Annual Report

Cabot Credit Management plc

ANNUAL CONSOLIDATED FINANCIAL RESULTS

FOR THE YEAR ENDED 31 DECEMBER 2017

Company registration number:
05754978

CABOT
CREDIT MANAGEMENT

Contents

About Cabot

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CREDIT MANAGEMENT

Cabot Credit Management (CCM) is a market leader in credit management services including debt purchasing, contingency collections, business process outsourcing and litigation. Cabot Credit Management plc ("the Company" including its subsidiary companies, together referred to as the "Group") encompasses six UK businesses including Cabot Financial, dlc, Apex Credit Management, Orbit Debt Collections, Wescot Credit Services and Mortimer Clarke Solicitors (a specialist litigation law firm, authorised and regulated by the Solicitors Regulation Authority) and three European businesses Cabot Financial Ireland, Cabot Financial Spain S.A. and Cabot Financial France (previously Nemo Recouvrement S.A.S.).

From its inception in 1998, CCM has invested £2.1 billion in acquiring portfolios with a Face Value in excess of £24 billion. CCM has a 120 month ERC (estimated remaining collections) of £2.4 billion. It manages in the region of £6.3 billion of assets on behalf of clients, collects around £75 million per month on portfolios it either owns or services on behalf of clients, and has delivered a consistently strong financial performance, having grown its business in each of the last 17 years without exception.

The Group, which has purchased circa 9 million customer accounts, employs over 2,600 people with offices in Kings Hill, Brackley, Worthing, London, Bolton, Saltcoats, Glasgow, Dublin, Madrid, Paris, Lyon and Marseille. The company prides itself on its ethical values, customer service and high standards. It has an impressive list of accolades including:

- Investors in People Gold and Champion awards
- Treating Customers Fairly Award 2015 and 2016, Credit Strategy
- Customer Feedback Strategy Award 2017, The Institute of Customer Service

The controlling shareholder of the Group is Encore Capital Group, an international speciality finance company providing debt recovery solutions. The remaining equity is held by a fund advised by J.C. Flowers & Co., in addition to company management and shareholders.

csa dbsg
voice of the collections industry

The Institute of Customer Service
UK Customer Satisfaction Awards 2017 WINNER

Credit AWARDS2016
Treating Customers Fairly Award Collections & Debt Management
Winner
Cabot Credit Management

INVESTORS IN PEOPLE | Gold

Officers and Professional Advisors

CABOT CREDIT MANAGEMENT

The Officers and professional advisers of the Company at the date of this report are as follows:

Directors

K Stannard
C Buick
P Grinberg

Secretary

C Taggart

Company Registration Number

05754978

Registered office

1 Kings Hill Avenue
Kings Hill
West Malling
Kent
ME19 4UA

Auditors

BDO LLP
Chartered Accountants and Statutory Auditor
55 Baker Street
London
United Kingdom

Strategic Report

CABOT CREDIT MANAGEMENT

Overview

The Directors present the Strategic Report, Directors' Report and the financial statements of Cabot Credit Management plc (the "Company") and its subsidiaries (the "Group") for the year ended 31 December 2017.

The Group's stated vision is to be "**The Best at What We Do**" – and the Directors believe the Group has a strong and deliverable strategy to execute. The Group prides itself as being the leading credit management services provider in the UK and strongly believes that this position is underpinned by operational excellence built on years of experience that exceeds all other large players in the market currently. Its depth and breadth of data assets, leading scorecard abilities and constant willingness to find ways to innovate and meet clients' needs further allow it to differentiate itself from peers.

The interests of customers are at the heart of the business which is reflected in its mission of "**Financial Recovery - Helping Each and Every Customer**". The Group will work with its customers to find the most appropriate solution for their personal circumstances.

The principal activity of the Company is to act as a holding company of a group which undertakes the purchase and management of non-performing consumer loans in the United Kingdom and Europe. The subsidiary undertakings included in the profits and net assets of the Group in the year are listed in note 6 of the notes to the Company financial statements.

The Group is one of the largest credit management services providers in Europe and the market leader in the UK and Ireland (based on 120-Month ERC as of 30 September 2017). The Group provides a range of credit management services across a broad client base that includes some of the largest credit providers in Europe. These services include debt servicing offerings such as early stage collections, business process outsourcing, contingent collections, trace services and litigation activities. The Group's primary business relates to the purchase of unsecured consumer debt from financial services institutions. The Group has credit management experience across a range of both credit providers (including consumer finance, telecommunications companies, retailers, utilities companies and government agencies) and asset classes (including secured consumer debt, small and medium-sized enterprise debt, and high-value accounts).

Between the Group's inception in 1998 to 31 December 2017, it has invested a combined total of £2.1 billion in the acquisition of over £24 billion in face value of purchased loan portfolios and has received £2.7 billion in cumulative collections from purchased loan portfolios. As at 31 December 2017, the Group's 120-Month ERC was £2.4 billion, and the Group's 180-Month ERC was £2.7 billion.

With 20 years of debt purchase and debt servicing experience, the Group was one of the first companies to engage in the credit management services market in the United Kingdom. In March 2016, the Group became the first large credit management service company in the United Kingdom to be authorised by the Financial Conduct Authority ("FCA"), and in May 2017 the Group became the first credit management service company in Ireland to be authorised by the Central Bank of Ireland ("CBI").

Customer service and regulatory compliance are at the core of the Group's business and culture and are implemented through its collections strategy. The Group seeks to treat its customers fairly and offer affordable payment solutions, often through long-term payment plans. The Group has customer satisfaction scores in excess of the UK banking and building society benchmark and many leading high street banks, and the Directors believe that the Group has one of the lowest rates of complaints in the debt collection industry referred to the Financial Ombudsman Service ("FOS"). The Group has won numerous industry accolades, including a 2017 UK Customer Satisfaction Award from the Institute of Customer Service, the CCR Credit Excellence Awards 2016 for Compliance and the Credit Today Award 2016 for Treating Customers Fairly.

Strategic Report

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Business review and results

The sections below provide a more detailed overview of the Directors' review of activity in the marketplace together with an overview of performance in relation to a number of key performance indicators used when assessing the performance of the business.

Key indicators of performance

The following table summarises the key financial data and performance indicators used by the Directors to assess the performance of the Group as of the dates and periods indicated.

The key financial data and key performance indicators presented also contain other ratios and other measures which are derived from a combination of the principal IFRS measures and non-GAAP measures used by the Group. Where such amounts have been presented a description of the amount and the measures from which it has been derived has been included on in the appendix.

(£ in millions, except for percentages and ratios unless otherwise noted)	2017	2016	Change
84-Month ERC at reporting date	1,985.2	1,708.4	16.2%
120-Month ERC at reporting date	2,369.6	2,086.1	13.6%
Loan portfolio purchases [(a)]	321.5	194.0	65.7%
Accounts (in thousands) [(b)]	9,185	8,344	10.1%
Number of owned loan portfolios (in thousands) [(c)]	1.6	1.4	12.9%
Net debt [(d)]	1,285.0	1,038.7	23.7%
Collections on owned loan portfolios [(e)]	407.5	358.7	13.6%
Commission on serviced portfolios [(f)]	40.2	25.8	55.8%
Costs to collect [(g)]	23.9%	24.9%	(4.0%)
Adjusted EBITDA [(h)]	295.2	247.8	19.1%
Adjusted EBITDA margin [(i)]	65.5%	64.5%	1.7%
Staff turnover	32.4%	28.1%	15.3%

(a) *Gross aggregate amount payable for all portfolio purchases in the period.*

(b) *Total number of individual consumer debts that the Group owns.*

(c) *Number of individual portfolios of accounts that the Group owns.*

(d) *Refer to Note 20 of the Financial Statements.*

(e) *Amounts collected from accounts on owned loan portfolios.*

(f) *Fees and commissions receivable from the servicing of loans on behalf of third parties.*

(g) *Collections activity costs divided by collections on owned loan portfolios plus servicing fees plus property sales income. Collection activity costs consists of staff salaries and benefit costs, servicing fees, communication costs (including the cost of collection letters sent to customers, such as printing and postage costs), credit bureau data costs and legal costs directly associated with collection activity.*

(h) *See page 83 of the Annual Report.*

(i) *Adjusted EBITDA divided by revenue adjusted to add back the effects of current value movements on owned loan portfolios.*

Asset base and returns on portfolios purchased

The Group continues to experience significant growth in its asset base and cash flow generation as a result of the growing volume of portfolios which it has been able to purchase, and the strong and stable return on capital which it has delivered though its pricing disciplines and the sophistication of its collection operations.

While returns achieved on individual portfolios can vary, the Group has a track record of generating strong and consistent unlevered returns on its aggregate purchased portfolios.

The table below shows the actual collections to date plus the 120-Month ERC for each vintage as at 31 December 2017, where a vintage represents the year of portfolio purchase. This means that for the portfolios purchased in the year to 31 December 2017, the actual collections will only include a maximum of 12 months of collections, compared to a maximum of 120 months for the portfolios purchased in 2008. Therefore as the portfolios age further both the "total estimated collections" and "gross cash-on-cash multiple" statistics shown for the more recent portfolios should increase significantly.

Cumulative vintage analysis

(£ in millions, except for ratios)	Purchase Price [a]	Actual collection to date	120-Month ERC	Total estimated collections [b]	Gross cash-on-cash multiple [c]
Pre 2008	292	680	79	759	2.60
2008	81	182	42	224	2.77
2009	74	200	67	267	3.61
2010	70	144	47	191	2.73
2011	182	346	190	536	2.95
2012	149	234	197	431	2.89
2013	188	250	245	495	2.63
2014	227	234	276	510	2.25
2015	289	224	342	566	1.96
2016	196	111	342	453	2.32
2017	321	50	543	593	1.85
Total	**2,069**	**2,655**	**2,370**	**5,025**	**2.43**

[a] *Gross aggregate amount paid for all portfolio purchases.*
[b] *Actual collection to 31 December 2017 plus the 120-Month ERC.*
[c] *Total estimated collections / purchase price.*

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Principal Risks and Uncertainties

In common with all other businesses, the Group is exposed to a range of enterprise wide risks. This section describes the principle risks arising from the Group's business model, and the processes for managing those risks. Further quantitative information in respect of these risks is presented throughout these financial statements.

The Group is exposed through its operations to the following principle risks:

Risk	Definition	Impact	Mitigation
Market / Economic risk	Changes in the economic environment in the markets in which the Group operates may negatively impact its performance.	May cause reduced recoveries which results in financial loss.	The Group assesses consumer repayment affordability through income and expenditure assessments, leading to sustainable repayment plans. We regularly monitor key economic performance indicators as well as having a diversified consumer portfolios account types. Conditions which may adversely impact recoveries from our back book may create opportunities for new portfolio purchases and other credit management services.
Credit / Liquidity risk	The value of the Group's purchased loan portfolios may deteriorate, or the Group may not be able to collect sufficient amounts on its purchased loan portfolios to fund its operations.	May cause reduced recoveries which results in financial loss, or limit available liquidity.	The Group manages the portfolio pricing and acquisition processes robustly, and portfolios are closely monitored throughout their economic life through: portfolio performance management information, monthly reforecasting of performance, recoveries monitoring against expected return at acquisition where portfolios are impaired as a result of underperformance.

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Principal Risks and Uncertainties (*continued*)

Risk	Definition	Impact	Mitigation
Compliance / Regulatory risk	Failure to comply with applicable legislation or regulation of the debt purchase and collections sector and the broader consumer credit industry.	May result in the suspension, termination or impairment of the Group's ability to conduct business and substantial losses.	The Group has implemented three lines of defence model and a robust risk management approach, with strong operational compliance controls and training in the first line. Within our second line, our highly skilled compliance and legal team provide expertise and oversight. Our third line, the internal audit team provide independent and objective regulatory and compliance oversight.
Operational / Compliance Risk	The ability to obtain, share and retain customer data is critical to the Group and is heavily regulated by privacy, data protection and related laws in the jurisdictions in which the Group operates.	May result in enforcement notices and monetary penalties. Changes is such regulation may impair the Group's ability to continue to use its consumer data in which it currently uses them, which may have an adverse effect on the Group's financial condition, financial returns or results of operations.	The Group is currently implementing the required processes and controls to enable compliance with the General Data Protection Regulation requirements.
IT / Compliance Risk	Risk of security and privacy breaches of the systems and processes used to protect customer data.	May lead to material financial losses as a result of litigation, regulatory sanctions, remediation costs, or loss of new business.	Stringent Information security principles, including regular penetration testing and staff awareness programmes, are embedded in the Group's processes. UK Debt Purchase meets the ISO27001 standard. Minimum standards aligned to the CIS (Center for Internet Security) controls are being adopted in European offices.

