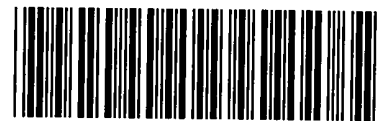


**Company Registration No. 03936134**

**Cabot Financial Debt Recovery Services Limited**

**Strategic Report, Directors' Report and Financial Statements  
For the year ended 31 December 2015**

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# **Cabot Financial Debt Recovery Services Limited**

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# **Cabot Financial Debt Recovery Services Limited**

## **Officers and professional advisors**

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

### **Directors**

K Stannard  
C Buick

### **Secretary**

C Taggart

### **Auditors**

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 Princess Street  
London  
EC2R 8PA

### **Registered office**

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

# **Cabot Financial Debt Recovery Services Limited**

## **Strategic Report For the year ended 31 December 2015**

### **Overview**

The Directors present the Strategic Report, Directors' Report and the financial statements of Cabot Financial Debt Recovery Services Limited (the "Company") for the year ended 31 December 2015.

The Company's core business is that of a holding company and the direct parent undertaking of principal subsidiaries of the Cabot Financial Limited Group. The Company's financial position is therefore partly dependent on the financial position of the rest of the Group.

The Directors believe that the Group (as outlined in note 15) is the largest acquirer and manager of defaulted consumer debt from financial services companies in the United Kingdom based on the value of debt portfolios on its statement of financial position at 31 December 2015.

From inception in 1998 to 31 December 2015, the Group has invested £1.7 billion in the acquisition of 1,319 loan portfolios with an aggregate face value of £17.5 billion, comprising over 7.5 million customer accounts and generating a 120-Month ERC at 31 December 2015 of £2.0 billion. Over 97% of these loan portfolios (as measured by purchase price) were acquired from financial institutions.

The core strategy of the operating model is to generate cash-flow by maximizing cash collections over the life of the debt portfolios acquired whilst ensuring we are treating our customers fairly. Since it began pursuing this strategy the estimated future gross cash collections from its existing loan portfolios, or 120-Month ERC, has grown from £422.0 million as at 31 October 2009 to £2.0 billion at 31 December 2015.

During the year the Company transitioned from UK GAAP to FRS 101 – *Reduced Disclosure Framework* and has taken advantage of the disclosure exemptions allowed under this standard. The company's parent undertaking, Cabot Financial Holdings Group Limited, was notified of and did not object to the use of the EU-adopted IFRS disclosure exemptions.

### **Acquisitions and future developments**

#### *dlc*

On 1 June 2015, the Company acquired Hillesden Securities Limited ("dlc") from its parent company Faccenda Investments for a cash consideration of £156.4 million (net of acquired cash). Under the terms of the acquisition agreement, a deferred consideration amount of £7.8 million will be payable to Faccenda Investments on 1 June 2025. Faccenda Investments is however entitled to demand immediate payment if certain insolvency related events in relation to the purchaser occur. In addition, Faccenda Investments may accelerate the payment of the deferred consideration by giving three months' prior notice. In such case, the deferred consideration would be reduced pro rata for the remaining time until its scheduled payment date.

dlc is a UK based acquirer and collector of non-performing unsecured consumer debt. The dlc Group has purchased portfolios since 1994, and is the oldest debt purchaser in the United Kingdom, with experience in both financial and non-financial services assets. As of 30 June 2015 dlc held £3.3 billion in face value of debt across 187 portfolios and one million customer accounts, each with an average balance of £3,353. The dlc portfolios represented £239.7 million of the Group's 120-Month ERC as of 31 December 2015, taking the Group's 120-Month ERC £2.0 billion as of December 31, 2015. Alongside the portfolios, the Group acquired approximately 275 employees based in Brackley as well as a small but growing business outsourcing platform.

