2014

Annual Report

CABOT FINANCIAL LIMITED
ANNUAL CONSOLIDATED FINANCIAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2014

Company registration number:
05714535

Contents

About Cabot

CABOT
CREDIT MANAGEMENT

Cabot Financial Limited ("Cabot") is a market leading acquirer and manager of defaulted consumer debt. Divided into four specialist divisions, Cabot Financial, Cabot Financial Ireland, Apex Credit Management ("Apex"), and Marlin Financial Group ("Marlin"), it covers debt purchase, contingency collections, customer tracing and litigation activities.

From our inception in 1998 to 31 December 2014, the Cabot Group, together with the Marlin Group (from its inception in 2002 to 31 December 2014), has invested a combined total of £1.3 billion in the acquisition of 1,071 Loan portfolios with an aggregate face value of £12.2 billion. The combined group manages over £1 billion of assets on behalf of clients, collects over £30 million per month on portfolios it owns and on behalf of clients, and has a 15 year unbroken track record of steady growth.

The Group employs approximately 950 people with offices in London, Kings Hill, Stratford-upon-Avon, Worthing and Dublin. The company prides itself on its ethical values and high standards and has an impressive list of accolades including achieving Investors in People Gold award (accredited for 3 years) and attaining a place in the Sunday Times Top 100 Best Companies To Work For - 2013.

The controlling shareholder of the Group is Encore Capital Group, a leading U.S. provider of debt management and recovering solutions, with the remaining equity being held by a fund advised by J.C. Flowers & Co. and management.

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voice of the collections industry

THE SUNDAY TIMES 100 BEST COMPANIES TO WORK FOR 2013

CreditToday AWARDS2013 WINNER

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Officers and Professional Advisors

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

Directors

Ken Stannard
Chris Ross-Roberts

Secretary

C Taggart

Company Registration Number

05714535

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 Financial Limited (the "Company") and its subsidiaries (the "Group") for the year ended 31 December 2014.

The principal activity of the Company is to act as a holding company of a group comprising the purchase and recovery of non-performing consumer loans in the United Kingdom and Europe. The subsidiary undertakings principally affecting the profits or net assets of the Group in the year are listed in note 12 to the financial statements.

The directors believe that the Group 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 balance sheet at 31 December 2014.

From inception in 1998 to 31 December 2014, the Group has invested £1.3 billion in the acquisition of 1,071 loan portfolios with an aggregate face value of £12.2 billion, comprising 4.7 million customer accounts and generating a 120-Month ERC at 31 December 2014 of £1.6 billion. Over 98% 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 million as at 31 October 2009 to £1.6 billion at 31 December 2014.

The mission of the Group is to help all customers in their financial recovery. The Group promises its customers empathy and respect, individual treatment, positive experiences and fair outcomes.

Acquisitions and future developments

On 10 February 2014, the Group acquired Marlin Financial Group Limited ("Marlin"), a leading acquirer of non performing unsecured consumer debt, including the assumption of certain existing debt of Marlin, for an enterprise value of £295 million.

Founded in 2002, Marlin employs approximately 170 people, with an office in Worthing, West Sussex. Marlin owns portfolios with a face value of £2 billion and manages over £8 million of collections per month. The business has demonstrated significant growth, with involvement in over £150 million of purchases in 2013.

CABOT CREDIT MANAGEMENT

Acquisitions and future developments (continued)

The acquisition brings together two companies with complementary capabilities to strengthen their combined position in the market. Marlin has a robust, mature legal collections operation that is highly effective at collecting on non-performing debt and has a culture of understanding customers' circumstances, utilises its unique data analytics to arrive at solutions which are fair and appropriate for them and allows for rehabilitation of their financial affairs. By leveraging each other's core strengths, the Group and Marlin will expand their ability to grow revenues across a broad range of debt types. In addition, the combined company expects to create further operational efficiencies by applying industry expertise and sharing best practices.

In connection with the Marlin acquisition, Ken Stannard, Marlin's Chief Executive Officer, has been appointed chief executive officer of the company, with Neil Clyne, the company's previous chief executive officer stepping down to pursue other interests.

The results presented in this annual report include the Marlin Group fully consolidated from the date of acquisition.

Following the acquisition of Marlin, as at 31 December 2014 129,000 accounts originally purchased by Cabot have been scored by the Marlin Valuation Model and Scorecard proprietary suite, utilisation of which leads to a resultant uplift in the value of these accounts as forecast by the proprietary collections management systems. The Company's policy is to recognise this uplift on a deferred basis until there is sufficient predictable collection history on these accounts indicative of reliability of the forecast.

Business review and results

The sections below provide a more detailed overview of the Directors' observations 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 non-GAAP measures and UK GAAP measures used by the Company. Where such amounts have been presented a description of the amount and the measures from which it has been derived has been included on page 14.

(£ in thousands, except for percentages and ratios unless otherwise noted)	2014	2013	Change
84-Month ERC at balance sheet date	1,299,689	832,401	+ 56%
120-Month ERC at balance sheet date	1,600,962	1,051,955	+ 52%
Loan portfolio purchases	227,384	124,076	+ 83%
Accounts (in thousands)	4,742	3,858	+ 23%
Number of owned loan portfolios	1,071	994	+ 8%
Net debt [(a)]	734,021	332,415	+ 121%
Collections on owned loan portfolios	247,110	166,271	+49%
Commission on serviced portfolios	16,326	15,056	+ 8%
Servicing costs including group overheads [(b)]	92,656	54,418	+ 70%
Cost/Income ratio	34.2%	30.0%	+14%
Adjusted cost/income ratio	31.2%	30.0%	+4%
Debt purchase cost/income ratio	33.3%	23.7%	+41%
Adjusted debt purchase cost/income ratio	29.9%	23.7%	+41%
Adjusted EBITDA	172,670	126,909	+ 36%
Staff turnover	29.07%	24.08%	+21%

(a) Net debt represents third-party indebtedness, less cash at bank and in hand (excluding cash held for clients), and excluding unamortised debt issue costs and accrued interest relating to the Group's third-party indebtedness. A reconciliation of Net Debt as reported in the financial statements to the amounts stated in the table above is as follows.

(£ in thousands, except for percentages and Ratios unless otherwise noted)	2014	2013
Net debt as reported in the financial statements (note 23)	730,719	315,411
Add back: unamortised facility fees and similar costs	17,563	12,888
Add back: client cash (note 15)	5,421	4,116
Deduct: fair value adjustment to Marlin Notes	(19,682)	-
Net debt	734,021	332,415

(b) The increase in servicing costs including group overheads is driven through the group's investment in litigation activities which amounted to £17.73 million in the year ended 31 December 2014 (2013 - £nil).

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Commission on serviced portfolios	16,326	15,056	+ 8%
Servicing costs including group overheads [(b)]	92,656	54,418	+ 70%
Cost/Income ratio	35.2%	30.0%	+17%
Adjusted cost/income ratio	32.3%	30.0%	+7%
Debt purchase cost/income ratio	34.3%	23.7%	+45%
Adjusted debt purchase cost/income ratio	31.1%	23.7%	+31%
Adjusted EBITDA	172,670	126,909	+ 36%
Staff turnover	29.07%	24.08%	+21%

(a) Net debt represents third-party indebtedness, less cash at bank and in hand (excluding cash held for clients), and excluding unamortised debt issue costs and accrued interest relating to the Group's third-party indebtedness. A reconciliation of Net Debt as reported in the financial statements to the amounts stated in the table above is as follows.

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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 following table shows certain data related to the UK loan portfolios acquired within Cabot and Marlin since 1 November 2006 and 1 January 2007 respectively which represents the majority (85%) of the 84-Month ERC at 31 December 2014.