Principal Risks and Uncertainties (*continued*)

Risk	Definition	Impact	Mitigation
Political / Regulatory Risk	Risk of changes to regulatory or political environment or an increasing volume of legislation.	May lead to higher operating costs, future collections failing to meet forecasts or impede new business if clients are less able to or incentivised to sell debt.	Maintaining a customer focussed approach to the business strategy, which minimizes such risk.
Vendor / Operational Risk	Risk of restrictions placed on the Group by vendors.	May limit operational flexibility, or the accounting treatment of debt purchase activity, which may have an adverse effect on the Group's financial condition, financial returns or results of operations.	The Group has long standing relationships with key vendors Rigorous pricing and due diligence processes undertaken for all portfolio purchases to ensure any such restrictions are fully considered before any commitment to purchase is entered into.
Third party / Operational Risk	Risk of loss of relationship, under performance or non compliant practices by third party service providers.	May limit operational flexibility, or create reputational risk to the Group, which may have an adverse effect on the Group's financial condition, financial returns or results of operations.	The Group has implemented three lines of defence model and a robust risk management approach, with strong operational compliance controls and training in the first line. Within our second line, our highly skilled compliance and legal team provide expertise and oversight. Our third line, the internal audit team provide independent and objective regulatory and compliance oversight.
Financial instruments	Exposure to market risk, credit risk and liquidity risk.	May impact the fair value of future cash flows of these instruments.	See Note 27 to the Financial Statements.

Principal Risks and Uncertainties (*continued*)

Going concern and liquidity risk

The Group has long-term debt financing through Senior Secured Loan notes totalling £900.5 million (2016: £1,040.6 million). The first tranche of these notes is due for repayment in August 2020. The Group also has an Asset Backed Senior Facility totalling £290.0 million (2016: Nil). This facility is secured until September 2022. The Group has a revolving credit facility of £295.0 million for funding working capital requirements and portfolio purchases as required. At 31 December 2017 £132.5 million had been drawn on this facility (2016: £27.0 million). This facility is secured until September 2021.

The assets of the Group have been pledged as security for the Senior Secured Loan Notes, Asset Backed Senior Facility, and the Senior Secured revolving credit facility. In the year to 31 December 2017, the Group has remained compliant with all the covenants contained in the notes issued and the Senior credit facility.

Management have reviewed the 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.

Significant recent developments

Wescot

On 10 November 2017, the Group completed the acquisition of Wescot Topco Limited (Wescot) for approximately £100.0 million in total consideration (see note 11). Wescot is a leading UK contingency debt collection and Business Process Outsourcing (BPO) services business and one of the largest debt servicing providers for the UK retail banking sector.

Asset Backed Senior Facilities Agreement

On 23 August 2017, the Group entered into, and drew down, a £260.0 million Asset Backed Senior Facility which bears interest at a rate per annum equal to LIBOR plus a margin of 2.85 per cent, plus a step-up margin ranging from zero to 1.00 per cent. On 1 December 2017, the Group extended this facility by £40.0 million and drew down £30.0 million. As of 31 December 2017, £290.0 million had been drawn down under the Asset Backed Senior Facility agreement.

Regulatory authorisation

CCM is authorised by the FCA and has appointed its subsidiaries Apex Credit Management Limited, Cabot Financial (Europe) Limited and Hillesden Securities Limited (t/a dlc) as Appointed Representatives. Wescot remains directly authorised by the FCA.

CCM was granted permission to be able to administer regulated mortgage contracts on 26 January 2017.

Cabot Financial (Ireland) Limited became the first credit management services company in Ireland to be authorised by the CBI, with authorisation being granted on 5 May 2017.

Future developments

The directors expect the general level of activity in the credit management industry to continue to increase in 2018 as a result of increasing regulatory pressure on banks to address their non-performing loan portfolios and customer treatment practices, and a continued trend of outsourcing of such processes by banks to specialist credit management services companies such as Cabot. The Group will continue to pursue such business opportunities in the credit management industry across Europe.

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.

Future announcements made by the Company are available on its website at http://www.cabotcm.com/ but should not be deemed to be incorporated by reference with this report.

Approved by the board of Directors and signed on behalf of the Board on 21 February 2018.

C Buick
Director

Directors' Report

The Directors present their annual report and financial statements of Cabot Credit Management plc (the "Company") and its subsidiaries (the "Group") for the year ended 31 December 2017.

The accounts presented herein are for Cabot Credit Management plc ("CCM") and its consolidated subsidiaries (the "Group"). Previously Cabot Financial Limited ("CFL"), a wholly-owned direct subsidiary of CCM, produced and released annually consolidated accounts for the purpose of reporting to holders of the Group's outstanding Senior Secured Loan Notes. Beginning with the nine months ended 30 September 2017, the Group's results were consolidated and reported at the CCM level as permitted under the reporting provisions of the bond indentures. The differences between the consolidated accounts of CFL and the consolidated accounts of CCM relate to the level of equity, intercompany loans and balances owed to holding companies of which CCM is a subsidiary, and the incurrence of some professional fees at the CCM level. CCM's consolidated equity as of 31 December 2017 was £190.6 million, compared to CFL's consolidated equity as of 31 December 2017 of £186.8 million as a result of capital contributions into the Company offset by losses made in CCM. CCM's consolidated liabilities as of 31 December 2017 were £1,459.1 million, compared to CFL's consolidated liabilities as of 31 December of £1,449.9 million as a result of non-recurring IPO expenses being accrued in CCM. CCM's consolidated recurring operating expenses as of 31 December 2017 were £162.7 million, compared to CFL's consolidated recurring operating expenses as of 31 December of £162.1 million as a result of minimal costs included at CCM level. Other than the line items described above, there are no material differences between CCM's consolidated accounts and CFL's consolidated accounts.

Results and dividends

The audited financial statements and related notes for the year ended 31 December 2017 are set out on pages 22 to 80. The Group's result for the year after taxation was a profit of £35.3 million (2016: £23.1 million).

The Directors authorised dividends of £0.8 million (2016: £nil).

The financial information included within this annual report also includes certain measures which are not accounting measures within the scope of IFRS. The primary non-GAAP measures referred to within this annual report are 84-Month ERC, 120-Month ERC and Adjusted EBITDA which are explained on pages 82 and 83. 84-Month ERC, 120-Month ERC and Adjusted EBITDA and all the other non-UK GAAP measures presented in this annual report have important limitations as analytical tools and should not be considered in isolation or as substitutes for analysis of the results of the Group as reported under IFRS.

Any required information not shown in this report is shown in the Strategic Report.

Directors' Report

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Directors

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

- K Stannard
- C Buick
- P Grinberg (Appointed 1 November 2017)
- W Mesdag (Appointed 1 November 2017, resigned 28 January 2018)

Financial instruments

The Group's financial instruments primarily comprise Senior Secured Loan notes, asset backed lending and bank facilities. The principal purpose of these is to raise funds for the Group's operations. In addition various other financial instruments such as trade payables, trade receivables and loan portfolios arise directly from its operations.

The key financial risks and uncertainties affecting the Group and management objectives and policies taken to mitigate these risks are set out within the Strategic Report.

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 Group continues. It is the policy of the Group 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 Group made no political contributions in the year (2016: £nil).

Future developments

Any future developments affecting the Group are set out in the Strategic Report.

Directors' Report

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Auditor

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

- so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the Director has taken all the steps that he 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 on 21 February 2018.

C Buick
Director

Statement of Directors' Responsibilities

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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 group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Company financial statements under United Kingdom Generally Accepted Accounting Practice, 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 group and company and of the profit or loss of the group 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;
- they have been prepared in accordance with FRS 101 and IFRS as adopted by the European Union;
- 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.

Opinion

We have audited the financial statements of Cabot Credit Management plc (the 'parent company') and its subsidiaries (the 'Group') for the year ended 31 December 2017 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Company Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Consolidated Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements 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 Group's and of the parent company's affairs as at 31 December 2017 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements 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 Group 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 as applied to listed entities, 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 Group's or the parent 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.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Matter	Response
Carrying value of loan portfolios The Group has loan portfolios with a value of £1,144m. The Group initially recognises these loans based on the purchase price. The carrying value of the loan portfolios is subsequently amended to reflect changes in the expected cash flows. The valuation of these loans relies on judgement and key assumptions used in forecasting future cash flows across a significant number of loans as well as the quality of the underlying data. This is described in more detail on note 3 of the financial statements.	We assessed, documented and tested the design, implementation and operating effectiveness of controls used in calculating the carrying value of the loan portfolios. We tested inputs used in valuation of the loan portfolios, as well as testing as the data used in the forecasting itself. We evaluated the initial IRR that have been applied to the portfolios and determined that they have not changed from inception. We assessed management's accuracy in forecasting, by comparing previous forecasts to actual collections data. We tested revenue by agreeing cash receipts in the bank statements to the cash collections systems with the aid of monthly reconciliations. We checked a sample of purchases and sales of portfolios during the year to supporting documentation. We have checked that initial yields are set on the pricing curves at purchase. We compared the application of the accounting policy to ensure it is consistent throughout all portfolios within the Group.
Revenue recognition income on owned portfolios Revenues in respect of owned portfolios are high volume and are considered a significant risk of misstatement as it is a key driver of shareholder returns. These are described in note 2.4 to the financial statements. Our audit work covering income on owned portfolios was closely related to our audit of the loan portfolio and required significant input from senior members of the audit team.	We assessed, documented and tested the design, implementation and operating effectiveness of relevant controls. We tested revenue by agreeing cash receipts in the bank statements to the cash collections systems with the aid of monthly reconciliations. We obtained and tested revenue calculation schedule to ensure the mathematical accuracy and consistency of input data with the calculation of the carrying value of the loan portfolios discussed above. We read and audited the accounting treatment and presentation within the financial statements in line with applicable accounting standards.

Independent auditor's report to the members of Cabot Credit Management plc

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Matter	Response
Revenue recognition – servicing fees Commissions earned on serviced portfolios are high volume and are considered a significant risk as it is a key driver of shareholder returns. This is described in note 2.4 to the Financial Statements. Given the high volume of transactions and material nature of this balance servicing fees required significant attention from audit team.	We assessed, documented and tested the implementation and operating effectiveness of relevant controls. We performed testing involving selecting a random sample of cash receipts to trace to the accounts to confirm all revenue has been accounted for. We performed analysis of revenue around the year end to ensure revenue was recognized in the correct accounting year. We traced a sample of transactions to invoices and recalculated the servicing fee charge based on total cash collected and applicable commission rate. The cash collected was agreed to bank, and the commission rate was verified to contracts with external agents. We read and audited the accounting treatment and presentation within the financial statement sin line with IAS 18.
IT General Controls ITGCs are the policies and procedures that relate to IT applications and support the effective functioning of information systems. These are highlighted as a risk within the Strategic Report of the Financial Statements. They commonly include controls over data center and network operations; system software acquisition, change and maintenance; access security; and application system acquisition, development, and maintenance. Given their importance in the preparation of the Financial Statements and specialised nature this area required significant input from senior members of the audit team.	We evaluated the design and tested the operating effectiveness of controls relevant to financial reporting. This includes controls to prevent and detect, unauthorised changes and access to the Group's systems. We assessed, documented and tested the integrity of information sharing between different systems. An assessment of the key automated controls relevant to the audit has been performed. We tested the accuracy and completeness of input to the key IT systems and the subsequent output. Where controls failed in design or operating effectiveness, we performed additional procedures as follows: • Identified mitigating controls and tested that they operated effectively • Increased substantive procedures These additional procedures mitigated any discrepancies found and provided the additional audit evidence required.

Matter	Response
Goodwill and acquisition accounting The Group has a significant goodwill balance from historic acquisitions, as well as the recent Orbit and Wescot acquisitions during the year. There are significant estimates and judgements, described in note 3 to the Financial Statements, associated with purchase price allocation accounting. There is also a risk of material misstatement that impairment of the goodwill is not appropriately reviewed in accordance with IAS 38 and finalisation of any purchase price adjustments to eligible acquisitions is not accounted for correctly in accordance with IFRS 3. Given the level of judgement involved this was a key are of focus for senior members of the audit team.	For the new acquisitions during the year, we have: • Performed an assessment of the acquisition accounting and goodwill recognised relating to the new acquisitions, including verifying and challenging assumptions regarding the initial measurement and accounting for intangible assets • Obtained and read the share purchase agreement ("SPA") and supporting management calculations, and recalculated the amount of total consideration • Reviewed the financial forecast provided, challenged the estimates used and performed recalculations. As part of our recalculation we have obtained the latest management accounts to corroborate performance to date against the forecasts used and actual results are materially in line with the forecasted results • Performed an assessment of the nature of the consideration as to whether it is consideration or potential compensation, which would be expensed. We have reviewed the terms stated within the SPA agreement and have considered the areas relating to continuing employment, duration of continuing employment, level of remuneration, incremental payments and formula for determining consideration. For goodwill testing we have: • Challenged management's identification of cash generating units ("CGUs") which is the basis upon which goodwill is evaluated • Challenged the estimates and assumptions used in determining the carrying value and recoverable amount of the CGUs • Obtained, read and challenged management's assessment of impairment of goodwill • Performed sensitivity analysis on the main driver of the recoverable amount, i.e. the ERC (which is levied off the loan portfolio forecasting testing)

Our application of materiality
We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements.

