

**Company Registration No. 07255614**

**ME III Limited**

**Annual Report and Financial Statements  
For the year ended 31 December 2020**



# **ME III Limited**

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**For the year ended 31 December 2020**

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## **ME III Limited**

### **Officers and professional advisors**

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

#### **Directors**

J B Morris  
P Jenkins

#### **Secretary**

S Whiteley

#### **Auditor**

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

#### **Bankers**

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

#### **Registered office**

Marlin House  
16-22 Grafton Road  
Worthing  
West Sussex  
BN11 1QP

## ME III Limited

### Strategic Report For the year ended 31 December 2020

#### Overview

The Directors present the Strategic Report, Directors' Report and the financial statements of ME III Limited (the "Company") for the year ended 31 December 2020.

The Company is a member of the Encore Capital Group, Inc. ("the Group").

The Company's principal activity for the year ended 31 December 2020 was the investment in defaulted consumer loans in the United Kingdom.

#### Business review and results

The profit before tax for the year amounts to £1,066,000 (2019 – profit of £5,803,000). At 31 December 2020, the Company had £nil (2019 - £52,118,000) carrying value of purchased loan portfolios. On 24 August 2020, an agreement was signed by the Directors to transfer the beneficial interest of the loan portfolios (£52,118,000) from ME III Limited to Cabot Financial (UK) Limited, a fellow subsidiary, effective 1 January 2020. The transfer was made through intercompany trading balances, therefore no cash consideration was exchanged. Legal title still remains within ME III Limited.

The performance of ME III Limited is linked to the performance of Encore Capital Group, Inc., Key Performance Indicators relating to the Company's trading which are appropriate for an understanding of the development, performance or position of the business can be found in the financial statements of Encore Capital Group, Inc.

#### Principal risks and uncertainties

In common with all other businesses, the Company is exposed to a range of enterprise wide risks. This section describes the principle risks arising from the Company'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 Company is exposed through its operations to the following principle risks:

Risk	Definition	Impact	Mitigation
Economic risk	Changes in the economic environment in the markets in which the Company 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.

**ME III Limited**  
**Strategic Report (continued)**  
**For the year ended 31 December 2020**

**Principal Risks and Uncertainties (continued)**

<b>Risk</b>	<b>Definition</b>	<b>Impact</b>	<b>Mitigation</b>
<b>Regulatory Risk</b>	Failure of the Group 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 Company's ability to conduct business and substantial losses.	<p>The Group has a well established three lines of defence model and a robust risk management approach, with strong operational compliance systems and controls, and training in place which support our customer centric culture.</p> <p>Within the second line, the risk and compliance team provide expertise and oversight.</p> <p>The third line, the internal audit team, provide independent and objective regulatory and compliance oversight.</p>
<b>Data Retention Risk</b>	The ability the Group to obtain, share and retain customer data is critical to the Company and is heavily regulated by privacy, data protection and related laws in the jurisdictions in which the Company operates.	<p>May result in enforcement notices and monetary penalties imposed.</p> <p>Any lack of compliance may impair the Group's ability to continue to use its consumer data, which may have an adverse effect on the Company's financial condition, industry reputation, financial returns and impact operations.</p>	The Company maintains compliance with the required standards across sites to align with the Data Protection Act 2018 (including the UK GDPR Part 2 of the DPA 2018).

**ME III Limited**  
**Strategic Report (continued)**  
**For the year ended 31 December 2020**

**Principal Risks and Uncertainties (continued)**

<b>Risk</b>	<b>Definition</b>	<b>Impact</b>	<b>Mitigation</b>
Information Security 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 and meet the ISO27001 standard.
Political 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.	The Group 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, which may have an adverse effect on the Company's financial condition, financial returns or results of operations.	The Group has long standing relationships with key vendors.  Appropriate 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 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 Company'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 the second line, the compliance and legal team provide expertise and oversight.  The third line, the internal audit team, provide independent and objective regulatory and compliance oversight.

**ME III Limited**  
**Strategic Report (continued)**  
**For the year ended 31 December 2020**

***Going concern and liquidity risk***

At 31 December 2020, the Company had £nil (2019 - £52,118,000) carrying value of purchased loan portfolios. On 24 August 2020, an agreement was signed by the Directors to transfer the beneficial interest of the loan portfolios (£52,118,000) from ME III Limited to Cabot Financial (UK) Limited, a fellow subsidiary, effective 1 January 2020. The transfer was made through intercompany trading balances, therefore no cash consideration was exchanged. Legal title still remains within ME III Limited.

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

A handwritten signature in black ink, appearing to be 'J B Morris', written in a cursive style.