(£ in thousands, except for ratios)	Purchase Price (a)	Actual collection to date	84-Month ERC	Total estimated collection (b)	Gross cash-on-cash multiple (c)
Cabot					
Year to 31 October 2007	57,816	90,443	23,491	113,934	1.97x
Year to 31 October 2008	57,670	103,653	60,603	164,256	2.85x
Year to 31 October 2009	27,292	61,677	38,526	100,203	3.67x
Year to 31 October 2010	37,784	59,021	37,618	96,639	2.56x
14 months to 31 December 2011	101,378	120,824	143,500	264,324	2.61x
Marlin					
Year to 31 December 2007	8,359	18,510	3,095	21,605	2.58x
Year to 31 December 2008	18,110	42,491	879	43,370	2.39x
Year to 31 December 2009	17,135	38,786	15,649	54,435	3.18x
Year to 31 December 2010	19,215	26,007	12,510	38,517	2.00x
Year to 31 December 2011	54,417	65,077	59,123	124,200	2.28x
Combined					
Year to 31 December 2012	145,059	112,737	197,317	310,054	2.14x(d)
Year to 31 December 2013	185,480	101,678	274,721	376,399	2.03x(d)
Year to 31 December 2014	185,419	34,478	240,939	275,417	1.49x(d)

(a) Purchase price represents the aggregate amount paid for all portfolio purchases in the period indicated.
(b) Total estimated collection represents actual collection to date plus the 84-Month ERC, meaning actual collections to 31 December 2014 plus forecast collections for the following 84 months.
(c) The Gross cash-on-cash multiple includes actual collections plus 84-Month ERC, although collections can extend beyond that period.
(d) For the purpose of calculating the gross cash on cash multiple, the co-invested amount has been included.

Asset base and returns on portfolios purchased

The table on page 6 shows the actual collections to date plus the 84 Month ERC. This means that for the portfolios purchased in the year to 31 December 2014, the actual collections will only include a maximum of 12 months of collections, compared to a maximum of 98 months for the portfolios purchased in the year to 31 October 2007. Therefore as the portfolios age further both the "total estimated collections" and "gross cash-on-cash multiple" statistics shown above for the more recent portfolios should increase significantly.

Principal financial instruments

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

- Loan portfolios
- Trade receivables
- Cash and cash equivalents
- Trade and other payables
- Bank loans and overdrafts
- Senior secured loan notes
- Interest rate caps

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

Financial assets

	Assets at fair value through profit or loss		Cash and receivables	
(£'000)	**2014**	**2013**	**2014**	**2013**
Cash and cash equivalents	-	-	16,736	36,700
Trade and other receivables (note 14)	-	-	17,139	11,232
Loan portfolios (note 13)	719,306	410,546	-	-
Interest rate caps	-	122	-	-
Total financial assets	**719,306**	**410,668**	**33,875**	**47,932**

Financial liabilities

	Financial liabilities at amortised cost	
(£'000)	**2014**	**2013**
Trade and other payables (note 15)	98,686	33,719
Bank loans and overdrafts (note 16)	53,584	-
Senior secured notes (note 16)	693,871	352,111
Total financial liabilities	**846,141**	**385,830**

CABOT CREDIT MANAGEMENT

Principal Risks and Uncertainties

In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. This section describes the Group'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 Group'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. The Group issued a further Senior Secured Loan Note on 27 March 2014 for £175.0 million at a fixed interest rate of 6.500%, with the same risks as the existing Senior Secured Loan Notes.

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

Risk	Definition	Impact	Mitigation
Regulatory / Compliance Risk	Risk of failure to comply with current regulatory and legal requirements, in addition to any emerging requirements.	May cause customer detriment, censure by regulatory authorities, licences being revoked, reputational damage which results in financial loss.	The Group has implemented a 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.
Customer Outcome / Conduct Risk	Risk of failure through poor conduct, to deliver and evidence fair customer outcomes and positive customer experiences.	May cause customer detriment, censure by regulatory authorities, licences being revoked, reputational damage which results in financial loss.	The Group has a customer centric philosophy evidenced by our ethical values, our Mission 'Financial Recovery - helping each and every customer' and that 'We promise our customers: Empathy and Respect, Individual Treatment, Positive Experiences and Fair Outcomes'. This is embedded in the business by training and extensive evidence based outcome measurement.
Vendor Risk	Risk of failure to comply with vendor (client) contractual, audit or other stipulated requirements.	May cause the Group to be removed from vendor panels or legal claims from vendors, reputational damage which results in financial loss.	The Group invests in maintaining strong vendor relationships through its Client Services Team. We centrally document and track our performance against all key vendor requirements. Vendor Audit results are reviewed through our risk management oversight processes. If remediation is required progress is tracked against plan.

Principal Risks and Uncertainties (continued)

Risk	Definition	Impact	Mitigation
Operational Risk - Business Continuity & Disaster Recovery	Risk of significant and sustained failure of business critical IT systems, processes, people or sites.	May cause the business to be unable to conduct its debt recovery operations which results in financial loss.	The Group has a robust business continuity processes and disaster recovery programme. This is overseen by a BCP Steering Group who ensure that these are tested on a regular basis.
Market / Economic Risk	Risk that there is a deterioration of economic conditions which negatively impacts customers ability to repay their debts i.e. increase in interest rates.	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.
Cash flow and credit risk	Risk of failure to purchase and recover consumer receivables due to the underlying volatility of these assets.	May cause reduced recoveries which results in financial loss.	The Group manages the portfolio pricing and acquisition processes robustly, and portfolios are closely monitored throughout their economic life through: portfolio performance MI, monthly reforecasting of performance, recoveries monitoring against expected return at acquisition where portfolios are impaired as a result of underperformance.
Pricing risk	Risk of failure of accurate portfolio pricing, leading to non acquisition due to competition or mispricing of portfolios.	May cause reduced recoveries which results in financial loss.	The Group continues to significantly invest in pricing models and segmentation methodologies to help ensure that portfolios are priced as accurately as possible. Robust risk management processes support this process.
Foreign currency risk	Risk of the failure to manage currency exchange risk on foreign portfolios.	May result in financial loss.	The Group mitigates its foreign currency exposure via asset and liability management by drawing down on the revolving credit facility in Euro's to hedge against foreign exchange movements on the Groups Irish assets.
Tax Risk	Risk of failure to comply with tax legislation due its complex nature and practice.	May cause reputational damage which results in financial loss.	The Group has employed an in house tax advisor in addition to engaging external specialists to advise on its tax compliance obligations in relation the transactions and activities undertaken by the Group.

Principal Risks and Uncertainties (continued)

Fair value of loan portfolios

Certain items in the consolidated profit and loss account of the Company such as cost of sales, gross profit, operating profit/(loss), profit/(loss) on ordinary activities before and after taxation, and profit/(loss) for the financial period can be impacted, positively or negatively, by short term non-cash movements in the fair value of portfolios.

The Group uses a Revaluation Model to calculate the fair value of loan portfolios. The Revaluation Model is a cashflow model developed at a portfolio level based on projected cashflows over the forecast cash collection period for each individual portfolio ("the forecast period"). The method used to estimate the fair value of loan portfolios changes dependent on the age of the portfolio:

- When the asset is initially purchased it is held on the balance sheet at cost;
- In the period from purchase until the asset becomes 12 months old the fair value is calculated as the net present value of the cashflow projections produced at the time of pricing. The collections forecast is limited to the point at which 80% of the total cashflow projection is achieved (this is known as the "forecast period");
- After 12 months a new collections forecast is produced from each asset by the Group's Revaluation model, and the balance sheet valuation becomes the discounted value of this revised forecast;
- The individual portfolios are then formed into consolidated vintages based on the financial year of purchase. The weighted average discount rate and forecast period are then used to value the consolidated vintage; and
- In the period before the consolidated vintage is formed the individual asset cannot be valued at greater than the original purchase price.