Materiality therefore has qualitative as well as quantitative aspects and an item may be considered material, irrespective of its size.

We have determined materiality based on professional judgement in the context of our knowledge of the Group, including consideration of factors such as common industry measures, financial stability and reporting requirements for the financial statements.

We determine materiality in order to:

- Assist in establishing the scope of our audit engagement and audit tests
- Calculate sample sizes
- Assist in evaluating the effect of known and likely misstatements on the Group financial statements

Overall Group Materiality: £7.9m

How we determined it: 2% of adjusted EBITDA

Rationale: The Group is primarily a trading entity with external revenues from both DP and DC collections, and adjusted EBITDA is the main factor considered by users for decision making. Hence, adjusted EBITDA has been selected as benchmark to determine the materiality.

Company only Materiality: £2.8m

How we determined it: 2% of net assets

Rationale: The Company is primarily a holding entity and does not trade. Hence, net assets have been selected as the benchmark to determine the materiality.

We agreed with the Audit Committee that we would report to them misstatements above as well as misstatements below that amount that warranted reporting for qualitative reasons.

An overview of the scope of our audit
We tailored the scope of our audit in order to perform sufficient work so as to be able to give an opinion on the financial statements as a whole taking into account the structure of the Group, the process and controls over financial reporting and the industry in which the Group operates.

Component Scoping
We planned and scoped our audit for 2017 reflecting the group's components.

We performed audit procedures over components comprising 95% of Group Total Income on an absolute basis, in the process performing audit procedures on any items above our planning materiality threshold.

We performed group level analytical procedures and testing of group-wide controls that enabled us to determine that we did not need to obtain further audit evidence over the remaining population.

Involvement with component auditors

We determined whether the work would be performed by us (in relation to activity within the UK) or by other BDO network firms operating under our instruction (in relation to activity outside the UK). The most significant foreign operations were in Spain and the Republic of Ireland.

Where this work was performed by component auditors from BDO network firms, we discussed and reviewed the results of their audit procedures including the nature, time and extent of the work impacting the group audit opinion. The nature, timing and extent any work that impacts the group audit opinion was set and monitored in the UK, with input from the overseas team at the risk assessment stage.

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.

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 the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have 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 Group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the 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 parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Independent auditor's report to the members of Cabot Credit Management plc

CABOT CREDIT MANAGEMENT

Responsibilities of directors
As explained more fully in the directors' responsibilities statement set out on page 14, 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 Group's and the parent 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 Group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements
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.

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.

Neil Fung-On (Senior Statutory Auditor)
For and on behalf of BDO LLP, statutory auditor
London
21 February 2018

Cabot Credit Management plc

CABOT CREDIT MANAGEMENT

Consolidated Statement of Comprehensive Income
For the year ended 31 December 2017

	Note	2017 £m	2016 £m
Revenue			
Income from portfolio investments	4	**272.0**	244.4
Servicing revenue	4	**40.2**	25.8
Property sales income	4	**2.7**	-
Total Revenue		**314.9**	270.2
Operating expenses			
Collection activity costs		**(107.6)**	(95.5)
Recurring other operating expenses		**(55.1)**	(47.0)
Amortisation of acquired intangibles	6	**(1.9)**	(1.3)
Non-recurring other operating expenses	6	**(28.7)**	(1.7)
Total Operating expenses		**(193.3)**	(145.5)
Operating profit		**121.6**	124.7
Recurring finance income	7	**0.6**	0.6
Gain on derivative financial instruments	6, 8	**1.5**	9.7
Non-recurring finance income	6, 8	**2.6**	-
Total finance income		**4.7**	10.3
Recurring finance costs	8	**(85.7)**	(86.7)
Non-recurring finance costs	6, 8	**-**	(19.7)
Total finance costs		**(85.7)**	(106.4)
Total profit before taxation	5	**40.6**	28.6
Total tax expense	9	**(5.3)**	(5.5)
Profit for the financial period		**35.3**	23.1
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**(2.3)**	(18.2)
Total comprehensive income for the period		**33.0**	4.9
Underlying profit for the period	6	***57.8***	*33.9*

Cabot Credit Management plc

CABOT CREDIT MANAGEMENT

Consolidated Statement of Comprehensive Income
For the year ended 31 December 2017

Profit for the period attributable to:

	2017 £m	2016 £m
Equity holders of the parent	**35.2**	23.1
Non-controlling interest	**0.1**	-
	35.3	23.1

Other comprehensive income for the period attributable to:		
Equity holders of the parent	**(2.3)**	(18.2)

Total comprehensive income for the period attributable to:		
Equity holders of the parent	**32.9**	4.9
Non-controlling interest	**0.1**	-
	33.0	4.9

Cabot Credit Management plc

CABOT CREDIT MANAGEMENT

Consolidated Statement of Financial Position
As at 31 December 2017

	Note	2017 £m	2016 £m
Assets			
Non-current assets			
Goodwill	14	**326.5**	267.7
Intangible assets	12	**53.1**	18.2
Property, plant and equipment	13	**8.1**	5.7
Deferred tax asset	23	**4.5**	4.2
		392.2	295.8
Current assets			
Cash and cash equivalents	15	**57.7**	43.3
Purchased loan portfolios	16	**1,143.0**	944.6
Inventory	17	**10.0**	16.5
Trade and other receivables	18	**33.5**	26.0
Current tax asset		**2.3**	1.9
Other financial assets		**1.5**	0.3
		1,248.0	1,032.6
Total assets		**1,640.2**	1,328.4
Equity and liabilities			
Equity			
Share capital	24	**0.4**	0.3
Capital contribution reserve		**16.1**	3.4
Retranslation reserve		**(27.9)**	(25.6)
Accumulated profits		**200.2**	117.7
Equity attributable to owners of the parent		**188.8**	95.8
Non-controlling interest		**0.7**	0.6
Total equity		**189.5**	96.4

Consolidated Statement of Financial Position
As at 31 December 2017

	Note	2017 £m	2016 £m
Liabilities			
Non-current liabilities			
Borrowings	20	**1,308.1**	1,063.6
Deferred tax liability	22	**26.0**	21.1
Other financial liabilities		**16.2**	7.0
Provisions	21	**4.3**	4.5
		1,354.6	1,096.2
Current liabilities			
Trade and other payables	19	**68.3**	111.2
Borrowings	20	**10.4**	19.9
Current tax liabilities		**2.4**	0.3
Provisions	21	**14.2**	3.3
Other financial liabilities		**0.8**	1.1
		96.1	135.8
Total liabilities		**1,450.7**	1,232.0
Total equity and liabilities		**1,640.2**	1,328.4

These consolidated financial statements of Cabot Credit Management plc, were approved by the Board of Directors and authorised for issue on 21 February 2018.

Signed on behalf of the Board of Directors by:

C Buick
Director

Cabot Credit Management plc

CABOT
CREDIT MANAGEMENT

Consolidated Statement of Changes in Equity
For the year ended 31 December 2017

	Share capital	Share premium	Capital contribution	Retranslation reserve	Accumulated profit	Total attributable to parent	Non-controlling interest	Total equity
	£m	£m	£m	£m	£m	£m	£m	£m
As at 1 January 2016	**0.3**	**-**	**3.4**	**(7.4)**	**94.6**	**90.9**	**-**	**90.9**
Comprehensive income for the period:								
Profit for the period	-	-	-	-	23.1	23.1	-	23.1
Other comprehensive income for the period	-	-	-	(18.2)	-	(18.2)	-	(18.2)
Total comprehensive income	-	-	-	(18.2)	23.1	4.9	-	4.9
Acquisition of subsidiary	-	-	-	-	-	-	0.6	0.6
As at 31 December 2016	**0.3**	**-**	**3.4**	**(25.6)**	**117.7**	**95.8**	**0.6**	**96.4**
Comprehensive income for the period:								
Profit for the period	-	-	-	-	35.2	35.2	0.1	35.3
Other comprehensive income	-	-	-	(2.3)	-	(2.3)	-	(2.3)
Total comprehensive income	-	-	-	(2.3)	35.2	32.9	0.1	33.0
Issue of share capital	0.1	48.1	-	-	-	48.2	-	48.2
Capital contribution received	-	-	12.7	-	-	12.7	-	12.7
Dividend declared	-	-	-	-	(0.8)	(0.8)	-	(0.8)
Share capital reduction	-	(48.1)	-	-	48.1	-	-	-
As at 31 December 2017	**0.4**	**-**	**16.1**	**(27.9)**	**200.2**	**188.8**	**0.7**	**189.5**

Cabot Credit Management plc
Consolidated Statement of Cash Flows
For the year ended 31 December 2017

CABOT CREDIT MANAGEMENT

	Notes	2017 £m	2016 £m
Net cash (used in) / generated from operating activities	26	(50.0)	35.1
Investing activities			
Interest received		0.1	0.1
Purchases of property, plant and equipment & intangibles		(4.8)	(8.2)
Acquisition of subsidiary, net of cash acquired		(79.6)	(0.4)
Net cash used in investing activities		(84.3)	(8.5)
Financing activities			
Dividends paid	25	(0.1)	-
Interest paid		(88.3)	(83.0)
Repayment of borrowings		(419.4)	(415.4)
Proceeds from borrowings		657.7	490.2
Cash flows on derivatives		1.6	10.5
Transaction costs from borrowings		(2.6)	(20.2)
Net cash generated from / (used in) financing activities		148.9	(17.9)
Net movement in cash and cash equivalents		14.6	8.7
Cash and cash equivalents at beginning of period		43.3	30.7
Effect of foreign exchange rate changes on cash and cash equivalents		(0.2)	3.9
Cash and cash equivalents at end of period	15	57.7	43.3

Notes to the financial statements

1. General information

Cabot Credit Management plc ("the Company" including its subsidiary companies, together referred to the Group) is a public limited company incorporated and domiciled in England and Wales. The registered office is located at 1 Kings Hill Avenue, Kings Hill, West Malling, Kent, ME19 4UA.

The principal activities of the Group comprise the purchase and management of non-performing consumer loans in the United Kingdom and Europe.

2. Basis of preparation and significant accounting policies

The basis of preparation and the accounting policies adopted are described below. These have been applied consistently throughout all periods presented.

2.1. Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standard (IFRS) as adopted for use in the European Union (EU). The consolidated financial statements are primarily prepared under the historical cost convention. These standards have been applied consistently throughout the current and preceding year.

The consolidated financial statements provide comparative information of the previous period.

2.2. Basis of consolidation

The Cabot Credit Management plc Group financial statements consolidate the financial statements of the Company and its subsidiaries and associated undertakings drawn up to 31 December each year. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The results of subsidiaries acquired or sold are consolidated for the periods from or to the date of which control passed. When necessary, adjustments are made to bring subsidiaries accounting policies into line with the Group's accounting policies. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

2.3. Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report and Directors' Report. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in these financial statements.

2.4. 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 represents the 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.

Servicing fees from the servicing of third party loans by the Group are recognised when the services are provided.

Collection activity costs

Collection activity costs consists of staff salaries and benefit costs, servicing fees, communication costs (including the cost of collection letters sent to customers, such as printing and postage costs), credit bureau data costs and legal costs directly associated with collection activity.

Non-recurring items

Non-recurring items are those which are separately identified by virtue of their size and nature as outside of the normal underlying operating activities of the Group. These are disclosed separately on the face of the statement of comprehensive income.

Underlying profit

Underlying profit is the profit for the period after tax adjusted for the post-tax effect of non-recurring items, amortisation of acquired intangibles, foreign exchange gains or losses and the gain or loss on the derivative financial instruments. This is considered a more comparable performance metric as this excludes the impact of one-off material items which are not considered to be part of the performance of the underlying business.