# Cabot Financial Debt Recovery Services Limited

## Strategic Report For the year ended 31 December 2015

### Acquisitions and future developments (continued)

#### *dlc (continued)*

In addition to the one million customer accounts and sizeable number of loan portfolios, the acquisition of dlc presented the Group with the opportunity to (i) deploy capital at attractive return rates; (ii) acquire a strongly-performing Backbook and key customer relationships; (iii) incorporate a "white label" business whereby dlc serves as an outsourced collections agency for large third-party institutions, which the Directors believe represents a nascent (but potentially high-growth) revenue stream going forward; (iv) participate in the continued consolidation trend in the sector and to further re-enforce the benefits of scale; and (v) achieve cost synergies through, among other things, site consolidation.

#### *Mortimer Clarke Solicitors*

On 1 July 2015, the Company completed the acquisition of Mortimer Clarke Solicitors following the grant of alternative business structure status to it by the Solicitors Regulation Authority. Mortimer Clarke was founded in 2007 and now has a team of three solicitors, two legal executives and over 60 staff specialising in credit litigation. The acquisition is expected to provide the Group with an integrated and flexible operating model and strengthens the Group's position as a market leader in the field of consumer debt management. A significant part of the Group's litigation work is being handled by Mortimer Clarke Solicitors, and the Directors believe that Mortimer Clarke Solicitors will be able to expand by providing its legal services to third parties.

Mortimer Clarke Solicitors received the first place award for Legal and Enforcement Profession at the Credit Excellence awards hosted by Credit, Collections and Risk on October 1, 2015.

#### *Gesif S.A.U*

On 23 October, 2015, the Company completed the acquisition of a Spanish credit management services business, Gesif S.A.U ("Gesif"). The enterprise value for the business was €12.5 million, with an additional payment to be made contingent on future performance. Gesif has more than 20 years' experience in the Spanish market and engages in two main activities: Credit management services including collections management for clients and loan portfolio valuation services for third parties. Gesif services a wide range of non-performing loan portfolios from multiple sectors (including consumer goods, credit cards, utilities, and telecommunications providers) for clients ranging from Spanish banks to global investment vehicles. The Directors believe that the acquisition will augment the Group's 120-Month ERC by €24.6 million, give the Group a foothold in a strategically important geography and allow the Group to leverage its operating platform to originate and capitalise on further growth opportunities in the region.

### Business review and results

The following tables summarises the key performance indicators used by the Directors to assess the performance of the Company as of the dates and periods indicated.

(£ in thousands, except for percentages)

	2015 £000	2014 £000	Change
Profit for the period	183,280	4,199	4265%
Net current liabilities	192,153	24,404	687%

# Cabot Financial Debt Recovery Services Limited

## Strategic Report For the year ended 31 December 2015

### Principal risks and uncertainties

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

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

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

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

### Principal financial instruments

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

- Trade and other receivables;
- Trade and other payables;

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

#### Financial assets

	Cash and receivables	
(£000)	2015	2014
Trade and other receivables (note 8)	143,040	41,310

#### Financial liabilities

	Financial liabilities at amortised cost	
(£000)	2015	2014
Trade and other payables (note 9)	8,289	38,736
Borrowings (note 10)	326,904	26,978
	335,193	65,714

# **Cabot Financial Debt Recovery Services Limited**

## **Strategic Report For the year ended 31 December 2015**

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

As described in note 15 to the financial statements, the Company is the direct parent of principal subsidiaries of the Cabot Financial Limited Group (the "Group") and therefore its financial risk management objectives and policies are intrinsically linked to those of the Group. Consolidated accounts for the Group are drawn up for Cabot Financial Limited.

The purchase and collection of defaulted consumer receivables carries a substantial amount of cash risk due to the underlying volatility in the collection characteristics of these assets. To mitigate these risks the Group has developed, and continues to refine detailed management reporting on individual portfolio performance and re-forecasts future collections on each portfolio on a monthly basis.