J B Morris  
Director

21/06/2021

## **ME III Limited**

### **Directors' Report For the year ended 31 December 2020**

The Directors present their report for the year ended 31 December 2020.

#### **Results and dividends**

The audited financial statements and related notes for the year ended 31 December 2020 are set out on pages 12 to 22. The Company's result for the year after taxation was a loss of £54,000 (2019: profit of £4,611,000).

The Directors do not recommend the payment of a dividend in the year (2019: £ nil).

#### **Directors**

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

- C Buick (resigned 12 May 2020)
- P Jenkins (appointed 31 December 2020)
- J B Morris (appointed 12 May 2020)
- D Usher (appointed 23 January 2020, resigned 31 December 2020)
- P Richardson (resigned 23 January 2020)

#### **Political donations**

The Company made no political contributions (2019: £nil).

#### **COVID-19 pandemic**

Throughout 2020 Cabot has continuously adapted to the changing environment which resulted from the impact of the COVID-19 (coronavirus) outbreak. As well as evolving working procedures both within our offices and via the adoption of widespread working from home practices, we continue to recognise the impact that this has on our customers and have tailored our approach accordingly.

Although the COVID-19 outbreak has demonstrated Cabot's ability to withstand significant external disruption whilst maintaining full operational capability, we remain very alert to this ongoing crisis and will continue to monitor and adapt where required to both protect colleagues welfare and maintain service for customers, in particular for those who may require additional support during this very difficult time.



## **ME III Limited**

### **Directors' Report (continued) For the year ended 31 December 2020**

#### **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



J B Morris  
Director

21/06/2021

## **ME III Limited**

### **Statement of Directors' responsibilities For the year ended 31 December 2020**

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

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

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 101 *Reduced Disclosure Framework* (FRS 101) have been followed, subject to any material departures disclosed and explained in the financial statements; and
- 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.

## **ME III Limited**

### **Independent auditor's report to the members of ME III Limited**

#### **Opinion on the financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2020 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of ME III Limited ("the Company") for the year ended 31 December 2020 which comprise the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

#### **Basis for opinion**

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

#### **Emphasis of matter – basis of preparation**

We draw attention to note 2.2 to the financial statements which explains that during the period, the Company's portfolio assets were transferred to a fellow subsidiary and the Company ceased trading. Accordingly, the financial statements have been prepared on a basis other than that of going concern as described in note 2.2. Our opinion is not modified in respect of this matter.

#### **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. 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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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.

## **ME III Limited**

### **Independent auditor's report to the members of ME III Limited (continued)**

#### **Other Companies Act 2006 reporting**

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

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

#### **Responsibilities of Directors**

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

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

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

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

## ME III Limited

### Independent auditor's report to the members of ME III Limited (continued)

#### *Extent to which the audit was capable of detecting irregularities, including fraud*

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

We have obtained an understanding of the legal and regulatory frameworks applicable to the entity and we have enquired of management to identify how the entity is complying with those frameworks and whether there were any known instances of non-compliance.

**We considered the entity's control environment that has been established to prevent, detect and deter fraud. We then assessed the risk of susceptibility of the entity's financial statements to material misstatement, including how fraud might occur.**

In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments in the general ledger.

We communicated relevant identified laws and regulations and potential fraud risks to all engagement team members and discussed how and where these might occur and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

A further description of our responsibilities is available on the Financial Reporting Council's website at: <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

#### **Use of our report**

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

DocuSigned by:  
**BDO LLP**  
3657874 F795E44B  
Leighton Thomas (Senior Statutory Auditor)  
For and on behalf of BDO LLP, statutory auditor  
London

Date 23 June 2021

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

## ME III Limited

### Statement of comprehensive income For the year ended 31 December 2020

	Notes	2020 £000	2019 £000
Revenue	4	-	14,850
Operating expenses		-	(8,146)
<b>Operating profit</b>		<b>-</b>	<b>6,704</b>
Interest receivable and similar income	5	6,798	4,364
Interest payable and similar charges	6	(5,732)	(5,265)
<b>Profit on ordinary activities before taxation</b>		<b>1,066</b>	<b>5,803</b>
Tax expense	7	(1,120)	(1,192)
<b>Total comprehensive (loss)/profit for the financial period</b>		<b>(54)</b>	<b>4,611</b>

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

The accounting policies and notes on pages 15 to 22 form part of these financial statements.