Pensions

The Group operates defined contribution pension schemes. Pension contributions are charged to the statement of comprehensive income in the period that the liability for paying the contributions arises.

Operating leases

Rentals under operating leases are charged on a straight-line basis over the lease term.

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 in equity through 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.

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.

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.

Finance income and costs

Interest income (excluding that from owned portfolios), and interest and expenses are recognised using the effective interest rate method.

Finance costs include facility fees on bank loans and similar costs.

Foreign exchange

The Group's consolidated financial statements are presented in Sterling, which is the Group's functional currency.

In preparing the financial statements of the individual companies, transactions in foreign currencies are recorded at the rates of exchange for the entities functional currency 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 currency are translated using the exchange rates at the date of the initial transaction.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the reporting date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising on translations of the opening net assets and results of overseas operations are recognised in other comprehensive income.

Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group measures the non-controlling interests in the acquiree at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

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

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

Deferred consideration to be transferred by the acquirer is recognised at fair value at the acquisition date, and then held at amortised cost. Contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date and subsequently re-measured at fair value at each reporting period.

Goodwill

Goodwill arising on the acquisition of subsidiary undertakings, representing any excess of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest (if any) over the fair value of the identifiable assets acquired and liabilities assumed, is initially recognised at cost. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in the statement of comprehensive income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units (CGUs) expected to benefit from synergies of the combination. CGUs to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the CGU may be impaired.

If the recoverable amount of the CGU is less that its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the statement of comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

Property, plant and equipment & intangible assets

Property, plant and equipment & intangible assets are stated at cost, net of depreciation and amortisation and any provision for impairment. Depreciation and amortisation are provided on all items of property, plant and equipment and intangible assets, at rates calculated to write off the cost less estimated residual value on each asset on a straight-line basis over their estimated useful lives as follows:

Software	the term of the licence
Customer relationships	5 to 10 years
Developed technology	5 years
Trade names and other	5 to 10 years
Computers	3 to 10 years
Fixtures and fittings	5 to 10 years
Short leasehold property	the minimum term of the lease
Freehold property	50 years

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

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

The methods and periods of amortisation of intangible assets are reviewed annually. An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal.

Investments in subsidiaries

Investments in subsidiaries are recognised at cost less provision for impairment.

Inventory

Inventory represents property assets where the Group hold legal title to the assets as a result of repossessing real estate as part of the management and collection on non-performing loans. Inventory is valued at the lower of cost and net realisable value.

Cash and cash equivalents

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

Financial instruments

Derivatives

Derivatives are measured initially at fair value and subsequently re-measured to their fair value at each reporting date. Fair values are obtained from quoted prices prevailing in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and option pricing models as appropriate. All derivatives are included as assets when their fair value is positive and liabilities when their fair value is negative.

Financial assets

All financial assets are initially recognised at the transaction date, at which point, IAS 39 *Financial Instruments: Recognition and Measurement* requires that financial instruments be classified into one of the following categories; at fair value through profit and loss, loans and receivables, held-to-maturity investments or available for sale.

Loan portfolios and trade and other receivables are classified as loans and receivables and measured at amortised cost using the effective interest method, less any impairment.

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.

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 statement of financial position and the total consideration received is recognised within Revenue in the statement of comprehensive income.

Financial liabilities

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 Group 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 for the amount of the obligation. If the effect of the time value of money is material, provisions are discounted to their present value.

Impairment of non-financial assets

At each reporting date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately. Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years.

Share-based payment

From time to time the Group provides benefits to employees in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments. The cost is measured by reference to the fair value on grant date and is recognised as an expense over the relevant vesting period, ending on the date on which the employee becomes fully entitled to the award. At each reporting date prior to vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and the best estimate of the number of equity instruments that will ultimately vest, adjusted for leavers. The movement in the cumulative expense since the previous reporting date is recognised in the income statement, with the corresponding increase in reserves.

2.4. Changes in accounting policies and disclosures

Recent accounting pronouncements

The standards and interpretations that are issued, but not yet effective are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 9 *Financial Instruments*

IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting and replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 is effective for annual periods beginning on or after 1 January 2018. Retrospective application is required but providing comparative information is not compulsory.

Following an assessment of the impact of adopting IFRS 9, management have concluded that IFRS 9 will not have a material impact on the results of the Group, though disclosures will change as a result of adopting IFRS 9. The Group have adopted IFRS 9 from 1 January 2018.

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 Group 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 Group.

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 not yet considered the impact of this standard.

3. Significant accounting judgements, estimates and assumptions

The preparation of the Group's consolidated 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 Group'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.

At each reporting date expected cash receipts are revisited and updated if appropriate. The revised expected cash receipts are then discounted at the yield established at initial recognition. Any difference in the calculated current value and the carrying value are recognised as part of revenue in the period.

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 generated from a combination of the actual collections performance experience in the preceding months along with a long term trend analysis including monthly decay rates assumptions, all linked to the maturities of the underlying portfolios.

Business combinations and carrying value of goodwill

The Group capitalises goodwill on the acquisition of entities. The determination of the fair value of acquired net assets and liabilities and deferred and contingent consideration requires the exercise of management judgement, particularly for those financial assets or liabilities for which there are no quoted prices, or assets such as acquired loan portfolios where valuations reflect estimates and timing of future cash flows. Different valuations would result in changes to the goodwill arising and to the post acquisition performance of the acquisition.

The fair value of assets acquired and liabilities assumed directly impacts the amount of goodwill recognised on acquisition. Goodwill is not amortised but is tested for impairment on an annual basis, or more frequently if events or changes in circumstances indicate that it might be impaired. Determining whether goodwill is impaired requires an estimation of the value in use of the CGUs to which goodwill has been allocated. Calculation of the value in use requires an estimate and timing of future cash flows expected to arise from the CGU after a suitable discount rate has been applied to calculate present value. This inherently involves a number of judgements and estimates in that cash flow forecasts are prepared for periods that are beyond the normal requirement of management reporting, and the appropriate discount rate relevant to the business is an estimate.

4. Revenue

An analysis of revenue by activity is as follows:	**2017**	**2016**
	£m	**£m**
Income on owned portfolios (note 16)	272.0	244.4
Servicing fees	40.2	25.8
Property sales income	2.7	-
	314.9	270.2

Revenue of which earned outside United Kingdom		
Income on owned portfolios	44.9	28.3
Servicing fees	17.1	14.4
Property sales income	2.7	-
	64.7	42.7

5. Profit before taxation

The Profit before taxation is stated after charging the following:

	2017 £m	2016 £m
Depreciation of property, plant and equipment	2.5	2.4
Amortisation of intangible assets	6.9	4.8
Operating lease rentals – land and buildings	2.8	2.2
Impairment of intangible assets	3.8	-
Cost of inventory recognised as expense	2.3	-
Auditors remuneration	1.2	0.7

The following services were obtained from the auditors at the costs set out below:

	2017 £m	2016 £m
Fees payable to the Company's auditors:		
For the audit of the group	0.3	0.2
For the audit of subsidiary undertakings	0.3	0.2
Total audit fees	**0.6**	0.4
Fees payable for other services – accountants reporting	0.2	0.3
Fees payable for other assurance services	0.4	-
Total fees and expenses paid to the auditor	**1.2**	0.7

Of the non-audit fees, £ nil (2016: £300,000) were in relation to the issue of the Senior Secured Loan Notes due. These fees are capitalised and are being amortised to profit or loss on an effective rate basis and included within interest payable and related charges.

6. Underlying Profit

	2017 £m	2016 £m
Profit after tax	**35.3**	**23.1**
Add back: Non-recurring operating expenses		
Restructuring costs	14.1	1.6
Company acquisition costs	2.9	0.1
IPO costs	10.6	-
Other Non-recurring expenses	1.1	-
Total Non-recurring operating expenses	28.7	1.7
Non-recurring finance (income)/costs		
Early redemption fees	7.9	13.7
Write off capitalised fees	-	6.0
Release of unamortised fair value adjustment	(11.3)	-
Facility fees	0.8	-
Total Non-recurring finance (income)/costs	(2.6)	19.7
Derivative instrument gain	(1.5)	(9.7)
Foreign exchange losses	1.4	0.5
Amortisation of acquired intangibles	1.9	1.3
Total Non-recurring items	**27.9**	**13.5**
Tax effect of above	(5.4)	(2.7)
Underlying profit after tax	**57.8**	**33.9**

7. Finance income

	2017 £m	2016 £m
Bank interest income	0.2	0.2
Interest income from parent undertakings [a]	0.4	0.4
Total recurring finance income	0.6	0.6
Gain on derivative financial instruments	1.5	9.7
Non-recurring finance income *(Note 6)*	2.6	-
Total finance income	4.7	10.3

[a] *Interest receivable from parent undertakings is accrued but not paid at a rate of LIBOR plus 4% on trading balances and at a rate of 5% on loans.*

8. Finance cost

	2017 £m	2016 £m
Interest and fees on borrowings	83.2	85.2
Interest expense due to parent undertakings [a]	0.1	0.5
Other finance costs	0.5	-
Unwind of discount on deferred consideration	0.4	0.5
Foreign exchange on borrowings	1.5	0.5
Total recurring costs	85.7	86.7
Non-recurring costs	-	19.7
Total finance cost	85.7	106.4

[a] *Interest payable to parent undertakings is accrued but not paid at a rate of LIBOR plus 4% on trading balances and at a rate of 5% on loans.*

9. Tax

The income tax expense comprises:

	2017 £m	2016 £m
Current tax		
Corporation tax	3.9	3.1
Foreign tax	3.8	1.7
Total current tax	7.7	4.8
Prior period adjustments	(0.1)	-
Deferred tax		
Origination and reversal of timing differences	(2.3)	1.5
Impact of changes in tax laws and rates	-	(0.8)
Total income tax expense	5.3	5.5

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:

	2017 £m	2016 £m
Profit before tax	40.6	28.6
Income tax expense calculated at standard UK corporation tax rate of 19.25% (2016: 20.00%)	7.8	5.7
Effects of:		
Utilisation of tax losses	(1.6)	(1.8)
Tax losses carried forward	-	3.5
Expenses not deductible for tax purposes	3.0	0.1
Amounts not taxable for tax purposes	(3.3)	(0.8)
Tax on overseas earnings	(0.3)	-
Adjustment in respect of prior periods	(0.1)	-
Changes in income tax rate from 20% to 17% on deferred tax balances	-	(0.8)
Transfer pricing adjustment	(0.2)	(0.4)
Total income tax expense	5.3	5.5

The Finance Act 2016, 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 2016. As this change in rate was substantively enacted prior to 31 December 2016 it was reflected in the deferred tax assets and liabilities at 31 December 2016. The Finance Act 2017 has not resulted in any further changes to the main rate of UK corporation tax and therefore deferred tax assets and liabilities at 31 December 2017 are reflected accordingly.

10. Information regarding Directors and employees

	2017	2016
Average number of employees during the period (including executive Directors):	**No.**	**No.**
Administration	423	363
Collection	1,436	1,032
Total	1,859	1,395
Staff costs for the period (including executive Directors):	**£m**	**£m**
Salary and benefits in kind	60.0	59.8
Social security costs	6.9	3.5
Pension contributions	1.5	1.0
Total	68.4	64.3

The company operates defined contribution pension plans. Outstanding contributions at the period ends were:

	2017	2016
	£m	**£m**
Contributions outstanding	0.3	0.2

	2017	2016
	£m	**£m**
Directors' remuneration		
Salary and benefits in kind	1.7	1.2
Pension contributions	-	-
Total	1.7	1.2
Highest paid director		
Salary and benefits in kind	0.9	0.7
Pension contributions	-	-
Total	0.9	0.7

Certain employees and directors of the Group are periodically offered the opportunity to buy shares in Cabot Holdings s.a.r.l. All shares vest over two years, or sooner on the occurrence of an exit event.

During 2017, 300,595 shares were sold for a price considered to be below fair value. The fair value of the services received from the employees was determined with reference to the fair value of the equity instruments, calculated using a capitalisation of earnings method.

11. Business combinations

Cabot Financial France (formerly known as Nemo Recouvrement SAS)

On 31 March 2016, the Group completed the acquisition of 50.1% of the ordinary shares of a French credit management services business, Cabot Financial France (Nemo) for €0.9 million upfront consideration and contingent consideration with a fair value of €0.3 million. Founded in 2006, Cabot Financial France SAS specialises in the acquisition of receivables, collection and management of customer receipts.