Due to the long-term nature of the collection strategies employed, the Company will continue to be exposed to possible changes in legislation and economic trends. To mitigate these risks, senior employees of the Group play an active role in trade and industry bodies to ensure that any changes in the legislative collections environment are monitored and assessed as soon as practically possible. To mitigate economic risk the Company does not generally enter into long-term fixed-price purchasing arrangements with duration of more than one year.

### ***Interest rate risk***

All decisions in relation to the hedging of interest rate risk are made by the Board of Directors of Cabot Financial Limited. The Group had an interest rate cap to manage its risk to changes in interest rates which expired on 14 December 2015, the fair value of which at 31 December 2014 was £nil

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

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

The financial position of the Company and liquidity position are described in the financial statements on pages 12 to 24. The Company made an operating loss for the year of £203.8 million (2014: £2.0 million) and had net current liabilities at 31 December 2015 of £192.2 million (2014: £24.4 million). Total equity shareholders' deficit at 31 December 2015 was £2.5 million (2014: equity shareholders' funds £0.9 million).

The Group to which the Company belongs (see note 15) has long-term debt financing at 31 December 2015 comprising of Senior Secured Loan Notes due 2019 of £265.0 million issued on 20 September 2012, Senior Secured Loan Notes due 2020 of £150.0 million issued on 25 July 2013, Senior Secured Loan Notes due 2020 of £100.0 million issued on 2 August 2013, Senior Secured Loan Notes due 2021 of £175.0 million issued 27 March 2014 and Senior Secured Loan Notes due 2021 of €310.0 million issued 11 November 2015 (£690.0 million at 31 December 2014). The Company meets its day to day working capital requirements, including the purchase of portfolios, through its own cash resources supplemented by a revolving credit facility ("RCF") and bank loans.

The assets of the Company have been pledged as security for the Senior Secured Loan Notes due 2019, 2020 and 2021 and the senior secured revolving credit facility.

The Group has remained compliant during the year to 31 December 2015 with all the covenants contained in the Senior Secured Loan Notes issued and senior secured revolving credit facility. The Group's latest forecasts and cash flow projections have been reviewed and do not indicate any significant uncertainty over the Group's ability to continue as a going concern.

## **Cabot Financial Debt Recovery Services Limited**

### **Strategic Report For the year ended 31 December 2015**

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

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

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



C Buick  
Director

31 October 2016



# **Cabot Financial Debt Recovery Services Limited**

## **Directors' report for the year ended 31 December 2015**

The Directors present their report for the year ended 31 December 2015.

### **Results and dividends**

The audited financial statements and related notes for the year ended 31 December 2015 are set out on pages 12 to 24. The Company's result for the year after taxation was a profit of £183.3 million (2014: £4.2 million).

The Directors paid a dividend of £245.6 million (2014: £4.8 million).

### **Directors**

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

- C Ross-Roberts (resigned 31 December 2015)
- K Stannard
- C Buick (appointed 31 December 2015)

### **Financial instruments**

The Group's financial instruments primarily comprise bonds, Senior Secured loan notes 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 and trade receivables 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 on pages 2 to 6.

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

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

### **Political donations**

The Company made no political contributions (2014: £nil).

### **Future developments**

Any future developments affecting the Company are set out in the Strategic Report on pages 2 to 6.

## **Cabot Financial Debt Recovery Services Limited**

### **Directors' report for the year ended 31 December 2015**

#### **Directors' statement as to disclosure of information to auditors**

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/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

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

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



C Buick  
Director

31 October 2016

## **Cabot Financial Debt Recovery Services Limited**

### **Statement of Directors' responsibilities for the year ended 31 December 2015**

The Directors are responsible for preparing the Strategic Report, 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 prepared the financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and with applicable law.

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 the 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 applicable United Kingdom Accounting Standards, including FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify the Company's shareholders in writing about the use of disclosure exemptions, if any, of FRS 101 used in the preparation of 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.

