357)        |
| Effects of:   |                 |              |
| Group relief  | (1,484)         | -            |
| Adjustment in respect of prior periods  | (246)           | 637          |
| <b>Total income tax (credit)/expense</b>  | <b>(10,675)</b> | <b>280</b>   |

The Finance Act 2017, which reduced the main rate of UK corporation tax to 19% effective from 1 April 2017 and to 17% effective from 1 April 2020, was enacted on 6 September 2017. As this change in rate was substantively enacted prior to 31 December 2018 it has been reflected in the deferred tax assets and liabilities at 31 December 2018.



## Cabot Financial (UK) Limited

### Notes to the financial statements For the year ended 31 December 2018

#### 9. Purchased loan portfolios

|                                      | 2018<br>£000   | 2017<br>£000   |
|--------------------------------------|----------------|----------------|
| Expected falling due after one year  |                |                |
| Purchased loan portfolios            | 792,343        | 660,215        |
| Expected falling due within one year |                |                |
| Purchased loan portfolios            | 104,592        | 103,121        |
| <b>Total</b>                         | <b>896,935</b> | <b>763,335</b> |

The following table summarises the movement in the current value of the Company's loan portfolios in the period:

|   | 2018<br>£000   | 2017<br>£000   |
|---|----------------|----------------|
| Current value at the beginning of the financial period  | 763,335        | 549,974        |
| Movement in current value <sup>(a)</sup>                | 206,726        | 150,464        |
| Gross collections on owned portfolios                   | (307,619)      | (247,613)      |
| Gross portfolios acquired during the period             | 210,317        | 259,277        |
| Disposal of portfolios                                  | (1,523)        | (1,453)        |
| Pre-determination cash and other adjustments            | (3,231)        | (17,426)       |
| Transfers in  | 28,930         | 70,112         |
| <b>Current value at the end of the financial period</b> | <b>896,935</b> | <b>763,335</b> |

<sup>(a)</sup> Return for credit risk, adjusted for changes in the current values of the loan portfolios arising from periodic changes in estimates of future cash flows on owned loan portfolios as shown in note 4.

#### 10. Trade and other receivables

|                                    | 2018<br>£000   | 2017<br>£000   |
|------------------------------------|----------------|----------------|
| Amounts owed by Group undertakings | 617,010        | 456,866        |
| Prepayments and accrued income     | -              | 270            |
| Corporation tax                    | 524            | 2,215          |
| Other receivables                  | 76             | 193            |
|                                    | <b>617,610</b> | <b>459,544</b> |

Loans and amounts due from parent and other Group undertakings are unsecured, have no fixed repayment date, are repayable on demand and interest on such balances is accrued on an arm's length basis.

The Company considers that the carrying amounts of the financial assets included above are a reasonable approximation of their fair value due to their short term nature.

## Cabot Financial (UK) Limited

### Notes to the financial statements For the year ended 31 December 2018

#### 11. Trade and other payables

|                                    | 2018<br>£000   | 2017<br>£000   |
|------------------------------------|----------------|----------------|
| Trade payables                     | 1,716          | 2,990          |
| Amounts owed to Group undertakings | 499,126        | 477,834        |
| Other taxation and social security | -              | 95             |
| Other payables                     | 193,194        | 4,733          |
| Accruals and deferred income       | 634            | 2,467          |
|                                    | <b>694,670</b> | <b>488,119</b> |

Interest accrued on amounts owed to parent and other Group undertakings is at an arm's length basis and is accrued, not paid.

The Company considers that the carrying amounts of the financial liabilities included above are a reasonable approximation of their fair value due to their short term nature.

#### 12. Borrowings

|   | 2018<br>£000   | 2017<br>£000   |
|---|----------------|----------------|
| <b>Non current</b>                          |                |                |
| Senior Secured Notes                        | (6,182)        | (8,092)        |
| Bank loans and overdrafts                   | 229,577        | 128,427        |
| Loans due from fellow subsidiaries          | 393,512        | 462,425        |
|   | <b>616,907</b> | <b>582,759</b> |
| <b>Current</b>                              |                |                |
| Senior Secured Notes                        | -              | (2,214)        |
| Bank loans and overdrafts                   | (1,327)        | (1,193)        |
| Loans from parent undertakings              | 153,027        | 134,923        |
| Loans from other Group undertakings         | 80,788         | 13,086         |
|   | <b>232,488</b> | <b>144,602</b> |
| <b>Total borrowings</b>                     | <b>849,395</b> | <b>727,361</b> |
| <u>Analysis of loan repayments:</u>         |                |                |
| Within one year                             | 232,488        | 144,602        |
| In more than one year but less than 5 years | 616,907        | 583,368        |
| In more than 5 years                        | -              | (809)          |
|   | <b>849,395</b> | <b>727,361</b> |

## Cabot Financial (UK) Limited

### Notes to the financial statements For the year ended 31 December 2018

#### 12. Borrowings (continued)

A fellow group company holds Senior Secured Loan Notes due 1 April 2021 of £175.0 million at a fixed rate of interest of 6.500%.