The initial yield is calculated at the time of purchase and subsequently compared with yields observed in current market transactions in similar loan portfolios and adjusted if necessary. Significant volatility in yields for similar purchased loan portfolios is not anticipated in the absence of fundamental changes in the economic or legislative environment. The weighted average forecast period used in the Revaluation Model was 78 months (2013: 76 months) and the weighted average yield was 28.33% (2013: 32.75%). The observable yields from acquisitions in 2014 did not indicate that yields used to discount historical portfolios required adjustment.

The Revaluation Model is updated with the collections experience on a monthly basis and a new collections forecast is generated using a combination of the actual collections seen over the immediately preceding months and long term trend analysis of how collections on the Group's loan portfolios decay on a monthly basis over several years.

The fair value of the portfolios is therefore highly dependent on the collections achieved on the loan portfolios in the past as these determine the initial starting point of the projection and the long-term gradient used to project the decay of the forecast collections. The fair value is also dependent on the yield assumptions.

Principal Risks and Uncertainties (continued)

Fair value of loan portfolios (continued)

The effect of a 10% reduction in cash collection statistics and a 10% reduction in the long term gradient used in the Revaluation Model are illustrated separately below. The Directors believe that a 10% reduction is a reasonable sensitivity as this correlates with the largest annual adverse variance in cash collections against forecast cashflows observed since the Revaluation Model was introduced in its current form in October 2007.

	Opening balance sheet £000	Change in fair value recorded in cost of sales £000	Closing balance sheet £000
Reduction in cash collections experience used in the forecast by 10%			
Year ended 31 December 2014			
As stated in the consolidated balance sheet	410,546		719,306
(Reduction) due to change in assumption	(21,343)	(41,798)	(63,141)
	389,203		656,165
Year ended 31 December 2013			
As stated in the consolidated balance sheet	341,946		410,546
(Reduction) due to change in assumption	(21,859)	516	(21,343)
	320,087		389,203

	Opening balance sheet £000	Change in fair value recorded in cost of sales £000	Closing balance sheet £000
Reduction in long term gradient used in the forecast by 10%			
Year ended 31 December 2014			
As stated in the consolidated balance sheet	410,546		719,306
(Reduction) due to change in assumption	(6,300)	(2,626)	(8,926)
	404,246		710,380
Year ended 31 December 2013			
As stated in the consolidated balance sheet	341,946		410,546
(Reduction) due to change in assumption	(9,547)	3,247	(6,300)
	332,339		404,246

Principal Risks and Uncertainties (continued)

Fair value of loan portfolios (continued)

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 balance sheet date.

Interest rate risk

The Group's long term debt financing at 31 December 2014 comprised Senior Secured Notes due 2019 of £265.0 million issued on 20 September 2012, on which interest is fixed at 10.375%, Senior Secured Loan Notes due 2020 of £150.0 million issued on 25 July 2013, on which interest is fixed at 10.500%, Senior Secured Notes due 2020 of £100.0 million issued on 2 August 2013, on which interest is fixed at 8.375% and Senior Secured Loan notes due 2021 of £175.0 million issued on 21 March 2014, on which interest is fixed at 6.500%.

The Group's senior committed revolving credit facility was linked to the monthly LIBOR during the year so the balance sheet value is the fair value. Following the year end, the facility was amended to a flat rate over LIBOR (or EURIBOR, for any loan drawn in Euro).

All decisions in relation to the hedging of interest rate risk are made by the Board of Directors of the Company on behalf of the Group. The Group has an interest rate cap to manage its risk to changes in interest rates which expires on 14 December 2015, the fair value of which at 31 December 2014 was £nil (31 December 2013 – £0.1m). The Directors do not consider a scenario which changes this fair valuation to be material.

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

Going concern and liquidity risk

Economic conditions globally and locally directly affect unemployment, credit availability and property values. Adverse conditions, economic changes and financial disruptions place financial pressure on the consumer, which may reduce the Group's ability to collect on consumer receivable portfolios and may adversely affect the value of our consumer receivable portfolios. Further, increased financial pressures on the financially distressed consumer may result in additional regulatory requirements or restrictions on our operations. These conditions could increase our costs and adversely affect the Group's business, financial condition and results of operations.

The financial position of the Group is summarised below:

(£ in thousands, except for percentages and ratios unless otherwise noted)	**2014**	**2013**	**Change**
Operating profit	80,882	62,485	+ 29%
Adjusted EBITDA	172,670	126,909	+ 36%
Net current assets	654,536	424,759	+ 54%
Shareholders' funds	109,867	99,199	+11%

Principal Risks and Uncertainties (continued)

Going concern and liquidity risk (continued)

As at 31 December 2014 the Group's revaluation model indicates that £1,601 million (2013: £1,052 million) of collections will be received from the Group's loan portfolios over a ten year period. The exact timing of this cashflow is highly dependent on the economic circumstances prevailing at that time, but as described previously the Group continues to develop and refine the revaluation model to ensure that the forecasts of collections are as accurate as possible and reflect the current economic environment.

The Group also mitigates its liquidity risk by seeking long term financing arrangements. During the year to 31 December 2014 the Group issued £175.0 million of Senior Secured loan notes due 2021 to increase its permanent financing structure and finance the purchase of Marlin.

Certain assets of the Company and its subsidiaries have been pledged as security for the Senior Secured Notes and the senior secured revolving credit facility.

The senior secured revolving credit facility is due for renewal in September 2017 and interest on the facility was charged at LIBOR plus a maximum of 4% during the year depending on the Loan to Value ("LTV") Ratio achieved after twelve months by the Company calculated as being the ratio of the net financial indebtedness (Net debt is as third-party indebtedness, less cash at bank and in hand (excluding cash held for clients), and excluding unamortised debt issue costs and accrued interest relating to the Company's third-party indebtedness) of the Company to 84-Month ERC at a balance sheet date. The Company is covenanted to ensure its LTV Ratio shall not exceed 0.75, and at 31 December 2014 the LTV Ratio was compliant at 0.56 (2013: 0.41).

On 10 February 2015 the Group amended and reissued its existing senior secured revolving credit facility agreement to, among other things, increase the size of the committed revolving facility from £85.0 million to £195.0 million. The amended and restated facility agreement also included an uncommitted accordion facility which will allow the facility to be increased by an additional £55.0 million, subject to obtaining the requisite commitments and compliance with the terms of the Group's other indebtedness among other conditions precedent. The margin on the facility was also amended to a flat rate of 3.5% per annum over LIBOR (or EURIBOR, for any loan drawn in Euro).

The Company and the Group has remained compliant during the year to 31 December 2014 with all the covenants contained in the notes issued and senior credit facilities, and 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 financial statements.

Key indicators of performance definitions

The following definitions are given in support of the data presented on page 5 of this report.

Loan portfolio purchases means the cost of all loan portfolios purchased in the period. The purchase of loan portfolios includes £40.8 million of Irish portfolios purchased during the year ended 31 December 2014 compared with £2.4 million in the year ended 31 December 2013.

Number of accounts represents the total number of individual consumer debts that the Group owns as of the date specified.

Number of owned loan portfolios represents the number of individual portfolios of accounts that the Group owns as of the date specified. Occasionally the Group may split an individual purchase contract into multiple portfolios if there are distinct account types within the particular portfolio.

Collections on owned loan portfolios represents amounts collected by the Group, or agents acting on behalf of the Group, from accounts on owned loan portfolios.

Commission on serviced portfolios represents fees receivable and commission from the servicing of loans on behalf of third parties.