## ME III Limited

### Statement of financial position As at 31 December 2020

	Notes	2020 £000	2019 £000
<b>Current assets</b>			
Purchased loan portfolios	8	-	52,118
Trade and other receivables	9	179,174	120,936
Deferred tax asset		-	109
Cash in bank and on hand		-	83
		<u>179,174</u>	<u>173,246</u>
<b>Creditors: amounts falling due within one year</b>			
Trade and other payables	10	(56,419)	(52,960)
		<u>(56,419)</u>	<u>(52,960)</u>
<b>Net current assets</b>		<u>122,755</u>	<u>120,286</u>
<b>Total assets less current liabilities</b>		<u>122,755</u>	<u>120,286</u>
<b>Creditors: amounts falling due after more than one year</b>	11	(81,398)	(78,027)
<b>Provisions</b>	12	(5,727)	(6,575)
<b>Net assets</b>		<u>35,630</u>	<u>35,684</u>
<b>Equity</b>			
Called up share capital	13	-	-
Capital contribution reserve		13,724	13,724
Retained earnings		21,906	21,960
<b>Total shareholders' funds</b>		<u>35,630</u>	<u>35,684</u>

These financial statements of ME III Limited, with registered number 07255614, were approved by the Board of Directors and authorised for issue on 21/06/2021.

Signed on behalf of the Board of Directors by:



J B Morris  
Director

The accounting policies and notes on pages 15 to 22 form part of these financial statements.

**ME III Limited**

**Statement of changes in equity  
As at 31 December 2020**

	Share Capital	Capital contribution reserve	Retained Earnings	Total
	£000	£000	£000	£000
<b>As at 1 January 2019</b>	-	13,724	17,349	31,073
<i>Comprehensive income for the period:</i>				
Profit for the period	-	-	4,611	4,611
Total comprehensive income	-	-	4,611	4,611
<b>As at 31 December 2019</b>	-	13,724	21,960	35,684
<i>Comprehensive income for the period:</i>				
Loss for the period	-	-	(54)	(54)
Total comprehensive loss	-	-	(54)	(54)
<b>As at 31 December 2020</b>	-	13,724	21,906	35,630

The accounting policies and notes on pages 15 to 22 form part of these financial statements.



## **ME III Limited**

### **Notes to the financial statements For the year ended 31 December 2020**

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

ME III Limited is a company limited by shares incorporated and domiciled in England and Wales. The registered office is located at Marlin House, 16-22 Grafton Road, Worthing, West Sussex, BN11 1QP.

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

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

The financial statements of the Company have been prepared in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and in accordance with Companies Act 2006. The financial statements have been prepared under the historical cost convention, except for the revaluation at current value of certain financial assets. These standards have been applied consistently throughout the current and preceding year.

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

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

- the requirements of paragraph 38 of IAS 1 *Presentation of Financial Statements* to present comparative information requirements in respect of paragraph 79(a)(iv) of IAS 1;
- The requirements of paragraph 10(d), 10(f) and 134-136 of IAS 1 *Presentation of Financial Statements*;
- the requirements of IAS 7 *Statement of Cash Flows*; and
- the exemption in paragraph 8(k) of FRS 101 not to disclose transactions with Group companies wherein any subsidiary undertaking which is a party to the transactions is wholly owned by a member of that Group.

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

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

On 24 August 2020, an agreement was signed by the Directors to transfer the beneficial interest of the loan portfolios (£52,118,000) from Marlin Europe III Limited to Cabot Financial (UK) Limited, a fellow subsidiary, effective 1 January 2020. As such the decision has been made for this company to cease trading therefore the Directors do not consider this company to be a going concern. The financial statements have therefore been drawn up to include all assets at the amounts expected to be recoverable from their use and liabilities at their expected settlement value and to make provision for liabilities expected to arise as a result of the cessation of trade.

The transfer was made through intercompany trading balances, therefore no cash consideration was exchanged. Legal title still remains within Marlin Europe III Limited.

## **ME III Limited**

### **Notes to the financial statements (continued) For the year ended 31 December 2020**

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

##### **Revenue**

Revenue represents income derived from purchased loan portfolios.

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

##### **Taxation**

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

##### **Current tax**

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

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

##### **Deferred tax**

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

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

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

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

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

Interest income, and interest and expenses are recognised using the effective interest rate method.

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

##### **Dividends Payable**

Dividends payable are recognised when they become legally payable, this being on the date of approval by the Board of Directors.

## **ME III Limited**

### **Notes to the financial statements (continued) For the year ended 31 December 2020**

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

##### **Financial instruments**

##### **IFRS 9**

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

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

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

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

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

##### **Amortised cost**

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

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

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

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

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

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

## ME III Limited

### Notes to the financial statements (continued) For the year ended 31 December 2020

#### 2.3. Summary of significant accounting policies (continued)

##### *Financial liabilities*

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

Fair value through profit or loss

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

Other financial liabilities

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

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

##### **Intercompany borrowings**

The Directors have deemed that loans to other group undertakings are at a market rate and therefore the carrying value of the loans are an accurate approximation of fair value. The Directors believe that the loans are 100% recoverable or payable.