Certain fellow subsidiaries of the Group have granted a fixed and floating charge over assets with a carrying value of at least £1,607.4 million (2017: £1,485.5 million), as security for the Senior Secured Notes and the Senior committed revolving credit facility. Cash held on behalf of clients is excluded from the security given to the Senior Secured Notes and the Senior committed revolving credit facility.

On 18 July 2018, the Group announced the closing of a bond exchange to the holders of its outstanding £100.0 million 8.375% Senior Secured Notes due 2020 and of its £175.0 million 6.500% Senior Secured Notes due 2021. The exchange resulted in £32.2 million in aggregate principal amount of the Existing Cabot 2020 Notes and £95.0 million in aggregate principal amount of the Existing Cabot 2021 Notes being exchanged for additional Cabot 2023 Notes. Additional 2023 Notes amounting to £34.5 million were issued. The funds raised were used to repay £29.0 million of the Revolving credit facility.

#### 13. Provisions

|                                      | Other<br>£000 | Total<br>£000 |
|--------------------------------------|---------------|---------------|
| Brought forward as at 1 January 2018 | 2,091         | 2,091         |
| Additions                            | -             | -             |
| Utilisation                          | (527)         | (527)         |
| As at 31 December 2018               | <u>1,564</u>  | <u>1,564</u>  |

##### Other

Other provisions include potential liabilities that could arise as a result of business acquisitions and includes items such as costs associated with aligning corporate policies and practices.

#### 14. Share capital

|  | 2018<br>£000 | 2017<br>£000 |
|--|--------------|--------------|
| Allotted, called up and fully paid:<br>50,000 (2017: 50,000) Ordinary shares of £1 each,<br>subscription price of £1 | <u>50</u>    | <u>50</u>    |

## Cabot Financial (UK) Limited

### Notes to the financial statements For the year ended 31 December 2018

#### 15. Financial Instruments

##### (a) Carrying amount of financial instruments

A summary of the financial instruments held by category is provided below:

|  | 2018<br>£000     | 2017<br>£000     |
|--|------------------|------------------|
| <b>Financial assets</b>  |                  |                  |
| <u>Financial assets at fair value through profit and loss</u>      |                  |                  |
| Derivative assets  | -                | -                |
| <u>Loans and receivables</u>                                       |                  |                  |
| Cash and cash equivalents  | 3,270            | 8,216            |
| Loan portfolios (note 9)   | 896,935          | 763,335          |
| Trade and other receivables (note 10)                              | 617,610          | 459,274          |
| <b>Total</b>   | <b>1,517,815</b> | <b>1,230,825</b> |
| <b>Financial liabilities</b>                                       |                  |                  |
| <u>Financial liabilities at fair value through profit and loss</u> |                  |                  |
| Derivative liabilities   | -                | 822              |
| <u>Financial liabilities at amortised cost</u>                     |                  |                  |
| Trade and other payables (note 11)                                 | 694,670          | 488,119          |
| Loans and borrowings (note 12)                                     | 849,395          | 727,361          |
| <b>Total</b>   | <b>1,544,065</b> | <b>1,216,302</b> |

##### (b) Carrying Amount versus Fair value

The following table compares the carrying amounts and fair values of the Company's financial assets and financial liabilities as at 31 December 2018.

The Company considered that the carrying amount of the following financial assets and financial liabilities are a reasonable approximation of their fair value due to their short term nature:

- Trade and other receivables;
- Trade and other payables; and
- Cash and cash equivalents.

The carrying amount of other payables is considered to be equal to its fair value as there has been no significant change in interest rates since the payable was initially recognised.