Servicing costs including group overheads means cost of sales, excluding the movement in fair value on loan portfolios, plus administration expenses, less depreciation of tangible fixed assets and amortisation of goodwill.

Cost/Income ratio means servicing costs as a percentage of turnover. There may be limitations in using cost/income expressed as a percentage of turnover as a measure of operational efficiency across a limited period of time because servicing costs are impacted by the phasing, mix and volume of new portfolio purchases in a period.

Adjusted Cost/Income ratio means servicing costs less Group litigation spend as a percentage of turnover less Group litigation turnover. Group litigation spend for the year ended 31 December 2014 amounted to £17.73 million (2013: £nil) and Group litigation turnover amounted to £31.12 million (2013 - £nil). This expenditure has been removed to demonstrate a comparable ratio to the previous year.

Debt purchase cost/income ratio means servicing costs relating to debt purchase activities as a percentage of turnover relating to collections on owned portfolios. In calculating the servicing costs relating to debt purchase activities it is assumed that the servicing costs relating to non-debt purchase activities is equal to the servicing fees included within turnover.

Adjusted debt purchase cost/income ratio means servicing costs relating to debt purchase activities less Group litigation as a percentage of turnover less Group litigation turnover relating to collections on owned portfolios. In calculating the servicing costs relating to debt purchase activities it is assumed that the servicing costs relating to non-debt purchase activities is equal to the servicing fees included within turnover.

Material recent developments

The Financial Conduct Authority

The regulatory regime to which the Group is subject to is currently experiencing a number of significant changes. The main change is that the responsibility for the regulation of consumer credit businesses in the United Kingdom was transferred from the Office of Fair Trading ("OFT") to the Financial Conduct Authority ("FCA") on 1 April 2014.

The FCA implemented an interim permission regime whereby businesses which held a consumer credit licence with the OFT had to apply to the FCA to migrate across to the new consumer credit regulatory regime before 31 March 2014 in order to continue consumer credit activities after 1 April 2014. The interim permission regime is expected to continue until 1 April 2016 by which time all consumer credit firms carrying interim permission will have had to apply to the FCA for authorisation, failing which such firm must cease carrying out regulated activities.

The Group has decided that Cabot Credit Management Group Limited (formerly Cabot Financial Holdings Group Limited) shall apply for authorisation with the Financial Conduct Authority and, once authorised by the FCA, shall appoint Apex Credit Management Limited, Cabot Financial (Europe) Limited and Cabot Financial (Marlin) Limited (formerly Marlin Financial Services Limited) as Appointed Representatives in addition to Midland Credit Management India Private Limited, an affiliate of the Company and subsidiary of Encore Capital Group, Inc. for the provision of debt collection activities in India.

The Group has made every effort to ensure its policies and procedures, systems and controls are fit for purpose, to minimise any risk to its successful applications for approval.

Proposed Pre-Action Protocol for Debt Claims

During September 2014, The Civil Procedure Rules Committee ("CPRC") issued a consultation on proposals to introduce a designated pre-action protocol for debt claims that would, if adopted in its current form, require all debt collection entities to disclose significant amounts of information to a consumer prior to commencing a claim. In some cases, vendors to debt collection entities may not be able to provide this information, and as Cabot, like its competitors, does not currently maintain such documentation, the protocol may limit our ability to commence proceedings to recover a debt. Certain other requirements are proposed, which may significantly increase costs and time in order to bring a claim to Court. Cabot, together with key industry representatives and trade bodies who are all affected by the proposals, has issued a response to the consultation.

The consultation responses are still being considered by the CPRC and minutes of a meeting of the CPRC in December 2014 noted that a letter before the claim had been received by CPRC from the Civil Courts Users Association ("CCUA"), the trade body representing the interests of the creditor sector and other associations relating to the use of the court service, in connection with the proposed protocol. The Group understands that there is an ongoing dialogue between the CPRC and the CCUA addressing the concerns raised. It is anticipated that the CPRC may wish to create a dedicated sub-committee to the pre-action protocol allowing for more engagement of industry stakeholders and consumer group representatives. It is expected that the debt protocol will now not be released by April 2015 as originally intended.

Material recent developments (continued)

Regulation of Credit Servicing Firms in Ireland

An Irish Bill, The Consumer Protection (Regulation of Credit Servicing Firms) Bill 2015 ("Bill"), released with the intention of regulating credit servicing firms to ensure regulatory protection for consumers following loan book sales was published in January 2015. The Bill seeks to address concerns regarding the loss of regulatory protections for borrowers when portfolios of loans are sold and/or serviced to an unregulated entity.

It is expected that the Bill will be passed as law by the end of March 2015. The impact of this Bill is that it will require unregulated credit servicing entities to be regulated by the Central Bank of Ireland and adopt regulatory consumer protection codes into their practices, policies and procedures. It is currently proposed that firms will have a three month window in order to apply to become regulated once the Bill has been passed as law.

The Company does not believe that the Bill will have a significant impact on its business as Cabot Financial (Ireland) Limited is currently contractually obligated to ensure compliance with the relevant consumer protection codes through its debt sale and management agreements and is audited on a regular basis against such obligations, notwithstanding, it is fully anticipated that Cabot Financial (Ireland) Limited will have to apply to become regulated by the Central Bank for credit servicing activities.

Conversion from UK GAAP to IFRS

The results presented in this annual report are the last that will be prepared under UK Financial Reporting Standards (UK GAAP). From 1 January 2015, the company will be adopting International Financial Reporting Standards (IFRS) as endorsed by the EU. The first results the Group announce under IFRS will be the quarterly report for the period ended 31 March 2015 and it is a requirement to include a reconciliation from UK GAAP to IFRS within that report for both quarterly and full year comparative reporting periods.

The main material differences to UK GAAP are:

- Revenue recognition under UK GAAP is based on cash collections, with an amortisation charge being recognised in relation to fair value adjustment to the loan portfolio value, whereas under IFRS revenue will be recognised on an effective interest basis;

- The valuation of the loan portfolios under UK GAAP is based on fair value of estimated future collections, with movements going through the profit and loss account whereas under IFRS, the valuation of loan portfolios will be on an effective interest basis;

- Goodwill is currently amortised under UK GAAP however this is not permitted under IFRS. From the date of transition, 1 January 2015, goodwill will be reviewed annually for impairment

- Intangibles which have previously arisen from a business combination but not separately identified under UK GAAP will be separated from goodwill and amortised under IFRS which previously was not the treatment under UK GAAP;

CABOT CREDIT MANAGEMENT

Material recent developments (continued)

Conversion from UK GAAP to IFRS (continued)

- Costs in relation to business combinations have been capitalised under UK GAAP as part of the recognised goodwill, however IFRS is more restrictive and any costs that did not meet the capitalisation criteria in IFRS 3 (Business Combinations) and IAS 38 (Intangible assets) will be expensed;

- Portfolio investments are classified as current assets under UK GAAP, however under IFRS the assets will be split, classified between current and non-current assets;

- Software and development costs are classified as tangible assets under UK GAAP. Such costs will be reclassified to intangible assets with corresponding depreciation being reclassified to amortisation as per IAS 38 (Intangible assets).

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

C-Ross-Roberts

Chris Ross-Roberts
Director
17/3/2015

The Directors present their annual report and financial statements of Cabot Financial Limited (the "Company") and its subsidiaries (the "Group") for the year ended 31 December 2014.

Results and dividends

The audited financial statements and related notes for the year ended 31 December 2014 are set out on pages 23 to 58. The Group's result for the year after taxation was a profit of £13.7 million (2013: £21.6 million).

The Directors paid a dividend of £2.7 million (2013: £25.0 million).