The fair values of the identifiable assets and liabilities of Nemo as at the date of acquisition were:

	Fair value recognised on acquisition £m
Assets	
Intangible assets	0.3
Property, plant and equipment	-
Trade and other receivables	1.7
Cash	0.2
	2.2
Liabilities	
Third party loans	(1.2)
	(1.2)
Total identifiable net assets at fair value	1.0
Non-controlling interest	(0.5)
	0.5
Goodwill arising on acquisition	0.4
Purchase consideration transferred	0.9
Purchase consideration	
Cash paid	0.7
Contingent consideration liability	0.2
Total consideration	0.9

Analysis of cash flows on acquisition	£m
Net cash acquired with the subsidiary	0.2
Cash paid	(0.7)
Net cash flow on acquisition	(0.5)

The excess of consideration over fair value of identifiable net assets of £0.4 million was not considered by management to be material. As such, no additional exercise has been performed to try and value other acquired intangibles and the full excess has been ascribed to goodwill.

Since the date of acquisition to 31st December 2016, Nemo contributed £2.9 million revenue and £0.1 million profit before tax to the continuing operations of the Group. If the acquisition had taken place at the beginning of that year, Nemo would have contributed £3.9 million revenue and £0.1 million profit before tax to the continuing operations of the Group.

The goodwill recognised is primarily attributed to synergies and other benefits from combining the assets and activities of Nemo with those of the Group.

As part of the purchase agreement, a contingent consideration has been agreed. Cash payments of €0.3 million are payable subject to the performance of a loan portfolio owned by Nemo at the date of acquisition. The full payment is earned if the net profit from the portfolio equals €0.3 million. As at the acquisition date, the fair value of the contingent consideration was estimated to be €0.3 million. The fair value is determined using DCF method. An increase/(decrease) in the net profit of the portfolio would result in a higher/(lower) fair value of the contingent consideration liability, while a significant increase/(decrease) in the discount rate would result in a lower/(higher) fair value of the liability.

At the date of acquisition, the fair value of the trade and other receivables was £1.7 million. As at the date of acquisition, the gross contractual amount of trade and other receivables was equal to the fair value, and this reflects the best estimate of contractual cash flows.

Orbit

On 19 May 2017, the Group completed the acquisition of 100% of the ordinary shares of Orbit Debt Collections Limited ("Orbit"), a servicing business based in the UK. Orbit was acquired by Cabot Financial Debt Recovery Solutions Limited which is a member of the Group. Orbit was acquired because it allowed for entry into a new market that fits naturally with the Group's group model. The assessment of fair values of the identifiable assets and liabilities at acquisition are shown below and are provisional under the measurement period.

	Fair value recognised on acquisition £m
Assets	
Property, plant and equipment	0.3
Trade and other receivables	1.9
Cash	0.4
Intangible assets	2.1
	4.7
Liabilities	
Trade and other payables	(1.3)
Deferred tax liability	(0.4)
	(1.7)
Total identifiable net assets at fair value	3.0
Goodwill arising on acquisition	8.6
Purchase consideration recognised	11.6
Purchase consideration	
Cash paid	3.5
Contingent consideration	8.1
Total consideration	11.6
Analysis of cash flows on acquisition	
Net cash acquired with the subsidiary	0.4
Cash paid	(3.5)
Net cash flow on acquisition	(3.1)

The excess of consideration over fair value of identifiable net assets (goodwill) of £8.6 million is primarily attributed to synergies and other benefits from combining the assets and activities of Orbit with those of the Group. The goodwill is not deductible for income tax purposes.

All acquired receivables are accounted for at fair value and represent the full contractual amounts. As at the date of acquisition, the gross contractual amount of trade and other receivables was equal to the fair value, and this reflects the best estimate of contractual cash flows.

The deferred contingent consideration of £8.1 million has been calculated based upon the expected outcome calculated with reference to the terms stipulated in the SPA. This is based on the future performance of Orbit measured against performance targets over the period to 30 June 2019. These terms do not limit this payment.

Since the date of acquisition to 31 December 2017, Orbit has contributed £4.4 million revenue and £0.3 million profit before tax to the continuing operations of the Group. If the acquisition had taken place at the beginning of the year, Orbit would have contributed £6.7 million revenue and £0.6 million profit before tax to the continuing operations of the Group.

Wescot

On 10 November 2017, the Group completed the acquisition of 100% of the ordinary shares of Wescot Top Co Limited ("Wescot"), a leading UK contingent debt collection and business process outsourcing (BPO) services business. Wescot was acquired by Cabot Financial Debt Recovery Solutions Limited which is a member of the Group. Wescot was acquired to further the Group's capabilities in the debt servicing industry. The assessment of fair values of the identifiable assets and liabilities at acquisition are shown below and are provisional under the measurement period.

	Fair value recognised on acquisition £m
Assets	
Property, plant and equipment	3.0
Trade and other receivables	7.3
Cash	19.7
Intangible assets	37.6
Deferred tax asset	0.1
	67.7
Liabilities	
Trade and other payables	(13.2)
Deferred tax liability	(6.6)
	(19.8)
Total identifiable net assets at fair value	47.9
Goodwill arising on acquisition	49.8
Purchase consideration recognised	97.7
Purchase consideration	
Cash paid to sellers	94.4
Deferred consideration	3.1
Contingent consideration	0.2
Total consideration	97.7
Analysis of cash flows on acquisition	
Net cash acquired with the subsidiary	19.7
Cash paid	(96.2)
Net cash flow on acquisition	(76.5)

The excess of consideration over fair value of identifiable net assets (goodwill) of £49.8 million is primarily attributed to synergies and other benefits from combining the assets and activities of Wescot with those of the Group. The goodwill is not deductible for income tax purposes.

All acquired receivables are accounted for at fair value and represent the full contractual amounts. As at the date of acquisition, the gross contractual amount of trade and other receivables was equal to the fair value, and this reflects the best estimate of contractual cash flows.

£1.8 million of the £3.1 million deferred consideration has been paid to an escrow account.

The deferred contingent consideration of £0.2 million has been calculated based upon the expected outcome calculated with reference to the terms stipulated in the SPA. This is based on the future performance of Wescot measured against performance targets over the period to 31 March 2019.

Since the date of acquisition to 31 December 2017, Wescot has contributed £7.4 million revenue and £0.4 million profit before tax to the continuing operations of the Group. If the acquisition had taken place at the beginning of the year, Wescot would have contributed £40.4 million revenue and £4.1 million profit before tax to the continuing operations of the Group.

12. Intangible assets

	Software	Customer relation-ships	Trade names and other	Total
	£m	£m	£m	£m
Cost				
At 1 January 2016	**11.3**	**5.0**	**2.8**	**19.1**
Additions	6.3	-	-	6.3
Disposals	(1.0)	-	-	(1.0)
Exchange differences	0.2	0.7	0.1	1.0
At 31 December 2016	**16.8**	**5.7**	**2.9**	**25.4**
Additions	5.4	-	-	5.4
On acquisition	-	38.1	1.6	39.7
Disposals	(1.1)	-	-	(1.1)
At 31 December 2017	**21.1**	**43.8**	**4.5**	**69.4**

Amortisation and Impairment	Software	Customer relation-ships	Trade names and other	Total
	£m	£m	£m	£m
At 1 January 2016	**2.8**	**0.1**	**0.5**	**3.4**
Charge for the year	3.7	0.7	0.4	4.8
Disposals	(1.1)	-	-	(1.1)
Exchange differences	0.1	-	-	0.1
At 31 December 2016	**5.5**	**0.8**	**0.9**	**7.2**
Charge for the year	5.1	1.4	0.4	6.9
Impairment charge	2.2	0.6	1.0	3.8
Disposals	(1.1)	-	-	(1.1)
Exchange differences	(0.5)			(0.5)
At 31 December 2017	**11.2**	**2.8**	**2.3**	**16.3**
Net book value				
At 31 December 2016	11.3	4.9	2.0	18.2
At 31 December 2017	9.9	41.0	2.2	53.1

The impairment charge relates to the write-off of intangible assets associated with the restructuring program announced during the year. See note 21.

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13. Property, plant and equipment

	Computers £m	Fixtures and fittings £m	Short leasehold property £m	Freehold Property £m	Total £m
Cost					
At 1 January 2016	**5.1**	**1.0**	**3.7**	**-**	**9.8**
Additions	1.1	0.4	0.6	-	2.1
Disposals	(1.3)	(0.4)	(0.4)	-	(2.1)
Exchange differences	0.1	0.1	-	-	0.2
At 31 December 2016	**5.0**	**1.1**	**3.9**	**-**	**10.0**
Additions	1.3	0.5	0.1	-	1.9
On acquisition	1.7	0.2	0.6	0.8	3.3
Disposals	(2.4)	(0.1)	-	-	(2.5)
Exchange differences	(0.3)	-	-	-	(0.3)
At 31 December 2017	**5.3**	**1.7**	**4.6**	**0.8**	**12.4**
Depreciation					
At 1 January 2016	**2.1**	**0.2**	**1.6**	**-**	**3.9**
Charge for the year	1.8	0.2	0.4	-	2.4
Disposals	(1.3)	(0.4)	(0.4)	-	(2.1)
Exchange differences	0.1	-	-	-	0.1
At 31 December 2016	**2.7**	**-**	**1.6**	**-**	**4.3**
Charge for the year	1.9	0.3	0.3	-	2.5
Disposals	(2.4)	(0.1)	-	-	(2.5)
Exchange differences	-	-	-	-	-
At 31 December 2017	**2.2**	**0.2**	**1.9**	**-**	**4.3**
Net book value					
At 31 December 2016	2.3	1.1	2.3	-	5.7
At 31 December 2017	3.1	1.5	2.7	0.8	8.1

14. Goodwill

	£m
At 1 January 2016	266.3
Acquisitions	0.4
Exchange differences	1.0
At 31 December 2016	267.7
Acquisitions	58.4
Exchange differences	0.4
At 31 December 2017	**326.5**

Carrying amount of goodwill allocated to each of the CGUs:

	2017 £m	**2016 £m**
UK	319.3	260.8
Europe	7.2	6.9
Total	326.5	267.7

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

The recoverable amount is determined from the 120 month ERC (inclusive of a terminal value) plus portfolio purchase projections from financial budgets approved by senior management covering a ten year period. The discount rate applied at 31 December 2017 was 8.5% (2016: 9.6%), which is based upon the Group's pre-tax weighted average cost of capital.

No sensitivity analysis has been performed on the basis that there was no reasonable foreseeable changes in the above assumptions which would result in the recoverable amount falling below the carrying amount.

15. Cash and cash equivalents

	2017 £m	**2016 £m**
Own cash balances	40.5	31.0
Client cash balances [a]	17.2	12.3
Total	57.7	43.3

[a] Cash balances collected on behalf of and due to third parties and relates to items held within trade and other payables

16. Purchased loan portfolios

	2017 £m	2016 £m
Expected falling due after 12 months		
Purchased loan portfolios	992.1	831.1
Expected falling within 12 months		
Purchased loan portfolios	150.9	113.5
Total	1,143.0	944.6

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

	2017 £m	2016 £m
Current value at the beginning of the financial period	944.6	879.7
Movement in current value [(a)]	272.0	244.5
Gross collections on owned portfolios	(407.5)	(358.7)
Portfolios acquired during the period, net of determination cash	315.8	168.4
Portfolios acquired through acquisition of a subsidiary	-	1.6
Portfolios sold during the period	(1.5)	(4.7)
Transfer from inventory	5.4	-
Foreign exchange	14.2	13.8
Current value at the end of the financial period	1,143.0	944.6

[(a)] *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.*

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The effect of a 10% reduction in cash collection statistics and a 10% reduction in the long term gradient used in the Group's cash flow models are illustrated separately below. The long term gradient used projects the decay of forecast collections. The Directors believe that a 10% reduction is the extreme variation that could occur between cash collections and forecast cash flows.

	Reduction in cash collections experience used in the forecast by 10%	**Reduction in long term gradient used in the forecast by 10%**
	£m	**£m**
Year ended 31 December 2016		
Reduction due to change in assumption	(63.8)	(6.4)
Year ended 31 December 2017	(117.0)	(21.4)
Reduction due to change in assumption		

The sensitivities decrease the statement of comprehensive income and the statement of financial position.

An increase of 10% in cash collections experience and a 10% increase in the long-term gradient used in forecast will have the exact opposite effect in the loan portfolios amount at the reporting date.

17. Inventory

	2017	**2016**
	£m	**£m**
Inventory for resale	10.0	16.5

18. Trade and other receivables

	2017 £m	2016 £m
Trade receivables	26.8	14.9
Amounts owed by parent undertakings	1.2	7.4
Prepayments, accrued income and other debtors	5.5	3.7
Total	33.5	26.0

Loans and amounts owed by parent and subsidiary undertakings are unsecured, include amounts outside of the Group but under common control, have no fixed repayment date, are repayable on demand and interest on such balances is accrued on an arm's length basis.