## Cabot Financial (UK) Limited

### Notes to the financial statements For the year ended 31 December 2018

#### 15. Financial Instruments (continued)

|  | 2018                        |                        | 2017                        |                        |
|--|-----------------------------|------------------------|-----------------------------|------------------------|
|  | Carrying<br>Amount<br>£'000 | Fair<br>Value<br>£'000 | Carrying<br>Amount<br>£'000 | Fair<br>Value<br>£'000 |
| <b><u>Financial Assets</u></b>           |                             |                        |                             |                        |
| Loan portfolios (note 9)                 | 896,935                     | 896,935                | 763,335                     | 763,335                |
| Trade and other receivables<br>(note 10) | 617,610                     | 617,610                | 459,274                     | 459,274                |
| Derivative assets                        | -                           | -                      | -                           | -                      |
| <b>Total</b>                             | <b>1,514,545</b>            | <b>1,514,545</b>       | <b>1,222,609</b>            | <b>1,222,609</b>       |
| <b><u>Financial liabilities</u></b>      |                             |                        |                             |                        |
| Trade and other payables<br>(note 11)    | 694,670                     | 694,670                | 488,119                     | 488,119                |
| Loans and borrowings (note<br>12)        | 849,395                     | 849,395                | 727,361                     | 727,361                |
| Derivative liabilities                   | -                           | -                      | 822                         | 822                    |
| <b>Total</b>                             | <b>1,544,065</b>            | <b>1,544,065</b>       | <b>1,216,302</b>            | <b>1,216,302</b>       |

#### (c) Fair value Hierarchy

The level in the fair value hierarchy within which the financial asset or financial liability is categorised is determined on the basis of the lowest level input that is significant to the fair value measurement.

Financial assets and liabilities are classified in their entirety into only one of the three levels. The fair value hierarchy has the following levels:

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

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

#### (c) Fair value Hierarchy (continued)

The following table analyses financial instruments measured both at fair value, and not at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position.

# Cabot Financial (UK) Limited

## Notes to the financial statements For the year ended 31 December 2018

### 15. Financial Instruments (continued)

|   | 2018<br>£000  | Level 1<br>£000 | Level 2<br>£000 | Level 3<br>£000 |
|---|---------------|-----------------|-----------------|-----------------|
| <u>Financial instruments measured at fair value</u>     |               |                 |                 |                 |
| Derivative liabilities                                  | -             | -               | -               | -               |
| <b>Total</b>  | -             | -               | -               | -               |
| <u>Financial instruments not measured at fair value</u> |               |                 |                 |                 |
| Loan portfolios (note 9)                                | 896,935       | -               | -               | 896,935         |
| Loans and borrowings (note 12)                          | (849,393)     | -               | -               | (849,393)       |
| <b>Total</b>  | <b>47,542</b> | -               | -               | <b>47,542</b>   |
|   | 2017<br>£000  | Level 1<br>£000 | Level 2<br>£000 | Level 3<br>£000 |
| <u>Financial instruments measured at fair value</u>     |               |                 |                 |                 |
| Derivative assets                                       | 822           | -               | 822             | -               |
| <b>Total</b>  | <b>822</b>    | -               | <b>822</b>      | -               |
| <u>Financial instruments not measured at fair value</u> |               |                 |                 |                 |
| Loan portfolios (note 9)                                | 763,355       | -               | -               | 763,355         |
| Loans and borrowings (note 12)                          | (727,361)     | -               | -               | (727,361)       |
| <b>Total</b>  | <b>35,994</b> | -               | -               | <b>35,994</b>   |

#### (d) Reconciliation: Level 3 recurring fair value measurements

Loans and borrowings are held at amortised cost and do not include any credit enhancements. The difference between the carrying value and fair value is shown above.

#### (e) Transfers during the period

During the year ending 31 December 2018:

- There were no transfers between Level 1 and Level 2 fair value measurements; and
- There were no measurements.

#### (f) Valuation techniques

##### (i) Derivative assets

Derivative financial assets include a hedging instrument. The determination of fair value includes reference to a third party valuation received from financial institutions. The value as at 31 December 2018 was £nil (31 December 2017: £0.8 Million).

## **Cabot Financial (UK) Limited**

### **Notes to the financial statements For the year ended 31 December 2018**

#### **15. Financial Instruments (continued)**

##### *(ii) Loans and borrowings*

Loans and borrowings include amounts advanced to the Group at both fixed and variable rates of interest from Senior Secured Loan Notes and a Revolving Credit Facility.

Fair value of the Senior Secured Loan Notes for disclosure purposes as at the reporting date is determined by reference to the quoted price on the Luxembourg Stock Exchange at the reporting date for the Senior Secured Loan Notes, as shown in note 12.

Given the timing of the repayments on the Revolving Credit facility, amortised cost is considered equivalent to fair value for disclosure purposes.

#### **16. Financial Risk Management**

The Company has exposure to market risk, credit risk and liquidity risk arising from financial instruments.

The Company is a member of the Cabot Credit Management Limited Group and therefore its financial risk management objectives and policies are intrinsically linked to those of the Group. The Group's Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board of Directors has established the Audit and Risk Committee, which is responsible for developing and monitoring the Group's risk management policies. The committee reports regularly to the Board of Directors on its activities.