The financial information included within this annual report also includes certain measures which are not accounting measures within the scope of UK GAAP. 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 61 and 62. 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 UK GAAP.

Directors

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

- S N Mound (resigned 13 May 2014)
- C Ross-Roberts
- K Stannard (appointed 13 February 2014)

Financial instruments

The Group's financial instruments primarily comprise 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 creditors and trade debtors 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 3 to 17.

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 "Communication and Consultative Committee".

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 (2013: £nil).

Future developments

Any Future developments affecting the Group are set out in the Strategic Report on pages 3 to 17.

Subsequent events

Subsequent events are included in note 30 of the financial statements.

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

C Ross-Roberts

Chris Ross-Roberts
Director
17/3/2015

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual 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 the law, the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepting Accounting Practice and 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 affairs of the Company and of the profit or loss of the Company for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and Group 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 the Group and to 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 the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditor's report

We have audited the financial statements of Cabot Financial Limited for the year ended 31 December 2014 which comprise the Consolidated profit and loss account, the Consolidated and Company balance sheets, the Consolidated statement of total recognised gains and losses, the Consolidated cash flow statement and the related notes 1 to 30. 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).

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 auditors

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.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and the Company's affairs as at 31 December 2014 and of the Group's profit 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.

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

CABOT
CREDIT MANAGEMENT

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 by the parent company, 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.

BDO LLP

Daniel Taylor (Senior Statutory Auditor)
for and on behalf of BDO LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom

17 MARCH 2015.

Consolidated Profit and Loss account
For the year ended 31 December 2014

	Notes	2014 £000	2013 £000
Turnover	2	**263,436**	181,327
Existing operations		**199,552**	181,327
Acquisitions		**63,884**	-
Cost of sales		**(110,108)**	(68,252)
Gross profit		**153,328**	113,075
Administration expenses		**(72,507)**	(50,590)
Operating profit		**80,822**	62,485
Existing operations		**71,983**	62,485
Acquisitions		**8,838**	-
Interest receivable and similar income	6	**154**	639
Interest payable and similar charges	7	**(63,440)**	(34,627)
Profit on ordinary activities before taxation	3	**17,535**	28,497
Tax on profit on ordinary activities	4	**(3,825)**	(6,928)
Profit for the financial period	20	**13,710**	21,569

The notes on pages 28 to 58 form part of these financial statements.

All of the above results are derived from continuing operations.

CABOT CREDIT MANAGEMENT

Consolidated balance sheet
As at 31 December 2014

	Notes	31 December 2014 £000	31 December 2013 £000
Fixed assets			
Goodwill	9	**195,760**	18,903
Intangible assets	10	**1,567**	-
Tangible assets	11	**10,883**	8,109
		208,210	27,012
Current assets			
Loan portfolios	13	**719,306**	410,546
Debtors: amounts falling due within one year	14	**17,139**	11,232
Cash at bank and in hand		**16,736**	36,700
		753,181	458,478
Creditors: amounts falling due within one year	15	**(98,643)**	(33,719)
Net current assets		**654,538**	424,759
Total assets less current liabilities		**862,748**	451,771
Creditors: amounts falling due after more than one year	16	**(747,455)**	(352,111)
Deferred Tax Liability	17	**(5,426)**	(461)
Net assets		**109,867**	99,199
Capital and reserves			
Called up share capital	19	**250**	250
Capital contribution reserve	25	**136,157**	136,157
Profit and loss account	20, 25	**(26,540)**	(37,208)
Equity shareholders' funds	25	**109,867**	99,199

The notes on pages 28 to 58 form part of these financial statements.

These financial statements of Cabot Financial Limited, with registered number 05714535, were approved by the Board of Directors and authorised for issue on 17 March 2015.

Signed on behalf of the Board of Directors by:

C. Ross-Roberts

C Ross-Roberts
Director

Cabot Financial Limited

CABOT CREDIT MANAGEMENT

Company balance sheet
As at 31 December 2014

	Notes	31 December 2014 £000	31 December 2013 £000
Fixed assets			
Investments	12	**116,602**	116,602
Current assets			
Debtors: amounts falling due within one year	14	**71,002**	62,764
Cash at bank and in hand		**1**	1
		71,003	62,765
Creditors: amounts falling due within one year	15	**(29,858)**	(25,586)
Net current assets		**41,145**	37,179
Total assets less current liabilities		**157,747**	153,781
Net assets		**157,747**	153,781
Capital and reserves			
Called up share capital	19	**250**	250
Capital contribution reserve	25	**136,157**	136,157
Profit and loss account	20, 25	**21,340**	17,374
Equity shareholders' funds	25	**157,747**	153,781

The notes on pages 28 to 58 form part of these financial statements.

These financial statements of Cabot Financial Limited, with registered number 05714535, were approved by the Board of Directors and authorised for issue on 17 March 2015.

Signed on behalf of the Board of Directors by:

C Ross-Roberts
Director

Consolidated statement of recognised gains and losses
For the year ended 31 December 2014

	Notes	2014 £000	2013 £000
Profit for the financial period		**13,710**	21,569
Currency translation differences	20, 25	**(317)**	(46)
Total recognised gains relating to the period		**13,393**	21,523

The notes on pages 28 to 58 form part of these financial statements.

CABOT CREDIT MANAGEMENT

Consolidated cash flow statement
For the year ended 31 December 2014

	Notes	2014 £000	2013 £000
Net cash outflow from operating activities	21	**(23,156)**	(33,358)
Returns on investments and servicing of finance	22	**(58,511)**	(35,387)
Taxation	22	**(1,704)**	(5,913)
Capital expenditure and financial investment	22	**(7,648)**	(1,746)
Acquisitions and disposals	22	**(159,280)**	-
Cash outflow before use of financing		**(250,299)**	(76,404)
Financing	22	**230,335**	90,000
(Decrease) / increase in cash in the period	24	**(19,964)**	13,596

The notes on pages 28 to 58 form part of these financial statements.

Notes to the financial statements
For the year ended 31 December 2014

1. Accounting policies

The accounting policies adopted are described below. These have been applied consistently throughout the current and preceding year.

Accounting convention

The financial statements have been prepared under the historical cost convention, except for the revaluation at fair value of certain financial assets, and in accordance with the Companies Act 2006 and applicable United Kingdom accounting standards.

Basis of consolidation

The Cabot Financial Limited Group financial statements consolidate the financial statements of the Company and its subsidiaries and associated undertakings (the "Group") drawn up to 31 December each year. The results of subsidiaries acquired or sold are consolidated for the periods from or to the date of which control passed. Acquisitions are accounted for under the acquisition method.

Intangible assets – goodwill

Goodwill arising on the acquisition of subsidiary undertakings, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight-line basis over its useful economic life, which is estimated at twenty years. The useful economic life of Goodwill is reassessed on an annual basis. Provision is made for any impairment.

Intangible assets

Intangible assets are capitalised and written off on a straight-line basis over its useful economic life, which is estimated at seven years.

Fixed asset investments

Fixed asset investments are shown at cost less provision for impairment.

Turnover

Turnover represents amounts collected from customers and fees receivable from the servicing of loans on behalf of third parties.

Collections from customers are recognised on receipt.

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

Notes to the financial statements
For the year ended 31 December 2014

1. Accounting policies (continued)

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed 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:

Office equipment	4 to 10 years
Computers and software	3 to 10 years
Fixtures and fittings	5 to 10 years
Short leasehold property	the minimum term of the lease
Motor vehicles	5 years
Freehold property	25 years

Impairment of non-financial assets

At each balance sheet date, the Group 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 Group 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.

Notes to the financial statements
For the year ended 31 December 2014

1. Accounting policies (continued)

Valuation of consumer loan portfolios

Portfolios are designated "fair value through the profit and loss" in accordance with FRS 26 Financial Instruments: Recognition and Measurement.