19. Trade and other payables

	2017 £m	2016 £m
Trade payables	21.5	14.9
Other tax and social security	4.7	0.9
Amounts owed to parent undertakings	1.2	66.2
Other payables	13.6	7.5
Accruals and deferred income	27.3	21.7
Total	68.3	111.2

The Group 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.

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

20. Borrowings

	2017 £m	2016 £m
Non-current		
Senior Secured Notes	890.4	1,037.4
Bank loans and overdrafts	128.4	24.2
Other loans	289.3	2.0
	1,308.1	1,063.6
Current		
Senior Secured Notes	12.6	21.6
Bank loans and overdrafts	(1.4)	(1.7)
Other loans	(0.8)	-
	10.4	19.9
Total borrowings	1,318.5	1,083.5
Analysis of loan repayments:		
Within one year	10.4	19.9
In more than one year but less than 5 years	958.7	714.3
In more than 5 years	349.4	349.3
	1,318.5	1,083.5

Notes to the financial statements
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The following table analyses the borrowings of the Group, together with the Directors assessment of the fair value of the liabilities. Fair value of Senior Secured Notes ("SSN") is based on the Luxembourg Stock Exchange quoted price at the reporting date.

	Book value 2017 £m	Book value 2016 £m	Maturity date	Interest rate	Fair value 2017 £m	Fair value 2016 £m
£100 million SSN	100.0	100.0	August 2020	8.375%	103.9	105.0
£150 million SSN	-	150.0	August 2020	10.500%	-	163.7
£175 million SSN	175.0	175.0	April 2021	6.500%	177.9	178.9
€310 million SSN Floating Rate	275.5	265.6	November 2021	EURIBOR +5.875%	284.2	268.8
£350 million SSN	350.0	350.0	October 2023	7.500%	365.9	351.3
	900.5	1,040.6			931.9	1,067.7
Asset backed lending facility	290.0	-	September 2022	LIBOR +2.85%	290.0	-
Revolving credit facility	132.5	27.0	September 2021/March 2022		132.5	27.0
Other loans	2.5	2.0			2.5	2.0
Unamortised debt issue costs on borrowings	(22.6)	(20.9)			(22.6)	-
Accrued interest	15.6	21.2			15.6	21.2
Unamortised fair value adjustment	-	13.6			-	-
	1,318.5	1,083.5			1,349.9	1,117.9

The Company and certain of its subsidiary companies have granted a fixed and floating charge over assets with a carrying value of at least £1,485.5 million (2016: £1,290.6 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 3 April 2017, Cabot Financial UK amended and restated its existing Senior Secured revolving credit facility agreement to, among other things, extend the termination date for a £50.0 million tranche of commitments to March 2022. On 13 December 2017, Cabot Financial UK further amended its existing Senior Secured revolving credit facility. This amendment increased the facility to £295.0 million, with £245.0 million maturing in September 2021, and a £50.0 million tranche maturing in March 2022.

On 23 August 2017, a 100% owned subsidiary within the Group entered into a non-recourse Asset Backed Senior facility, with a five year legal maturity at an initial rate of 2.85% over LIBOR. At 31

December 2017, £290.0 million was drawn. Professional fees of £4.3 million were capitalised relating to the facility.

On 4 September 2017, the Group redeemed the £150.0 million 10.5% Senior Secured Note which had a maturity of August 2020. The note was redeemed at a premium of 5.25%, which was charged to non-recurring finance costs. In addition, the fair value adjustment recognised on acquisition of Marlin, that had been unwound over the remaining term of the note, was also released resulting in a credit of £11.3 million to non-recurring finance income being recognised.

In line with the covenants on the bond, the calculation of net debt for the Group is as follows:

(£ in millions)	2017	2016
Borrowings less cash	1,260.8	1,040.3
Add back: unamortised facility fees and similar costs	22.6	20.9
Add back: client cash (note 15)	17.2	12.3
Deduct: accrued interest	(15.6)	(21.2)
Deduct: fair value adjustment to Marlin Notes	-	(13.6)
Net debt	1,285.0	1,038.7

21. Provisions

	Decommissioning	Restructuring	Other	Total
	£m	£m	£m	£m
At 1 January 2017	0.5	1.8	5.5	7.8
Unwinding of discount and changes in the discount rate	(0.2)	-	-	(0.2)
Utilisation	-	(0.6)	(1.7)	(2.3)
Charge for the year	-	9.9	3.3	13.2
At 31 December 2017	0.3	11.1	7.1	18.5

At 31 December 2017				
Current	-	11.1	3.1	14.2
Non-current	0.3	-	4.0	4.3
	0.3	11.1	7.1	18.5

Decommissioning
A provision has been recognised for decommissioning costs associated with various premises leased by the Group. The Group is committed to restoring the premises to their original state at the end of the lease term.

Restructuring
During 2015 a restructuring provision was established in relation to the Group closing the Apex office in Stratford and consolidating the servicing operations in Brackley. This provision is being utilised across the remaining life of the vacated property that the Group still holds the lease for.

Following the acquisition of Wescot, on 22 December 2017 the Group concluded a consultation process and announced a program impacting the servicing businesses operated from the site at Brackley, with c300 employees at the site placed at risk of redundancy.

The total cost of the restructuring is expected to be £13.7 million. £3.8 million relates to the write off of impaired balance sheet assets with the remaining £9.9 million forming a restructuring provision to cover the estimated costs to settle the constructive obligations established as part of this program. These provisions include amounts related to people, premises and IT decommissioning costs. The restructuring plan is due to be fully executed during 2018.

Other
Other provisions include liabilities that arise as a result of regulation, compliance and business acquisitions.

22. Deferred tax liability

The deferred tax liability relates to the following:

	2017 £m	2016 £m
Amounts provided for		
IAS 39 , loan portfolios	0.1	0.1
Accounting policy alignment	12.4	14.3
Foreign exchange	6.0	5.4
Intangibles	7.5	1.3
	26.0	21.1

The movement on the deferred tax liability is as follows:

	2017 £m	2016 £m
Brought forward as at 1 January	21.1	22.1
Recognised in statement of comprehensive income:		
Tax expense	0.6	1.2
Tax credit	(2.7)	(2.3)
Arising on business combinations	7.0	0.1
As at 31 December 2017	26.0	21.1

The provision comprises four elements; the first relating to the temporary difference between the tax base and the carrying amount of the loan portfolio for accounting purposes in 2011 in respect of the cumulative effect on adoption of FRS 26, under UK GAAP (now IAS 39), in respect of certain loan portfolios that were acquired as at that date. The second aspect of the provision relates to the recognition of a deferred tax liability on the basis that the valuation of loan portfolios acquired in business combinations, as part of the Marlin and dlc acquisitions, are aligned with Cabot's accounting policy, effective 1 January 2015 on adoption of IFRS across the Group, resulting in the recognition of additional taxable profits to be released evenly to the statement of comprehensive income over the period to 31 December 2024 in respect of Marlin and over the period to 31 May 2025 in respect of dlc. The third element of the provision relates to the recognition of a deferred tax liability by reference to amounts relating to foreign exchange gains and losses which are charged or credited to other comprehensive income. Finally, a deferred tax liability has arisen in connection with the recognition of intangible assets which will be released to the statement of comprehensive income in line with the period that the intangible assets are amortised.

No discounting was applied to the above deferred tax liabilities.

The movement for the period ended 31 December 2017 in the deferred tax liability comprised a net credit to the statement of comprehensive income and recognition of provisions arising from business combinations.

23. Deferred tax asset

The deferred tax asset relates to the following:

	2017 £m	2016 £m
Amounts provided for		
Depreciation in excess of capital allowances	3.4	3.0
Unutilised trading losses carried forward	-	0.2
Fair value adjustments arising from business combinations	0.5	1.0
Other	0.6	-
	4.5	4.2
Amounts not recognised		
Unutilised trading and non-trading losses carried forward	6.8	6.9
	6.8	6.9

The movement on the deferred tax asset is as follows:

	2017 £m	2016 £m
Brought forward as at 1 January	4.2	3.7
Recognised in statement of comprehensive income:		
Tax credit	0.2	0.4
Arising on business combinations	0.1	0.1
	4.5	4.2

At 31 December 2017, tax losses have not been recognised by the Group predominantly in respect of losses arising in prior periods as the timing of utilisation of these tax losses is uncertain.

24. Share capital and reserves

	2017 £'000	2016 £'000
Allotted, called up and fully paid:		
17,445 A1 ordinary shares of £0.99 each, subscription price £1.00	17	15
1,709 A1 deferred ordinary shares of £0.99 each, subscription price £1.00	2	2
10,467 A2 ordinary shares of £1.65 each, subscription price £1.65	17	15
1,545 A2 deferred ordinary shares of £0.99 each, subscription price £1.00	3	3
20,933 A3 ordinary shares of £0.83 each, subscription price £1.00	17	16
3,091 A3 deferred ordinary shares of £1.65 each, subscription price £1.65	2	3
10,467 A4 ordinary shares of £0.83 each, subscription price £1.00	17	15
1,545 A4 deferred ordinary shares of £1.65 each, subscription price £1.65	3	3
13,954 A5 ordinary shares of £0.01 each, subscription price £1.00	-	-
329 A5 deferred ordinary shares of £0.01 each, subscription price £1.65	-	-
275,636 class B ordinary shares of £1.00 each, subscription price £1.00	276	250
	354	322

The ordinary share classes A1, A2, A3, A4, A5 and B rank pari passu in respect of voting rights and rights to dividends/distributions. The deferred shares carry no entitlement to vote or to distributions.

On 12 July 2017, following a corporate restructure, intercompany payables owed by the Group to intermediate parent companies, totalling £48.1 million, were settled by a share issuance with associated share premium of £48.1 million. A total of 32,447 shares were issued, all of which are eligible for distributions. On 22 September 2017, the Group was assigned various intercompany receivables creating a total capital contribution of £3.8 million.

On 18 October 2017 CCM was assigned various intercompany debtors creating a total capital contribution of £8.5 million, and also declared dividends of £0.7 million.

On 30 October 2017 CCM declared and paid a dividend of £0.1 million. The company also undertook a capital reduction, reducing share premium and increasing accumulated profits by £48.1 million.

Capital contribution reserve
The capital contribution reserve comprises all contributions arising from parent undertakings.

Retranslation reserve
The retranslation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

25. Dividends

	2017 £m	2016 £m
Amounts recognised as distribution to equity holders in the period		
Interim dividend for the year ended 31 December 2017 of 2.6p (2016: 0p) per share	0.8	-

Of these dividends, £0.1 million was cash settled and £0.7 million was settled via intercompany.

26. Notes to the statement of cash flows

	2017 £m	2016 £m
Profit for the period	35.3	23.1
Adjustments for:		
Current value movement on owned loan portfolios	(275.4)	(244.5)
Net finance costs	78.9	76.3
Income tax expense	5.3	5.5
Profit on sale of portfolio	(1.3)	(1.6)
Depreciation of property, plant and equipment	2.5	2.4
Amortisation of intangible assets	6.9	4.8
Impairment of intangibles	1.7	-
Non-recurring costs	6.6	19.6
Share-based payment expense	1.2	-
Operating cash flows before movements in working capital	(138.3)	(114.4)
Increase in receivables	(6.5)	(6.0)
Increase in inventory	(0.4)	(16.2)
Increase in payables	6.5	2.3
Net cash used in operating activities before collections and purchases	(138.7)	(134.3)
Income taxes and overseas taxation	(6.1)	(4.7)
Collections on owned loan portfolios	410.9	358.9
Purchases of loan portfolios	(320.4)	(190.8)
Sale of loan portfolios	2.7	6.0
Net proceeds from disposal of inventory	1.6	-
Net cash generated from operating activities	(50.0)	35.1

Notes to the financial statements
For the year ended 31 December 2017

27. Financial Instruments

(a) Carrying amount of financial instruments

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

	2017 £m	2016 £m
Financial assets		
Financial assets at fair value through profit and loss		
Derivative assets	1.5	0.3
Financial assets not at fair value through profit and loss		
Cash and cash equivalents (note 15)	57.7	43.3
Loan portfolios (note 16)	1,143.0	944.6
Trade and other receivables (note 18)	28.0	22.3
Total	1,230.2	1,010.5

	2017 £m	2016 £m
Financial liabilities		
Financial liabilities at fair value through profit and loss		
Derivative liabilities	0.8	1.1
Other financial liabilities	8.0	2.1
Financial liabilities not at fair value through profit and loss		
Trade and other payables (note 19)	63.6	110.4
Loans and borrowings (note 20)	1,318.5	1,083.5
Other financial liabilities	8.2	4.9
Total	1,399.1	1,202.0

(b) Carrying Amount versus Fair value

The following table compares the carrying amounts and fair values of the Group's financial assets and financial liabilities as at 31 December 2017 and 31 December 2016.