## **Independent auditor's report to the members of Cabot Financial Debt Recovery Services Limited**

We have audited the financial statements of Cabot Financial Debt Recovery Services Limited for the year ended 31 December 2015 which comprise the statement of comprehensive income, the statement of financial position, the statement of changes in equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework'.

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

### **Respective responsibilities of Directors and auditor**

As explained more fully in the 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. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the FRC's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate).

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 'Reduced Disclosure Framework'; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **Opinion on other matter prescribed by the Companies Act 2006**

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

## **Independent auditor's report to the members of Cabot Financial Debt Recovery Services Limited**

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

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

- adequate accounting records have not been kept, 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.



**Daniel Taylor (Senior Statutory Auditor)**  
**for and on behalf of BDO LLP, statutory auditor**  
London

*31 October* 2016

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

## Cabot Financial Debt Recovery Services Limited

### Statement of comprehensive income For the year ended 31 December 2015

	Notes	2015 £000	2014 £000
Administration expenses	7	(203,788)	(2)
<b>Operating loss</b>	3	<b>(203,788)</b>	<b>(2)</b>
Finance income	4	4,585	1,677
Finance expense	5	(17,388)	(2,728)
Investment income	8	397,277	5,026
<b>Profit on ordinary activities before taxation</b>		<b>180,686</b>	<b>3,973</b>
Tax income	6	2,594	226
<b>Profit and total comprehensive income for the financial period</b>		<b>183,280</b>	<b>4,199</b>

The notes on pages 15 to 24 form part of these financial statements.

All of the above results are derived from continuing operations.

# Cabot Financial Debt Recovery Services Limited

## Statement of financial position As at 31 December 2015

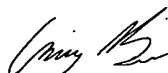
	Notes	2015 £000	2014 £000
<b>Fixed assets</b>			
Investments	7	195,683	25,339
		<u>195,683</u>	<u>25,339</u>
<b>Current assets</b>			
Trade and other receivables	8	143,040	41,310
		<u>143,040</u>	<u>41,310</u>
<b>Creditors: amounts falling due within one year</b>			
Trade and other payables	9	(8,289)	(38,736)
Borrowings	10	(326,904)	(26,978)
		<u>(335,193)</u>	<u>(65,714)</u>
<b>Net current liabilities</b>		<u>(192,153)</u>	<u>(24,404)</u>
<b>Total assets less current liabilities</b>		<u>3,530</u>	<u>935</u>
<b>Creditors: Amounts falling due after more than one year</b>		(6,009)	-
<b>Net (liabilities)/assets</b>		<u>(2,479)</u>	<u>935</u>
<b>Equity</b>			
Called up share capital	11	-	924
Capital contribution reserve		58,909	-
Retained earnings		(61,388)	11
<b>Total shareholders' funds</b>		<u>(2,479)</u>	<u>935</u>

The notes on pages 15 to 24 form part of these financial statements.

These financial statements of Cabot Financial Debt Recovery Services Limited, with registered number 03936134, were approved by the Board of Directors and authorised for issue on

31 October 2016.

Signed on behalf of the Board of Directors by:



C Buick  
Director

## Cabot Financial Debt Recovery Services Limited

### Statement of changes in equity As at 31 December 2015

	Notes	Share Capital	Capital contribution reserve	Accumulated losses	Total
		£000	£000	£000	£000
<b>As at 1 January 2014</b>		924	-	616	1,540
<i>Comprehensive income for the period:</i>					
Profit/(loss) for the period		-	-	4,199	4,199
Other comprehensive income for the period		-	-	-	-
Total comprehensive income		-	-	4,199	4,199
<i>Contributions by and distributions to owners:</i>					
Dividends		-	-	-	-
		-	-	(4,804)	(4,804)
<b>As at 31 December 2014</b>		<b>924</b>	<b>-</b>	<b>11</b>	<b>935</b>
<i>Comprehensive income for the period:</i>					
Profit/(loss) for the period		-	-	183,280	183,280
Other comprehensive income for the period		-	-	-	-
Total comprehensive income		-	-	183,280	183,280
<i>Contributions from and distributions to owners:</i>					
Dividends	12	-	-	(245,603)	(245,603)
Share Capital reduction		(924)	-	924	-
Capital contributions		-	58,909	-	58,909
<b>As at 31 December 2015</b>		<b>-</b>	<b>58,909</b>	<b>(61,388)</b>	<b>(2,479)</b>