The fair value of portfolios is shown in the balance sheet as "loan portfolios". The change in fair value of portfolios is shown in cost of sales. Fair value is determined in the manner described in note 13 and is highly sensitive to the collections achieved and the forecast algorithm used to project forward collections. The fair value of the loan portfolios has been classified as a "Level 3" fair value measurement.

Litigation expenditure

Costs incurred in obtaining court orders and pursuing legal action against portfolio assets are expensed when incurred.

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 balance sheet date are reported at the rates of exchange prevailing at that date.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet 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 adjusted through reserves. All other exchange differences are recognised as income or expense within administration expenses in the year in which the difference arose.

During the year the Company mitigated its foreign currency exposures via asset and liability management.

Bank borrowings

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

Interest

Interest receivable and payable are recognised using the effective interest rate method.

Interest payable includes facility fees on bank loans and similar costs and fair value adjustments on interest rate derivatives.

Notes to the financial statements
For the year ended 31 December 2014

1. Accounting policies (continued)

Financial Instruments

Derivatives

Derivatives are measured initially at fair value and subsequently re-measured to their fair value at each balance sheet date. Fair values are obtained from quoted prices prevailing in active markets, including recent market transactions, and valuation techniques, included 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. The fair value of the derivatives has been classified as a "Level 2" fair value measurement.

Financial assets

All financial assets are initially recognised at the transaction date, at which point, FRS 26 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.

The loan portfolios are classified as fair value through profit and loss. Debtors are classified as loans and receivables and measured at amortised cost using the effective interest method, less any impairment.

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.

Notes to the financial statements
For the year ended 31 December 2014

1. Accounting policies (continued)

Taxation

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 balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements. A net deferred tax asset is regarded as recoverable and therefore recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Pensions

The Group operates a defined contribution pension scheme. Pension contributions are charged to the profit and loss account in the month that the liability for paying the contributions arises. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

Operating leases

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

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 and Directors Report on pages 6 to 19. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in these financial statements.

The Group made an operating profit of £80.8 million during 2014 (2013: £62.5 million) and an adjusted EBITDA of £172.7 million (2013: £126.9 million). The Group had net current assets of £654.5 million at 31 December 2014 (31 December 2013: £424.8 million) and shareholders' funds of £109.9 million (31 December 2013: £99.2 million).

Notes to the financial statements
For the year ended 31 December 2014

1. Accounting policies (continued)

Going concern (continued)

The Group has long-term debt financing at 31 December 2014 comprising of Senior Secured Loan Notes due 2019 of £265.0 million issued on 20 September 2012, 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 on 27 March 2014 and Senior Secured Loan Notes due 2020 of £150.0 million issued which were acquired during the course of the Marlin acquisition (£265 million and £100.0 million at 31 December 2013).

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 16, the Group had senior committed revolving credit facility of £85.0 million which matures in September 2017 (£85.0 million at 31 December 2013). Please refer to note 30 for information regarding an increase in the size of the revolving credit facility to £195.0 million post year end.

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

The Group has remained compliant during the year to 31 December 2014 with all the covenants contained in the notes issued and senior 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. Turnover

Turnover predominantly arises in the UK. An analysis of turnover by activity is as follow:

	2014	2013
	£000	£000
United Kingdom		
Collections on owned portfolios	**239,439**	166,239
Servicing fees	**7,821**	9,590
	247,260	175,829
Outside United Kingdom		
Collections on owned portfolios	**7,671**	31
Servicing fees	**8,505**	5,467
	16,176	5,498
Total turnover	**263,436**	181,327

Notes to the financial statements
For the year ended 31 December 2014

3. Profit on ordinary activities before taxation

The profit on ordinary activities before taxation is stated after charging/(crediting) the following:

	2014	2013
	£000	£000
Movement in fair value of derivatives	**122**	1
Fair value movement on loan portfolios	**76,453**	55,295
Depreciation of tangible fixed assets	**3,823**	3,043
Profit on sale of tangible fixed assets	**(18)**	(21)
Amortisation of goodwill	**9,641**	1,328
Amortisation of Intangible assets	**59**	-
Operating lease rentals - land and buildings	**1,532**	1,464
Auditors remuneration [a]	**449**	494

The result for the year of the Company was a profit of £6.7 million (2013: £26.3 million). As permitted by Section 408 of the Companies Act 2006, no separate profit and loss account is presented in respect of the Company.

a) The analysis of auditor remuneration is as set out below. All amounts stated include attributable VAT. Auditors remuneration of £245,000 (2013: £223,000) with respect to the Cabot Financial Limited Group's audit fees for the year was borne by the Cabot Credit Management Limited the direct parent company of the Group.

	2014	**2013**
	£000	**£000**
Fees payable to the Company's auditors:		
For the audit of the Company's financial statements	**16**	15
For the audit of subsidiary undertakings	**229**	208
Total audit fees	**245**	223
Other services	**204**	271
Total fees and expenses paid to the auditor (inc VAT)	**449**	494

Of the non-audit fees £172,500 (2013: £141,000 which was a cost borne by Cabot Credit Management Limited) was provided in relation to the issue of the Senior Secured Loan Notes due 2019 and 2020 which are being amortised to the profit and loss account on an effective rate basis and included within interest payable and related charges.

Notes to the financial statements
For the year ended 31 December 2014

4. Tax on profit on ordinary activities

The tax charge comprises:

	2014	2013
	£000	£000
Current tax		
Corporation tax	**2,779**	6,205
Foreign tax	**849**	241
Total current tax	**3,628**	6,446
Prior period adjustments	**151**	106
Deferred tax		
Origination and reversal of timing differences	**46**	376
Total tax charge on profit on ordinary activities	**3,825**	6,928

The differences between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit on ordinary activities before tax is as follows:

	2014	2013
	£000	£000
Profit on ordinary activities before taxation	**17,535**	28,497
Tax on profit on ordinary activities at standard UK hybrid corporation tax rate of 21.50% (2013: 23.25%)	**3,770**	6,626
Effects of:		
Utilisation of tax losses	**(2,373)**	(1,054)
Tax losses carried forward	**2,326**	-
Expenses not deductible for tax purposes	**781**	704
Income not taxable for tax purposes	**(1,207)**	-
Capital allowances in excess of depreciation	**758**	224
Tax on overseas earnings	**(427)**	(54)
Total tax charge on profit on ordinary activities	**3,628**	6,446

Note 18 explains the movements on deferred tax in the period.

The Finance Act 2014, which reduced the main rate of UK corporation tax to 20% effective from 1 April 2015, was enacted on 17 July 2014. As this change in rate was substantively enacted prior to 31 December 2014 it has been reflected in the deferred tax assets and liabilities at 31 December 2014.

Notes to the financial statements
For the year ended 31 December 2014

5. Information regarding Directors and employees

	2014	2013
Average number of employees during the period (including executive Directors):	**No.**	No.
Administration	**314**	211
Collection	**639**	523
Total	**953**	734
Staff costs for the period included within administrative expenses (including executive Directors):	**£000**	£000
Wages and salaries	**32,352**	25,983
Social security costs	**4,033**	3,051
Pension contributions	**877**	598
Total	**37,262**	29,632

There are 1 (2013: 2) Directors for whom retirement benefits are accruing in respect of defined contribution pension schemes.

As at the balance sheet date there was a liability of £125,181 (2013: £64,480) in respect of pension contributions to be paid into the scheme the related charges are disclosed within administration charges in the Profit and Loss account.