##### *Interest rate risk*

Interest rate risk is the risk that future cash flows of a financial instrument will fluctuate because of changing interest rates. The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's long-term debt obligations with floating interest rates.

The Company's Senior Committed Revolving Credit Facility is linked to the monthly LIBOR (or, EURIBOR, for any loan drawn in Euro) so the statement of financial position value is the fair value.

All decisions in relation to the hedging of interest rate risk are made by the Board of Directors of the Company on behalf of the Group.

The Company acquired defaulted loan portfolios and does not apply interest on unsecured debt.

##### *Interest rate sensitivity*

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on that portion of loans and borrowings affected. With all other variables held constant, the Group's profit before tax is affected through the impact on floating rate borrowings, as follows:

## Cabot Financial (UK) Limited

### Notes to the financial statements For the year ended 31 December 2018

#### 16. Financial Risk Management (continued)

##### *Interest rate risk (continued)*

|                               | Increase/decrease<br>in basis points | Effect on profit<br>before tax<br>£000 |
|-------------------------------|--------------------------------------|--|
| <b>2018</b>                   |                                      |  |
| Variable-interest instruments | 50                                   | (1,170)                                |
| Variable-interest instruments | -50                                  | 1,170                                  |
| <b>2017</b>                   |                                      |  |
| Variable-interest instruments | 50                                   | (663)                                  |
| Variable-interest instruments | -50                                  | 663                                    |

The increase or decrease of 50 basis points has been assessed by management to be a reasonable estimate of the fluctuation that could occur in interest rates.

##### *Foreign currency risk*

Foreign currency risk is the risk that the fair value of future cash flows will fluctuate because of changes in foreign exchange rates. The Group manages its foreign currency exposure via assets and liability management by drawing down on the revolving credit facility in Euro's to hedge against foreign exchange movements on the Group's Euro denominated assets.

##### *Foreign currency sensitivity*

The following table demonstrates the sensitivity to a reasonably possible change in Euro exchange rates, with all other variables held constant. The impact on the Company's profit before tax is due to changes in the fair value of monetary assets and liabilities. The Company's exposure to foreign currency changes for all other currencies is not material.

|             | Change in EUR<br>rate | Effect on profit<br>before tax<br>£000 |
|-------------|-----------------------|--|
| <b>2018</b> |                       |  |
|             | +0.02                 | (3,886)                                |
|             | -0.02                 | 4,029                                  |
| <b>2017</b> |                       |  |
|             | +0.02                 | (2,593)                                |
|             | -0.02                 | 2,682                                  |

##### *Credit risk*

Credit risk is the risk that a customer or counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company's principal activity is the acquisition and management of underperforming consumer loan portfolios, therefore, we are exposed to significant credit risk. Most portfolios by their nature are impaired on acquisition and the Company continually monitors cash collections and the carrying values are impaired where the underlying performance does not meet initial expectations. The ongoing risk is managed through a portfolio valuation process including modelling current expectations of recoverability based on historical information on debt types. A pricing gateway process is in place which includes at least two members of the Group Board of Directors as well as other key members from all areas of the business. This process is in place to scrutinise all aspects of a portfolio acquisition from reputational and regulatory risk through to the financial assumptions and maximum bid price.



## Cabot Financial (UK) Limited

### Notes to the financial statements For the year ended 31 December 2018

#### 16. Financial Risk Management (continued)

##### *Credit risk (continued)*

The risk from the concentration of customer credit risk is limited due to the high number of individual customers and the relatively low value of each of the individual's debts. At 31 December 2018 the Company had 6.2 million customer accounts (2017: 7.5 million), with an average balance of £2,077 (2017: £2,346).

The carrying amount of financial assets recorded in these financial statements represents the Company's maximum exposure to credit risk. The Company's maximum exposure to credit risk as at 31 December 2018 is £1,458.6 million (2017: £1,228.6 million). No collateral is held as security in respect of any of the financial assets. Portfolios by their nature are impaired upon acquisition and therefore deemed to be past due.

##### **Liquidity risk**

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due, due to insufficient cash and cash equivalents and borrowings.

The Group's cash flow models indicate that £2,675.1 million and £2,369.6 million of collections will be received from the Group's loan portfolios over a ten year period as at 31 December 2018. The exact timing of this cash flow is highly dependent on the economic circumstances prevailing at that time and customer's individual circumstances, but as described previously the Group continues to develop and refine the cash flow model to ensure that the forecasts of collections are as accurate as possible and reflect the current economic environment. All other receivables are not past due.