	2017		2016	
	Carrying Amount £m	**Fair Value £m**	**Carrying Amount £m**	**Fair Value £m**
Financial Assets				
Cash and cash equivalents (note 15)	57.7	57.7	43.3	43.3
Loan portfolios (note 16)	1,143.0	1,143.0	944.6	944.6
Trade and other receivables (note 18)	28.0	28.0	22.3	22.3
Derivative financial assets	1.5	1.5	0.3	0.3
Total	1,230.2	1,230.2	1,010.5	1,010.5
Financial liabilities				
Trade and other payables (note 19)	63.6	63.6	110.4	110.4
Loans and borrowings (note 20)	1,318.5	1,349.9	1,083.5	1,117.9
Other financial liabilities	16.2	16.2	7.0	7.0
Derivative liabilities	0.8	0.8	1.1	1.1
Total	1,399.1	1,430.5	1,202.0	1,236.4

(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.

Notes to the financial statements
For the year ended 31 December 2017

For the Group, the fair value of the acquired portfolios is determined using a discounted cash flow model with unobservable inputs and are classified as level 3 measurements. Derivatives held by the Group are model-valued using interest and currency market rates as input data. Further information on the deferred contingent consideration and loans and borrowings can be found in notes 27 and 20 respectively. The remaining financial assets and liabilities carried have a fair value equal to their carrying value.

The following table analyses financial instruments measured 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.

	2017 £m	Level 1 £m	Level 2 £m	Level 3 £m
Financial instruments measured at fair value				
Derivative assets	1.5	-	1.5	-
Derivative liabilities	(0.8)	-	(0.8)	-
Deferred contingent consideration	(8.0)	-	-	(8.0)
Total	(7.3)	-	0.7	(8.0)

	2017 £m	Level 1 £m	Level 2 £m	Level 3 £m
Financial instruments not measured at fair value				
Loan portfolios	1,143.0	-	-	1,143.0
Loans & borrowings	(1,318.5)	-	-	(1,318.5)
Total	(175.5)	-	-	(175.5)

	2016 £m	Level 1 £m	Level 2 £m	Level 3 £m
Financial instruments measured at fair value				
Derivative assets	0.3	-	0.3	-
Derivative liabilities	(1.1)	-	(1.1)	-
Deferred contingent consideration	(2.1)	-	-	(2.1)
Total	(2.9)	-	(0.8)	(2.1)

	2016 £m	Level 1 £m	Level 2 £m	Level 3 £m
Financial instruments not measured at fair value				
Loan portfolios	944.6	-	-	944.6
Loans & borrowings	(1,083.5)	-	-	(1,083.5)
Total	(138.9)	-	-	(138.9)

(d) Transfers during the period

During the year ending 31 December 2017 and the year ending 31 December 2016:

- There were no transfers between Level 1 and Level 2 fair value measurements; and
- There were no transfers into or out of Level 3 fair value measurements.

(e) Valuation techniques

(i) Loan Portfolios

The valuation of loan portfolios is detailed within the Loan portfolio accounting policy within note 2 to the financial statements.

(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, a Revolving Credit Facility and Asset Backed Lending.

The fair value of loans and borrowings is categorised as level 3 in the fair value hierarchy as although this includes inputs based on quoted prices it also includes valuation techniques that are not based on observable market data.

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 20.

Given the timing of the repayments on the Revolving Credit facility, amortised cost is considered equivalent to fair value for disclosure purposes. The Asset Backed Lending has a fair value equal to its amortised cost.

(iii) Deferred contingent consideration

Contingent consideration is calculated using the latest view of future performance, measured against the individual contractual terms relating to the liability. The deferred contingent consideration at 31 December 2017 relates to the purchase of Orbit (£8.1 million) and Wescot (£0.2 million) as set out in note 11. Subsequent to the initial recognition, the fair value of these liabilities was reassessed and a fair value gain of £2.1 million and a fair value loss of £2.1 million were recognised for Orbit and Wescot respectively.

The deferred contingent consideration at 31 December 2016 relates to the purchase of Cabot Financial Spain for which the liability was extinguished during the period to 31 December 2017, leading to a fair value gain of £2.1 million being recognised.

28. Financial Risk Management

The Group has exposure to market risk, credit risk and liquidity risk arising from financial instruments. The Company has very little exposure to these risks.

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.

Market risk

Market risk is the risk that changes in market prices, including foreign exchange rates and interest rates, will affect the fair value of future cash flows of financial instruments.

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 Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates.

The Group's Senior committed revolving credit facility is linked to the monthly LIBOR (or, EURIBOR, for any loan drawn in Euro), along with the Group's asset backed lending, so the statement of financial position value is the fair value although the Group's asset-backed lending is hedged via an interest rate cap.

All decisions in relation to the hedging of interest rate risk have been delegated to Senior Management on behalf of the Board of Directors of the Company on behalf of the Group.

The Group acquires 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 of floating rate borrowings, as follows:

	Increase/decrease in basis points	Effect on profit before tax and equity £m
2017		
Variable interest instruments	+50	(2.0)
Variable interest instruments	-50	0.7
2016		
Variable interest instruments	+50	(1.5)
Variable interest instruments	-50	0.1

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.

During the periods the Group mitigated its foreign currency exposures via asset and liability management. The group was exposed to foreign currency risk due to the €310.0 million Senior Secured Floating Rate Loan Note taken out in November 2015. Derivatives were entered into to mitigate this risk.

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 Group's profit before tax is due to changes in the fair value of monetary assets and liabilities. The Group's exposure to foreign currency changes for all other currencies is not material.

	Change in EUR rate	Effect on profit before tax £m	Effect on equity £m
Year to 31 December 2017	+0.2	(1.1)	(5.6)
	-0.2	1.2	(5.6)
Year to 31 December 2016	+0.2	(1.6)	(1.2)
	-0.2	1.7	1.2

The increase or decrease of 0.2 in the Euro exchange rate has been assessed by management to be a reasonable estimate of the fluctuation that could occur.

Management has implemented a series of hedges to mitigate the exposure to foreign currency fluctuations.

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 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 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 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.

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.

	31 December 2017	31 December 2016
Number of customer accounts	9,185,377	8,344,232
Average balance per account	£2,624	£2,488

The carrying amount of financial assets recorded in these financial statements represents the Group's maximum exposure to credit risk. The Group's maximum exposure to credit risk is £1,230.2 million (2016: £1,010.5 million). Some of the Group's financial assets are secured. Portfolios by their nature are impaired upon acquisition and therefore are 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 £2,086.1 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 2016 and 2017 respectively. 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 2017:

	Up to 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m
Trade payables	21.5	-	-	-
Amounts owed to parent undertakings	1.2	-	-	-
Other payables	14.4	11.1	-	5.1
Accruals	27.3	-	-	-
Senior Secured Notes	59.3	59.3	672.8	369.7
Asset backed Lending	9.0	9.0	314.7	-
Bank loans and overdrafts [a]	(1.6)	-	132.5	-
	131.1	**79.4**	**1,120.0**	**374.8**

[a] *Drawn balance as at 31 December 2017*

Notes to the financial statements
For the year ended 31 December 2017

The following table sets out the contractual maturities (representing undiscounted contractual cash-flows) of financial liabilities as at 31 December 2016:

	Up to 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m
Trade payables	14.9	-	-	-
Amounts owed to parent undertakings	66.2	-	-	-
Other payables	8.6	2.4	-	4.6
Accruals	21.7	-	-	-
Senior Secured Notes	76.3	76.3	875.2	364.5
Bank loans and overdrafts [a]	-		27.0	-
Other loans	-	2.0	-	-
	187.7	**80.7**	**902.2**	**369.1**

[a] *Drawn balance as at 31 December 2016*

Capital risk management

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

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

The Audit and Risk Committee reviews the 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:

	2017 £m	2016 £m
Equity	189.5	96.4
Debt	1,318.5	1,083.5
Less: cash and cash equivalents	(40.5)	(31.0)
	1,467.5	1,148.9

29. Financial Commitments

The Group has entered into financial commitments in forward-flow purchases, with contracts running for a period of up to 4 years. The forward flow purchases are estimated amounts that the Group are committed to, which result in a future asset being generated.

The total investment value for the forward-flow purchases are as follows:

	2017 £m	2016 £m
Total forward-flow commitments	135.9	3.6

30. Lease Commitments

The Group has entered into leases on certain properties, with remaining lease terms between 2 and 16 years.

The Group's total future minimum lease payments under non-cancellable operating leases are as follows:

	2017 £m	2016 £m
Within one year	3.8	2.4
After one year but not more than five years	12.5	7.0
More than five years	6.1	6.2

31. Related party transactions

During the year there were intra-group interest charges with companies outside of the Cabot Credit Management plc Group but under common control that resulted in interest income of £0.1 million (2016: £1.5 million) and interest expenses of £0.4 million (2016: £1.7 million). These amounts are included within the amounts owed by parent undertakings of £1.2 million (2016: £7.4 million) and amounts owed to parent undertakings of £1.2 million (2016: £66.2 million).

During the year, fees of £0.7 million (2016: £1.0 million) were recharged to Encore Capital Group Inc ("Encore"), the Company's ultimate parent (see note 31) for any fees incurred by the Group which mainly relate to US GAAP and Sarbanes Oxley compliance. Amounts outstanding as at 31 December 2017 were £0.7 million (2016: £0.2 million).

During the year, fees of £0.5 million (2016: £0.3 million) were recharged from Encore for costs that it incurred on behalf of the Group. Amounts due as at 31 December 2017 were £0.5 million (2016: £0.2 million).

During the year, a fee of £nil million (2016: £2.9 million) was charged to the statement of comprehensive income in respect of servicing fees payable to Midland Credit Management India Private Limited, a fellow subsidiary of Encore.

During the year, a fee of £2.5 million (2016: £0.9 million) was charged to the statement of comprehensive income in respect of servicing fees payable to Grove Credit Management Limited, a fellow subsidiary of Encore. The amount due in respect of these fees as at 31 December 2017 was £0.6 million (2016: £0.2 million) which is included within other receivables.

During the year, the Group purchased loan portfolios on an arm's length basis totalling £6.1 million (2016: £2.5 million) from Vanquis Bank Limited ("Vanquis"). The parent company of Vanquis is Provident Financial plc, a company for which P Crook, a former Non-Executive Director of the Group, was Chief Executive Officer.

32. Ultimate parent Company

The Company's immediate parent company is Carat UK Holdco Limited, a company incorporated in England and Wales. The Company's ultimate parent company and controlling party is Encore Capital Group Inc. ("Encore"), a company incorporated in Delaware, United States, whose consolidated financial statements are available on their website

Cabot Credit Management plc

CABOT
CREDIT MANAGEMENT

Company Statement of Financial Position
For the year ended 31 December 2017

	Notes	2017 £m	2016 £m
Assets			
Fixed assets			
Investments	2	**137.1**	137.1
		137.1	137.1
Current assets			
Trade and other receivables	3	**33.9**	33.5
Cash in bank and on hand		**-**	0.1
		33.9	33.6
Creditors: amounts falling due within one year			
Trade and other payables	4	**(33.4)**	(30.1)
Borrowings	5	**-**	(48.7)
		(33.4)	(78.8)
Net current assets/(liabilities)		**0.5**	(45.2)
Total assets less current liabilities		**137.6**	91.9
Equity			
Share capital		**0.4**	0.3
Capital contribution reserve		**9.6**	-
Retained earnings		**127.6**	91.6
Total shareholders' funds		**137.6**	91.9

The company reported a loss for the financial year ended 31 December 2017 of £11.3 million (2016: profit of £0.5 million).

The financial statements of Cabot Credit Management plc, with registered number 05754978, were approved by the Board of Directors and authorised for issue on 21 February 2018.