	2014	2013
	£000	£000
Directors' remuneration		
Salary and benefits in kind	**2,147**	2,731
Compensation for loss of office	**504**	541
Pension contributions	**83**	61
Total	**2,734**	3,333
Highest paid director		
Salary and benefits in kind	**700**	1,076
Pension contributions	**45**	-
Total	**745**	1,076

Notes to the financial statements
For the year ended 31 December 2014

6. Interest receivable and similar income

	2014 £000	2013 £000
Bank deposits	62	188
Interest receivable from parent undertakings	92	451
	154	639

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.

7. Interest payable and similar charge

The charge in the period in respect of interest payable and similar charges comprised the following:

	2014 £000	2013 £000
Interest on bank loans	2,852	828
Fees on bank loans	1,219	1,267
Interest on Senior Secured Notes and related charges	58,355	32,352
Fair value adjustments on interest rate derivatives	122	1
Interest payable to parent undertakings [a]	150	105
Other interest and similar charges	742	74
	63,440	34,627

[a] Interest payable from parent undertakings is accrued but not paid at a rate of LIBOR plus 4%.

8. Financial commitments

The Group's annual commitments under non-cancellable operating leases are as follows:

	Land and buildings 31 December 2014 £000	31 December 2013 £000
Expiry date:		
Within one year	-	26
Between one and five years	1,024	35
After 5 years	944	1,371

Notes to the financial statements
For the year ended 31 December 2014

9. Intangible assets - Goodwill

	Goodwill £000
Cost	
Brought forward at 1 January 2014	203,366
Additions during the year	186,498
Carried forward at 31 December 2014	**389,864**
Amortisation	
Brought forward at 1 January 2014	184,463
Charge for the period	9,641
Carried forward at 31 December 2014	**194,104**
Net book value	
At 1 January 2014	18,903
At 31 December 2014	**195,760**

On 10 February 2014 the Group acquired Marlin Financial Group Limited ("Marlin"), a leading acquirer of non performing debt, including the assumption of certain existing debt of Marlin, for an enterprise value of £295 million.

Notes to the financial statements
For the year ended 31 December 2014

9. Intangible assets – Goodwill (continued)

The following sets out the book values of the identifiable assets and liabilities acquired and their fair value to the company relating to the acquisition of the Marlin group:

	Book value £'000	Accounting policy alignment £'000	Fair value adjustment £'000	Fair value to group £'000
Fixed Assets				
Tangible	**909**	**-**	**(104)**	**805**
Current Assets				
Loan portfolios	139,433	21,159	-	160,592
Debtors	1,457	-	-	1,457
Cash	12,674	-	-	12,674
	153,564	**21,159**	**-**	**174,723**
Creditors				
Shareholder Loan notes	(45,108)	-	44,083	(1,025)
Unamortised facility fees and related costs	6,166	-	(6,166)	-
Senior Secured Loan notes	(150,000)	-	(22,125)	(172,125)
Trade creditors	(2,514)	-	-	(2,514)
Accruals and other creditors	(4,057)	-	(316)	(4,373)
Corporation tax	314	-	(3,000)	(2,686)
Deferred taxation	(351)	(4,074)		(4,425)
Total liabilities	**(195,550)**	**(4,074)**	**12,476**	**(187,148)**
Net liabilities	**(41,077)**	**17,085**	**12,372**	**(11,620)**

	£'000
Cash consideration (including expenses £7.4m)	171,956
Issue of Preferred Equity Certificates	2,922
Negative net asset value acquired	11,620
Goodwill arising upon acquisition	**186,498**

A fair value adjustment of £0.1 million was made to tangible fixed assets in order to clear redundant assets held by Marlin as at the date of acquisition.

Shareholder loan notes of £44.1 million were acquired as part of the acquisition consideration.

Notes to the financial statements
For the year ended 31 December 2014

9. Intangible assets – Goodwill (Continued)

At the time of acquisition, Marlin had capitalised facility fees in relation to their Senior Secured Loan Note. Such fees are not deemed to have any value upon acquisition as they have all been fully paid and settled with no future gain for any acquirer.

The Senior Secured Loan note was re-valued to fair value using the quoted price on the Luxembourg stock exchange at the time of acquisition.

Other creditors were adjusted to include a provision for potential overpayments on customer accounts.

Due diligence work prior to acquisition highlighted that potential further tax liabilities could exist in the region of £3 million. Therefore a fair value adjustment was entered to reflect this.

Adjustments were also made to reflect the opening balance sheet under the Company's accounting policies in relation to loan portfolios (see loan portfolio accounting policy in note 1). Such an adjustment also resulted in a deferred tax liability from the change in book value.

The results of Marlin Financial Group Limited prior to its acquisition were as follows:

Profit and loss account

	Current period up to acquisition £'000	Year ended 31 December 2013 £'000
Turnover	6,608	58,762
Operating (loss)/profit	**(7,795)**	**11,454**
Net interest	(1,721)	(31,975)
Loss on ordinary activities before taxation	**(9,516)**	**(20,521)**
Taxation on profit from ordinary activities	-	1,421
Loss after taxation	**(9,516)**	**(19,100)**

Statement of total recognised gains and losses

There were no unrecognised gains or losses within the current period to acquisition or the year ended 31 December 2013.

9. Intangible assets – Goodwill (continued)

Cash flows

The net outflow of cash arising from the acquisition of Marlin Financial Group Limited was as follows:

	£'000
Cash consideration, as above	171,956
Cash acquired	(12,674)
Net outflow of cash	**159,282**

10. Intangible assets

	Group 31 December 2014 £'000
Cost	
At 31 December 2013	-
Additions	1,626
At 31 December 2014	**1,626**
Amortisation	
At 31 December 2013	-
Charge for the year	59
At 31 December 2014	**59**
Net book value	
At 31 December 2014	**1,567**
At 31 December 2013	-

On 2 October 2014, a subsidiary of the Company, Cabot Financial (Ireland) Limited, completed a transaction with Expert Revenue Systems, a software developer in the Republic of Ireland, ("XRS") in which it acquired an exclusive and perpetual licence to the intellectual property of the software licensed to the credit union market in the Republic of Ireland, in addition to acquiring development rights and the software licences to which the credit unions are bound. This is a strategic acquisition in order to develop and enhance our relationship with the credit union market in performing debt collection services. The full consideration payable is €2.0 million (approximately £1.6 million) which is payable in three tranches with the final tranche payable on such date XRS has completed migration of the software onto a .NET server.

Notes to the financial statements
For the year ended 31 December 2014

11. Tangible fixed assets

Group

	Motor vehicles £000	Office equipment £000	Computers and software £000	Fixtures and fittings £000	Short leasehold property £000	Freehold property £000	Total £000
Cost							
As at 1 January 2014	29	1,342	13,414	1,828	2,870	308	19,791
Acquired upon acquisition	-	6	799	-	-	-	805
Transfer between classes	-	(1,428)	453	975	-	-	-
Additions	-	1,022	4,594	260	144	-	6,020
Disposals	-	(936)	(4,229)	(2,460)	(23)	(308)	(7,956)
Currency translation differences	-	(6)	(40)	(12)	-	-	(58)
At 31 December 2014	29	-	14,991	591	2,991	-	18,602
Depreciation							
As at 1 January 2014	2	969	8,091	1,423	1,094	103	11,682
Transfer between classes	-	(263)	238	25	-	-	-
Foreign exchange revaluation	-	(4)	(19)	(6)	-	-	(29)
Charge for the year	6	234	3,187	165	223	8	3,823
Depreciation on disposals	-	(936)	(5,128)	(1,561)	(21)	(111)	(7,757)
At 31 December 2014	8	-	6,369	46	1,296	-	7,719
Net book value							
At 31 December 2014	**21**	**-**	**8,622**	**545**	**1,695**	**-**	**10,883**
At 31 December 2013	27	373	5,323	405	1,776	205	8,109

Notes to the financial statements
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12. Fixed asset investments

Company	Investment in subsidiary undertakings £000
Cost	
Cost and net book value brought forward at 1 January 2014 and 31 December 2014	116,602

The principal subsidiary undertakings of the Group affecting the financial statements are listed below.