The Group also mitigates its liquidity risk by seeking long term financing arrangements.

The following table sets out the contractual maturities (representing undiscounted contractual cash-flows) of financial liabilities as at 31 December 2018:

|  | Up to 1<br>year<br>£000 | Between 1<br>and 2<br>years<br>£000 | Between 2<br>and 5<br>years<br>£000 | Over<br>5 years<br>£000 |
|--|-------------------------|-------------------------------------|-------------------------------------|-------------------------|
| Trade payables   | 1,716                   | -                                   | -                                   | -                       |
| Amounts owed to parent and<br>other Group undertakings | 489,958                 | -                                   | -                                   | -                       |
| Other payables   | 193,194                 | -                                   | -                                   | -                       |
| Accruals   | 634                     | -                                   | -                                   | -                       |
| Senior Secured Notes                                   | -                       | (6,182)                             | -                                   | -                       |
| Loans to parent and other<br>Group undertakings        | 233,815                 | -                                   | -                                   | 393,511                 |
| Bank loans and overdrafts                              | 262                     | -                                   | 229,576                             | -                       |
|  | <b>919,579</b>          | <b>(6,182)</b>                      | <b>229,576</b>                      | <b>393,511</b>          |

## Cabot Financial (UK) Limited

### Notes to the financial statements For the year ended 31 December 2018

#### 16. Financial Risk Management (continued)

##### *Liquidity risk (continued)*

The following table sets out the contractual maturities (representing undiscounted contractual cash-flows) of financial liabilities as at 31 December 2017:

|  | Up to 1<br>year<br>£000 | Between 1<br>and 2<br>years<br>£000 | Between 2<br>and 5<br>years<br>£000 | Over<br>5 years<br>£000 |
|--|-------------------------|-------------------------------------|-------------------------------------|-------------------------|
| Trade payables   | 2,990                   | -                                   | -                                   | -                       |
| Amounts owed to parent and<br>other Group undertakings | 477,834                 | -                                   | -                                   | -                       |
| Other payables   | 4,733                   | -                                   | -                                   | -                       |
| Accruals   | 2,467                   | -                                   | -                                   | -                       |
| Senior Secured Notes                                   | -                       | 7,484                               | -                                   | 608                     |
| Loans to parent and other<br>Group undertakings        | 148,009                 | -                                   | -                                   | 462,425                 |
| Bank loans and overdrafts                              | 244                     | -                                   | 128,427                             | -                       |
|  | <u>636,277</u>          | <u>7,484</u>                        | <u>128,427</u>                      | <u>463,033</u>          |

##### Capital risk management

The Company's policy is to maintain appropriate capital base whilst providing maximum shareholder value. The Company's long-term aim is to ensure that the capital structure results in an optimal ratio of debt to equity finance. The Company is not subject to externally imposed capital requirements.

The capital structure of the Company consists of net debt and equity.

The Group Audit and Risk Committee reviews the Group capital structure on an ongoing basis. As part of this review, the committee considers the cost of capital and the risks associated with each class of capital. The position as at the reporting date was:

|                                 | 2018<br>£000   | 2017<br>£000   |
|---------------------------------|----------------|----------------|
| Equity                          | (27,878)       | 13,524         |
| Debt                            | 849,395        | 727,361        |
| Less: cash and cash equivalents | (3,270)        | (8,216)        |
|                                 | <u>818,247</u> | <u>732,669</u> |

## **Cabot Financial (UK) Limited**

### **Notes to the financial statements For the year ended 31 December 2018**

#### **17. Contingent liabilities**

The Company is party to guarantees in relation to the senior committed revolving credit facility drawn by a fellow Group company and the Senior Secured Notes due 2020, 2021 and 2023. Amounts outstanding on such borrowings were £872.4 million at 31 December 2018 (2017: £900.5 million). The expectation is that any liability under these guarantees will not be crystallised in the foreseeable future.

#### **18. Ultimate parent Company**

The Company's immediate parent company is Cabot Financial Debt Recovery Services Limited, a company incorporated in England and Wales. The smallest group of which the Company is a member and for which group financial statements are drawn up is Cabot Credit Management Limited. The Company's ultimate parent company is Encore Capital Group Inc ("Encore"), a company incorporated in Delaware, United States, whose consolidated financial statements are available on their website.

#### **19. Events after the balance sheet date**

On 14 June 2019, the Group issued a floating rate, Euro-denominated, senior secured bond for €400 million, with maturity in 2024. These funds were used to repay the £80 million Senior Secured Note and €310 million Floating Rate Note.