Signed on behalf of the Board of Directors by:

C Buick
Director

Company Statement of Changes in Equity
For the year ended 31 December 2017

	Share capital £m	Share premium £m	Capital contribution £m	Accumulated profit £m	Total equity £m
As at 1 January 2016	**0.3**	**-**	**-**	**91.1**	**91.4**
Comprehensive income for the period:					
Profit for the period	-	-	-	0.5	0.5
Total comprehensive income	-	-	-	0.5	0.5
As at 31 December 2016	**0.3**	**-**	**-**	**91.6**	**91.9**
Comprehensive income for the period:					
Loss for the period	-	-	-	(11.3)	(11.3)
Other comprehensive income	-	-	-	-	-
Total comprehensive income	-	-	-	(11.3)	(11.3)
Issue of share capital	0.1	48.1	-	-	48.2
Capital contribution from immediate parent undertakings	-		9.6	-	9.6
Dividend declared	-	-	-	(0.8)	(0.8)
Share capital reduction	-	(48.1)	-	48.1	-
As at 31 December 2017	**0.4**	**-**	**9.6**	**127.6**	**137.6**

Notes to the Company financial statements
For the year ended 31 December 2017

1. Accounting policies

1.1 Basis of preparation and significant accounting policies

These financial statements were prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' ('FRS 101') and in accordance with applicable accounting standards. The financial statements are prepared under the historical cost convention, as modified by derivative financial assets and financial liabilities measured at fair value through profit or loss, and in accordance with the Companies Act 2006.

The accounting policies applied in preparing the financial statements for the year ended 31 December 2017 are as set out in note 2 of the Group accounts.

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

a) the requirements of IFRS 7 'Financial Instruments: Disclosures'.
b) the requirements of paragraphs 91-99 of IFRS 13 'Fair Value Measurement'.
c) the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of paragraph 79(a)(iv) of IAS 1.
d) the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B-D, 40A-D, 111 and 134-136 of IAS 1 'Presentation of Financial Statements'.
e) the requirements of IAS 7 'Statement of Cash Flows'.
f) the requirements of paragraphs 30 and 31 of IAS 8 'Accounting policies, Changes in Accounting Estimates and Errors'.
g) the requirements of paragraph 17 of IAS 24 'Related Party Disclosures'.
h) the requirements in IAS 24 'Related Party Disclosures' to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

As permitted by section 408 of the Companies Act 2006 the company has elected not to present its own profit and loss account for the year.

2. Investments

Investments in subsidiaries are accounted for at the lower of cost and net realisable value and reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Notes to the Company financial statements
For the year ended 31 December 2017

3. Trade and other receivables

	2017 £m	2016 £m
Trade receivables	-	0.3
Amounts owed by parent undertakings	1.0	0.4
Amounts owed by other Group undertakings	32.9	32.8
Total	33.9	33.5

Loans and amounts owed by the Company are unsecured, include amounts outside of the Group but under common control, have no fixed repayment date, are repayable on demand and interest on such balances is accrued on an arm's length basis.

4. Trade and other payables

	2017 £m	2016 £m
Trade payables	-	0.1
Amounts owed to other Group undertakings	30.2	29.3
Other payables	0.4	0.4
Accruals and deferred income	2.8	0.3
Total	33.4	30.1

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.

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

5. Borrowings

	2017 £m	2016 £m
Loans from parent undertakings	-	48.7

6. Investments in subsidiaries

The entities listed below are subsidiaries of the Group. All of the undertakings unless otherwise noted have their registered offices as 1 Kings Hill Avenue, Kings Hill, West Malling, Kent, ME19 4UA.

Subsidiary undertakings	Country of incorporation and operation	Principal activity	Ordinary shares held %
Apex Collections Limited [(a)]	United Kingdom	Servicer of defaulted consumer debt	100
Apex Credit Management Limited [(a)]	United Kingdom	Collection of consumer debt	100
Apex Credit Management Holdings Limited [(a)]	United Kingdom	Holding company	100
Black Tip Capital Holdings Limited [(b)]	United Kingdom	Holding company	100
Cabot Asset Purchases Ireland Limited [(c)]	Ireland	Provision of recovery services in respect of defaulted consumer loans	100
Cabot Credit Management Group Limited	United Kingdom	Holding company	100
Cabot Credit Management PLC	United Kingdom	Holding company	100
Cabot Financial (Europe) Limited	United Kingdom	Collection of consumer debt	100
Cabot Financial (International) Limited	United Kingdom	Holding company	100
Cabot Financial (Ireland) Limited [(c)]	Ireland	Collection of consumer debt	100
Cabot Financial (Marlin) Limited [(b)]	United Kingdom	Holding company	100
Cabot Financial Spain S.A. (Previously Gesif S.A.U) [(d)]	Spain	Purchase and recovery of consumer debt	100
Cabot Financial (Treasury) Ireland Limited [(c)]	Ireland	Provision of financing	100
Cabot Financial (UK) Limited	United Kingdom	Purchase and recovery of consumer debt	100
Cabot Financial Debt Recovery Services Limited	United Kingdom	Holding company	100

Notes to the Company financial statements
For the year ended 31 December 2017

Cabot Financial Holdings Group Limited	United Kingdom	Holding company	100
Cabot Financial Limited	United Kingdom	Holding company	100
Cabot Financial (Luxembourg) S.A. (e)	Luxembourg	Provision of financing	100
Cabot Financial (Luxembourg) II S.A. (e)	Luxembourg	Provision of financing	100
Cabot Financial Portfolios Limited	United Kingdom	Dormant	100
Cabot Securitisation (Assets) S.L. (k)	Spain	Management of loan portfolios	100
Cabot Securitisation (Europe) Limited (c)	Ireland	Management of loan portfolios	100
Cabot Securitisation Topco Limited	United Kingdom	Holding company	100
Cabot Securitisation UK Holdings Limited	United Kingdom	Holding company	100
Cabot Securitisation UK Limited	United Kingdom	Provision of financing	100
Cabot Services (Europe) S.A.S. (f)	France	Purchase and recovery of consumer debt	100
Cabot Spain SL (d)	Spain	Dormant	100
Financial Investigations And Recoveries (Europe) Limited (a)	United Kingdom	Dormant	100
Heptus 229, GmbH (g)	Germany	Active, non-trading	100
Hillesden Securities Limited (a)	United Kingdom	Purchase and recovery of consumer debt	100
LSF7 Silverstone Sarl (h)	Luxembourg	Management of loan portfolios	100
Lucas et Degand Sarl (i)	France	Servicer of defaulted consumer debt	50.1
Macrocom (948) Limited (j)	United Kingdom	Provision of financing	100
Marlin Capital Europe Limited (b)	United Kingdom	Special Purpose Vehicle	100
Marlin Europe I Limited (b)	United Kingdom	Business Support Services	100
Marlin Europe II Limited (b)	United Kingdom	Special Purpose Vehicle	100
Marlin Europe IX Limited (b)	United Kingdom	Dormant	100
Marlin Europe V Limited (b)	United Kingdom	Non-trading subsidiary	100
Marlin Europe VI Limited (b)	United Kingdom	Non-trading subsidiary	100
Marlin Europe X Limited (b)	United Kingdom	Dormant	100
Marlin Financial Group Limited (b)	United Kingdom	Management of loan portfolios	100
Marlin Financial Intermediate II Limited (b)	United Kingdom	Holding company	100
Marlin Financial Intermediate I Limited (b)	United Kingdom	Holding company	100
Marlin Intermediate Holdings Plc (b)	United Kingdom	Holding company	100
Marlin Legal Services Limited (b)	United Kingdom	Provision of legal services	100
Marlin Midway Limited (b)	United Kingdom	Holding company	100
Marlin Portfolio Holdings Limited (b)	United Kingdom	Holding company	100

Notes to the Company financial statements
For the year ended 31 December 2017

Marlin Senior Holdings Limited [(b)]	United Kingdom	Holding company	100
Marlin Unrestricted Holdings Limited [(b)]	United Kingdom	Holding company	100
MCE Portfolio Limited [(b)]	United Kingdom	Investment in defaulted UK consumer loans	100
MDB Collection Services Limited [(b)]	United Kingdom	Provision of financing	100
Me III Limited [(b)]	United Kingdom	Special Purpose Vehicle	100
Me IV Limited [(b)]	United Kingdom	Special Purpose Vehicle	100
Mercantile Data Bureau Limited [(a)]	United Kingdom	Dormant	100
MFS Portfolio Limited [(b)]	United Kingdom	Special Purpose Vehicle	100
Morley Limited	United Kingdom	Provision of financing	100
Mortimer Clarke Solicitors [(b)]	United Kingdom	Provision of legal services	100
Cabot Financial France (previously Nemo Recouvrement SAS) [(h)]	France	Servicer of defaulted consumer debt	50.1
Orbit Debt Collections Limited	United Kingdom	Collection of consumer debt	100
Propiedades Residenciales SL [(o)]	Spain	Management of loan portfolio assets	100
Tengente Milenar – Investmentos Imobilarios e Turisticos, LDA [(m)]	Portugal	Management of loan portfolio assets	100
Wescot Credit Services Limited [(n)]	Scotland	Collection of consumer debt	100
Wescot EBT No1 Trustee Limited [(n)]	United Kingdom	Corporate Trustee for Employee Share Ownership Trust	100
Wescot Acquisitions Limited	United Kingdom	Holding company	100
Wescot Topco Limited	Scotland	Holding company	100

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Appendix

(Unaudited)

Reconciliation of adjusted EBITDA

The following table provides a reconciliation of net cash (outflow)/inflow from operating activities to Adjusted EBITDA:

	Note	**2017 £m**	2016 £m
Net cash (used in) / generated from operating activities	26	(50.0)	35.1
Purchases of loan portfolios	26	320.4	190.8
Non-recurring other operating expenses		28.7	1.7
Income taxes and overseas taxation	26	6.1	4.7
Other working capital movements		(10.0)	15.5
Adjusted EBITDA		**295.2**	247.8

The following table provides a reconciliation of Operating profit for the period to Adjusted EBITDA:

	Note	**2017 £m**	2016 £m
Operating profit		121.6	124.7
Current value movements on owned portfolios	16	135.5	114.2
Depreciation on property, plant and equipment	13	2.5	2.4
Amortisation of intangible assets	12	6.9	4.8
Non-recurring operating costs	6	28.7	1.7
Adjusted EBITDA		**295.2**	247.8

The financial information included within this annual report includes certain measures which are not accounting measures within the scope of IFRS. The primary non-GAAP measures included are 84-Month ERC, 120-Month ERC, 180-Month ERC and Adjusted EBITDA which are explained below. These measures and all other non-IFRS measures presented in this annual report have important limitations as analytical tools and should not be considered in isolation or as substitutes for analysis of the results of the Company reported under IFRS.

Reconciliation of adjusted EBITDA

Estimated Remaining Collections ("ERC")

84-Month ERC, 120-Month ERC and 180-Month ERC mean the estimated remaining collections on loan portfolios owned by the Group over an 84, 120 or 180 month period and represents the expected future gross cash collections from such portfolios over the period based upon performance data on historical portfolio collection. The calculation is performed at the end of each month based on the Group's proprietary cash flow model and assumes no additional purchases are made after the month end. The Company does not deduct future servicing costs in calculating ERC.

The Directors present ERC because it represents an estimate of the undiscounted cash value of the loan portfolios owned by the Company at a point in time which is an important supplemental measure for the Directors to assess the performance of the Group and the cash generation capacity of the portfolios. In addition the Senior Committed Revolving Credit Facility uses a measure similar to 84-Month ERC to measure the compliance of the Group with certain covenants and, in certain circumstances, its ability to incur indebtedness.

The cash flow projections used by the Group to calculate ERC are the same as those used in the discounted cash flow calculation of the statement of financial position value of the loan portfolios.

ERC is a metric that is often used by other companies in the industry in which the Company operates. However ERC as computed by the Company may not be comparable to similar metrics used by other companies in the industry.

Adjusted EBITDA

The Directors define Adjusted EBITDA as Operating Profit adjusted to add back the effects of current value movements on owned loan portfolios, depreciation of property, plant and equipment, amortisation of intangibles and non-recurring operating expenses. A reconciliation of net cash generated from/(used in) operating activities and Operating profit to Adjusted EBITDA has been included on page 82.

Adjusted EBITDA is not a measure calculated in accordance with IFRS and the use by the Company of the term Adjusted EBITDA may vary from others in the industry and should not be considered as an alternative to "net cash generated from/(used in) operating activities", "profit/(loss) for the financial period", "operating profit/(loss)" or any other performance measure derived in accordance with IFRS. The Directors have presented Adjusted EBITDA because they believe it may enhance an investor's understanding of the cash flow generation of the Group that could be used to service or pay down debt, pay income taxes, purchase new loan portfolios and for other uses and the liquidity of the Company, and because it is frequently used by readers of the financial statements in the evaluation of debt purchasing companies.

Cabot Credit Management plc

Key Contacts

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Ken Stannard – Chief Executive Officer

Craig Buick – Chief Financial Officer