The notes on pages 15 to 24 form part of these financial statements.



# Cabot Financial Debt Recovery Services Limited

## Notes to the financial statements For the year ended 31 December 2015

### 1. Corporate information

The financial statements of Cabot Financial Debt Recovery Services Limited ("the Company") for the year ended 31 December 2015 were authorised for issue in accordance with a resolution of Directors on ~~31 October~~ 2016. Cabot Financial Debt Recovery Services Limited is a limited company incorporated and domiciled in England and Wales. The registered office is located at 1 Kings Hill Avenue, Kings Hill, West Malling, Kent, ME19 4UA.

The principal activity of the company is that of a holding company.

### 2. Significant accounting policies

#### 2.1. Basis of preparation

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

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

- the requirements of paragraphs 62, B64(d), B64(e), B64(g), B64(h), B64(j)–(m), B64(n)(ii), B64(o)(ii), B64(p), B64(q)(ii), B66 and B67 of IFRS 3 *Business combinations*;
- the requirements of IFRS 7 *Financial Instruments: Disclosures*;
- the requirements of paragraphs 91 to 99 of IFRS 13 *Fair Value Measurement*;
- 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), 39(c) and 134-136 of IAS 1 *Presentation of Financial Statements*;
- the requirements of paragraph 30 and 31 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*;
- the requirements of paragraph 17 of IAS 24 *Related Party Disclosures* and also the requirement to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is party to the transaction is wholly owned by such a member.

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 Carat UK Holdco Limited and its results are included in the consolidated financial statements of that company. These financial statements therefore present information about the Company as an individual entity alone.

The results of Cabot Financial Debt Recovery Services Limited are included in the consolidated financial statements of Cabot Financial Limited which are available from 1 Kings Hill Avenue, Kings Hill, West Malling, Kent, ME19 4UA.

# **Cabot Financial Debt Recovery Services Limited**

## **Notes to the financial statements For the year ended 31 December 2015**

### **2. Significant accounting policies (continued)**

#### **2.2. Going Concern**

The Company's core business is that of a holding company and the direct parent undertaking of principal subsidiaries of the Cabot Financial Limited Group. The Company's financial position is therefore partly dependent on the financial condition of the rest of the Group.

The financial position of the Company and liquidity position are described in the financial statements on pages 12 to 24. The Company made an operating loss for the year of £203.8 million (2014: £2.0 million) and had net current liabilities at 31 December 2015 of £192.2 million (2014: £24.4 million). Total equity shareholders' deficit at 31 December 2015 was £2.5 million (2014: equity shareholders' funds £0.9 million).

The Group to which the Company belongs (see note 15) has long-term debt financing at 31 December 2015 comprising of Senior Secured Loan Notes due 2019 of £265.0 million issued on 20 September 2012, Senior Secured Loan Notes due 2020 of £150.0 million issued 25 July 2013, Senior Secured Loan Notes due 2020 of £100.0 million issued on 2 August 2013, Senior Secured Loan Notes due 2021 of £175.0 million issued 27 March 2014 and Senior Secured Floating Rate Loan Notes due 2021 of €310.0m issued on 11 November 2015 (2014: £690.0 million).

The Group meets its day to day working capital requirements, including the purchase of portfolios, through its own cash resources supplemented by a revolving credit facility and bank loans. As described in note 13, a principal subsidiary within the Cabot Financial Limited Group has a senior committed revolving credit facility of £200.0 million which matures in September 2018 (£85.0 million at 31 December 2014).