#### 4. Revenue

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

	2020 £000	2019 £000
Income on owned portfolios	-	14,184
Positive impairment of portfolio investments	-	666
	<u>-</u>	<u>14,850</u>

#### 5. Interest receivable and similar income

	2020 £000	2019 £000
Interest income from parent and other Group undertakings	<u>6,798</u>	<u>4,364</u>

#### 6. Interest payable and similar charges

	2020 £000	2019 £000
Interest expense due to parent and other Group undertakings	<u>5,732</u>	<u>5,265</u>

## ME III Limited

### Notes to the financial statements (continued) For the year ended 31 December 2020

#### 7. Tax

The income tax expense comprises:

	2020 £000	2019 £000
<b>Current tax</b>		
Group relief payable	1,634	2,534
Prior period adjustments	202	136
Total current tax	<u>1,836</u>	<u>2,670</u>
<b>Deferred tax</b>		
Origination and reversal of timing differences	(716)	(1,478)
Prior period adjustments	-	-
<b>Total income tax expense</b>	<u>1,120</u>	<u>1,192</u>

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:

	2020 £000	2019 £000
Profit before tax	<u>1,066</u>	<u>5,803</u>
Income tax expense calculated at standard UK corporation tax rate of 19.00% (2019: 19.00%)	202	1,103
Effects of:		
Adjustments to tax charge in respect of prior period	202	89
Deferred tax movement	1,432	-
Change in tax rates	(716)	-
<b>Total income tax expense</b>	<u>1,120</u>	<u>1,192</u>

## ME III Limited

### Notes to the financial statements (continued) For the year ended 31 December 2020

#### 8. Purchased loan portfolios

	2020 £000	2019 £000
<b>Expected falling due after one year</b>		
Purchased loan portfolios	-	35,607
<b>Expected falling due within one year</b>		
Purchased loan portfolios	-	16,511
<b>Total</b>	<b>-</b>	<b>52,118</b>

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

	2020 £000	2019 £000
Current value at the beginning of the financial period	52,118	60,291
Movement in current value <sup>(a)</sup>	-	14,850
Gross collections on owned portfolios	-	(22,237)
Transfers out <sup>(b)</sup>	(52,118)	(786)
<b>Current value at the end of the financial period</b>	<b>-</b>	<b>52,118</b>

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

<sup>(b)</sup> On 24 August 2020, an agreement was signed by the Directors to transfer the beneficial interest of loan portfolio total (£52,118,000) to Cabot Financial UK Limited, a fellow subsidiary, effective 1 January 2020.

#### 9. Trade and other receivables

	2020 £000	2019 £000
Trade receivables	-	9
Amounts owed by Group undertakings	179,174	120,925
Other receivables	-	2
	<b>179,174</b>	<b>120,936</b>

All amounts falling due within one year are presented within current assets as required by the Companies Act. Loans and amounts due from parent and other Group undertakings are unsecured, have no fixed repayment date, are repayable on demand and interest on such balances is accrued on an arm's length basis.

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

## ME III Limited

### Notes to the financial statements (continued) For the year ended 31 December 2020

#### 10. Trade and other payables

	2020 £000	2019 £000
Amounts owed to Group undertakings	56,419	52,776
Other payables	-	156
Other tax and social security	-	28
	<u>56,419</u>	<u>52,960</u>

Amounts due to parent and other Group undertakings are unsecured, have no fixed repayment date, are repayable on demand and interest on such balances is accrued but not paid, at an arm's length basis. 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.

#### 11. Borrowings

	2020 £000	2019 £000
Loan from parent undertakings	<u>81,398</u>	<u>78,027</u>

Interest is charged on the loan at the rate of LIBOR plus 4% per annum unless the rate is deemed different by the Group transfer pricing policy.

#### 12. Provisions

	Deferred tax £000
Brought forward as at 1 January 2020	6,575
Utilisation of provision	(848)
As at 31 December 2020	<u>5,727</u>

The provision relates to the temporary difference between the tax base and the carrying amount of the loan portfolio for accounting purposes due to the transition from UK GAAP to IFRS in 2016. The provision is expected to be released to the statement of comprehensive income until 2024.

#### 13. Share capital

	2020 £	2019 £
Allotted, called up and fully paid:		
1 Ordinary share of £1, subscription price of £1	<u>1</u>	<u>1</u>

#### 14. Contingent liabilities

The Company is party to guarantees in relation to borrowings within the Group. For details around such funding please refer to the Group consolidated financial statements.

## **ME III Limited**

### **Notes to the financial statements (continued) For the year ended 31 December 2020**

#### **15. Ultimate parent Company**

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