The assets of the Company have been pledged as security for the Senior Secured Loan Notes due 2019, 2020 and 2021 and the senior secured revolving credit facility.

The Group has remained compliant during the year to 31 December 2015 with all the covenants contained in the senior secured loan notes issued and senior secured revolving credit facility. The Group's latest forecasts and cash flow projections have been reviewed and do not indicate any significant uncertainty over the Group's ability to operate within the requirements of the financing arrangements in place and therefore to continue as a going concern.

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

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

##### **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.

# **Cabot Financial Debt Recovery Services Limited**

## **Notes to the financial statements For the year ended 31 December 2015**

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

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

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

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

#### **Foreign exchange**

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

#### **Investments in subsidiaries**

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

#### **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). Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less any cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present values using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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.

#### **Financial instruments**

##### ***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 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.

# **Cabot Financial Debt Recovery Services Limited**

## **Notes to the financial statements For the year ended 31 December 2015**

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

#### **Financial instruments (continued)**

##### ***Financial assets (continued)***

Financial instruments are required to be measured using a fair value hierarchy that reflects the significance of the inputs used in measuring the fair value of those instruments. The fair value hierarchy has the following levels:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from 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); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

Financial liabilities 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.

### **2.4. First-time adoption of FRS 101**

These financial statements for the year ended 31 December 2015, are the first the Company has prepared in accordance with FRS 101. For periods up to and including the year ended 31 December 2014, the Company prepared its financial statements in accordance with United Kingdom generally accepted accounting practice (UK GAAP).

The Company has prepared financial statements which comply with FRS 101 applicable for periods ending on or after 31 December 2015, together with comparative period data as at and for the year ending 31 December 2014. In preparing these financial statements, the Company's opening statement of financial position was prepared as at 1 January 2014, the Company's date of transition to FRS 101.

# **Cabot Financial Debt Recovery Services Limited**

## **Notes to the financial statements For the year ended 31 December 2015**

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

#### **Recent accounting pronouncements**

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

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

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments* that replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Company plans to adopt the new standard on the required effective date. During 2015, the Company begun performing a high-level impact assessment of IFRS 9 and is currently determining the potential impact. IFRS 9 is yet to be endorsed by the EU.

#### **Annual Improvements 2012-2014 Cycle**

These improvements are effective for annual periods beginning on or after January 1, 2016. They include:

#### **Amendments to IAS 1 *Disclosure Initiative***

The amendments to IAS 1 *Presentation of Financial Statements* clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1;
- That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated;
- That entities have flexibility as to the order in which they present the notes to financial statements;
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the Company.

# Cabot Financial Debt Recovery Services Limited

## Notes to the financial statements For the year ended 31 December 2015

### 3. Operating loss

Operating loss is stated after charging the following:

	2015 £000	2014 £000
Auditors remuneration <sup>(a)</sup>	<u>7</u>	<u>1</u>

<sup>(a)</sup> The analysis of auditor remuneration is as set out below. All amounts stated include attributable VAT.

	2015 £000	2014 £000
Fees payable to the Company's auditors:		
For the audit of the Company's financial statements	<u>1</u>	<u>1</u>
Total audit fees	<u>1</u>	<u>1</u>
Other services	<u>6</u>	<u>-</u>
Total fees and expenses paid to the auditor (inc VAT)	<u>7</u>	<u>1</u>

### 4. Finance income

	2015 £000	2014 £000
Interest income from parent and other Group undertakings <sup>(a)</sup>	<u>4,585</u>	<u>1,677</u>

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

### 5. Finance expense

	2015 £000	2014 £000
Interest expense due to parent and other Group undertakings <sup>(a)</sup>	10,830	2,725
Unwind of deferred and contingent consideration	231	-
Foreign exchange on borrowings	<u>6,327</u>	<u>3</u>
	<u>17,388</u>	<u>2,728</u>

<sup>(a)</sup> Interest payable to parent and other Group undertakings is accrued but not paid at a rate of LIBOR plus 4% on trading balances and at a rate of between LIBOR plus 4% and 7% on loans.

# Cabot Financial Debt Recovery Services Limited

## Notes to the financial statements For the year ended 31 December 2015

### 6. Tax

The income tax expense comprises:

	2015 £000	2014 £000
<b>Current tax</b>		
Corporation tax	(2,594)	226
Total current tax	(2,594)	226
<b>Total income tax (credit)/expense</b>	<b>(2,594)</b>	<b>226</b>

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

	2015 £000	2014 £000
Profit before tax	180,686	3,973
Income tax expense calculated at standard UK hybrid corporation tax rate of 20.25% (2014: 21.50%)	36,589	854
Effects of:		
Expenses not deductible for tax purposes	41,265	-
Income not taxable for tax purposes	(80,448)	(1,080)
<b>Total income tax income</b>	<b>(2,594)</b>	<b>(226)</b>

The Finance Act 2015, which reduced the main rate of UK corporation tax to 19% effective from 1 April 2017 and to 18% effective from 1 April 2020, was enacted on 26 October 2015. As this change in rate was substantively enacted prior to 31 December 2015 it has been reflected in the deferred tax assets and liabilities at 31 December 2015.

### 7. Investment in subsidiaries

	Investment in subsidiary undertakings £000
At 1 January 2015	25,339
Additions	374,122
Disposals	-
Impairment	(203,778)
At 31 December 2015	195,683

On 1 June 2015 the Company acquired 100% of the voting shares of Hillesden Securities Limited ("dlc"), a private company based in England and Wales. dlc was acquired for a consideration of £180.6 million, satisfied in cash of £176.5 million and deferred consideration of £7.8 million.

On 1 July 2015 the Company acquired 100% of the voting shares of Mortimer Clarke Solicitors ("MCS"), a private company based in England and Wales. MCS was acquired for a consideration of £0.3 million, satisfied primarily in cash.

## Cabot Financial Debt Recovery Services Limited

### Notes to the financial statements For the year ended 31 December 2015

#### 7. Investment in subsidiaries (continued)

On 23 October 2015 the Company acquired 100% of the voting shares of Gesif S.A.U ("Gesif"), a private company based in Spain. Gesif was acquired for a consideration of €8.6 million, satisfied in cash of €6.3 million and contingent consideration of €2.5 million.

There was a waiver of intercompany loans within the Cabot Financial Limited Group which resulted in an increase in the value of the Company's investment in direct principal subsidiaries of £185.0 million.

An impairment of investments occurred during the year as a result of the share capital reduction project to write down the value of the investment in direct principal subsidiaries.

Dividends totalling £397.3 million were received during the year from the Company's direct subsidiary undertakings (2014: £5.0 million).

The principal subsidiary undertakings of the Company are as follows:

Subsidiary undertakings	Date of acquisition	Country of incorporation	Principal activity	% shares held
Cabot Financial (Europe) Limited	27 April 2000	Great Britain	Collection of UK consumer debt	100%
Cabot Financial (UK) Limited	27 April 2000	Great Britain	UK consumer debt purchase and recovery	100%
Financial Investigations and Recoveries (Europe) Limited	27 April 2000	Great Britain	Servicing of UK consumer debt	100%
Cabot Financial (Ireland) Limited	17 Jan 2007	Ireland	Irish debt collection	100%
Cabot Services (Europe) SAS	27 April 2000	France	French consumer debt purchase and recovery	100%
Cabot Spain SL	27 Dec 2006	Spain	Spanish consumer debt purchase and recovery	100%
Apex Credit Management Limited	06 April 2011	Great Britain	Collection of UK consumer debt	100%
Hillesden Securities Limited	1 June 2015	Great Britain	Purchase and recovery of consumer debt in the UK.	100%
Mortimer Clarke Solicitors	1 July 2015	Great Britain	Provision of legal services	100%
Gesif S.A.U	23 Oct 2015	Spain	Purchase and recovery of consumer debt in Spain	100%
Cabot Financial (Treasury) Ireland Limited	5 Oct 2015	Ireland	Provision of financing	100%
Apex Collections Limited*	6 April 2011	Great Britain	Servicer of defaulted consumer debt	100%
Cabot Asset Purchases Ireland Limited*	16 Oct 2001	Ireland	Provision of recovery services in respect of defaulted consumer loans	100%
Macrocom (948) Limited*	6 April 2011	Great Britain	Funding of other companies within the Cabot Financial Limited group	100%
Morley Limited*	17 May 2001	Great Britain	Dormant	100%

\*Indirect subsidiary



# Cabot Financial Debt Recovery Services Limited

## Notes to the financial statements For the year ended 31 December 2015

### 8. Trade and other receivables

	2015 £000	2014 £000
Loans to parent undertakings	469	-
Loans to other Group undertakings	140,486	13,020
Amounts owed by parent undertakings	1,259	-
Amounts owed by other Group undertakings	826	28,290
	<u>143,040</u>	<u>41,310</u>

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. See note 14 for further details.

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.

### 9. Trade and other payables

	2015 £000	2014 £000
Amounts owed to parent undertakings	9	31,100
Amounts owed to other Group undertakings	8,184	7,636
Accruals and deferred income	96	-
	<u>8,289</u>	<u>38,736</u>

Interest accrued on amounts owed to parent and other Group undertakings is at an arm's length basis and is accrued, not paid. See note 14 for further details.

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.

### 10. Borrowings

	2014 £000	2013 £000
<b>Current</b>		
Loans from parent undertakings	133,417	26,978
Loans from other Group undertakings	193,487	-
	<u>326,904</u>	<u>26,978</u>
<b>Total borrowings</b>	<u>326,904</u>	<u>26,978</u>
<u>Analysis of loan repayments:</u>		
Within one year	326,904	26,978
In more than one year but less than 5 years	-	-
In more than 5 years	-	-
	<u>326,904</u>	<u>26,978</u>

# Cabot Financial Debt Recovery Services Limited

## Notes to the financial statements For the year ended 31 December 2015

### 10. Borrowings (continued)

The Company, along with certain other Group companies, have granted a fixed and floating charge over assets with a carrying value of at least £1,117.7 million at the reporting date (2014: £775.0 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.

### 11. Share capital

	2015 £	2014 £
Allotted, called up and fully paid:		
1 Ordinary shares of £1.00 each, subscription price of £1.00	<u>1</u>	<u>924,001</u>

### 12. Dividends

	2015 £000	2014 £000
<u>Ordinary shares</u>		
Dividends paid	<u>245,603</u>	<u>4,804</u>

The Directors declared a dividend of £245.6 million, £245.6 million per share, during the year (2014: £4.8 million, £5.20 per share) payable to the direct parent of the Company, Cabot Financial Holdings Group Limited, for the waiver of intercompany balances. At the point in which the dividend was declared, the company had sufficient distributable profits.

### 13. Contingent liabilities

The Company is party to guarantees in relation to the senior committed revolving credit facility drawn by a fellow Group company and the Senior Secured Notes due 2019, 2020 and 2021. Amounts outstanding on such borrowings were £954.2 million at 31 December 2015 (2014: £745.3 million). The expectation is that any liability under these guarantees will not be crystallised in the foreseeable future.

### 14. Related party transactions

The Company has taken advantage of 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.

### 15. Ultimate parent company

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

### 16. First time adoption of FRS 101

The transition from UK GAAP to IFRS had no material impact on the financial statements of the company.