Subsidiary undertakings	Date of acquisition	Country of incorporation and operation or principal business address	Principal activity	Ordinary shares held	% shares held
Cabot Financial Holdings Group Limited	7 April 2006	Great Britain	Holding company	251,256	100
Cabot Credit Management Group Limited	7 April 2006	Great Britain	Holding company	19,814,190	100
Cabot Financial Debt Recovery Services Limited	7 April 2006	Great Britain	Holding company	924,001	100
Cabot Financial (Europe) Limited	7 April 2006	Great Britain	Collection of consumer debt in the UK	12,104,790	100
Cabot Financial (UK) Limited	7 April 2006	Great Britain	Purchase and recovery of consumer debt in the UK	10,000,000	100
Cabot Services (Europe) SAS	7 April 2006	France	Purchase and recovery of consumer debt in France	2,500	100
Financial Investigations and Recoveries (Europe) Limited	7 April 2006	Great Britain	Collection of consumer debt in the UK	1	100
Cabot Financial (Ireland) Limited	17 January 2007	Ireland	Collection of consumer debt in Ireland	369,114	100
Cabot Spain SL	27 December 2006	Spain	Purchase and recovery of consumer debt in Spain	3,000	100
Apex Credit Management Holdings Limited	6 April 2011	Great Britain	Holding company	233,333 A 95,550 B	100
Macrocom (948) Limited	6 April 2011	Great Britain	Holding company	50,000	100
Apex Credit Management Limited	6 April 2011	Great Britain	Collection of consumer debt in the UK	50,000	100
Apex Collections Limited	6 April 2011	Great Britain	Purchase and recovery of consumer debt in the UK	2	100
Cabot Financial (Luxembourg) S.A.	3 September 2012	Luxembourg	Provision of financing	25,000	100
Marlin Financial Group Limited	10 February 2014	Great Britain	Management of debt portfolios	2,439,401	100

Notes to the financial statements
For the year ended 31 December 2014

12. Fixed asset investments (continued)

The Group has 100% voting rights on shares held in each of the subsidiary undertakings together with a number of dormant companies which are not listed above.

13. Loan portfolios

	Group 31 December 2014 £000	Group 31 December 2013 £000	**Company 31 December 2014 £000**	Company 31 December 2013 £000
Loan portfolios				
Fair value	**719,306**	410,546	-	-

The following table summarises the movement in the fair value of the loan portfolios in the period:

	2014 £000	2013 £000
Fair value at the beginning of the financial period	**410,546**	341,946
Movement in fair value included in cost of sales	**(76,453)**	(55,295)
Portfolios purchased in the period	**227,384**	124,076
Fair value of Portfolios acquired through acquisition	**160,592**	-
Foreign exchange and put backs, balancing and recourse adjustments	**(2,763)**	(181)
Fair value at the end of the financial period	**719,306**	410,546

The Group uses a Revaluation Model to calculate the fair value of loan portfolios, a level 3 financial asset. The Revaluation Model is a cashflow model developed at a portfolio level based on projected cashflows over the forecast cash collection period for each individual portfolio ("the forecast period").

13. Loan portfolios (continued)

The method used to estimate the fair value of loan portfolios changes dependent on the age of the portfolio:

- When the asset is initially purchased it is held on the balance sheet at cost which represents fair value;
- In the period from purchase until the asset becomes 12 months old the fair value is calculated as the net present value of the cashflow projections produced at the time of pricing. The collections forecast is limited to the point at which 80% of the total cashflow projection is achieved (this is known as the "forecast period");
- After 12 months a new collections forecast is produced from each asset by the Group's Revaluation model, and the balance sheet valuation becomes the discounted value of this revised forecast;
- The individual portfolios are then formed into consolidated vintages based on the financial year of purchase. The weighted average discount rate and forecast period are then used to value the consolidated vintage; and
- In the period before the consolidated vintage is formed the individual asset cannot be valued at greater than the original purchase price.

The initial yield is calculated at the time of purchase and subsequently compared with yields observed in current market transactions in similar loan portfolios and adjusted if necessary.

Significant volatility in yields for similar purchased loan portfolios is not anticipated in the absence of fundamental changes in the economic or legislative environment.

The weighted average forecast period used in the Revaluation Model was 78 months (2013: 76 months) and the weighted average yield was 28.33% (2013: 32.75%). The observable yields from acquisitions in 2014 did not indicate that yields used to discount historical portfolios required adjustment.

The Revaluation Model is updated with the collections experience on a monthly basis and a new collections forecast is generated using a combination of the actual collections seen over the immediately preceding months and long term trend analysis of how collections on the Group's loan portfolios decay on a monthly basis over several years.

The fair value of the portfolios is therefore highly dependent on the collections achieved on the loan portfolios in the past as these determine the initial starting point of the projection and the long-term gradient used to project the decay of the forecast collections. The fair value is also dependent on the yield assumptions.

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14. Debtors: amounts falling due within one year

	Group 31 December 2014 £000	Group 31 December 2013 £000	Company 31 December 2014 £000	Company 31 December 2013 £000
Trade debtors	3,263	2,717	-	-
Corporation tax	2,628	387	-	97
Amounts owed by parent undertakings	3,061	1,084	70,432	62,667
Deferred tax (note 17)	2,256	1,762	570	-
Other debtors and prepayments	5,931	5,282	-	-
	17,139	11,232	71,002	62,764

Included in other debtors and prepayments is a derivative being an interest rate cap stated at fair value of £nil (2013: £0.1 million).

The Directors consider that the carrying amounts approximate to their face value as balances are readily converted to cash.

Amounts owed by parent undertakings are due on demand and interest on such balances is accrued on an arm's length basis.

15. Creditors: amounts falling due within one year

	Group 31 December 2014 £000	Group 31 December 2013 £000	Company 31 December 2014 £000	Company 31 December 2013 £000
Trade creditors	12,285	5,601	-	-
Other tax and social security	1,364	1,040	-	-
Amounts owed to parent undertakings	11,021	6,358	29,858	25,586
Other creditors	42,118	2,588	-	-
Accrued interest on Senior Secured Notes and Revolving Credit Facility	19,790	10,415	-	-
Accruals and deferred income	12,065	7,717	-	-
	98,643	33,719	29,858	25,586

The Directors consider that the carrying amounts approximate to their face value on the basis that the balances are short term in nature.

Notes to the financial statements
For the year ended 31 December 2014

15. Creditors: amounts falling due within one year (continued)

Trade creditors includes £5.4 million (31 December 2013: £4.1 million) in respect of obligations due to contingent clients for cash included in Cash at bank and in hand on the consolidated balance sheet which have been collected on behalf of contingent clients. The obligations due to contingent clients for cash included in Cash at bank and in hand at 31 December 2014 includes £nil (2013: £0.8 million) in respect of amounts due to the Anacap Credit Opportunities Fund II L.P. ("AOF") in respect of the AOF portfolio managed on their behalf described in note 28.

Interest accrued on amounts owed to parent undertakings is at an arm's length basis and is accrued, not paid. See note 28 for further details.

Included in other creditors is £34.3 million (2013: £nil) in respect of portfolio purchases which were completed during 2014 but the deferred consideration not payable until 2015, and £125,181 (2013: £64,480) in respect of pension contributions to be paid into the groups defined contribution pension scheme.

The Group outlines in its Strategic Report on pages 3 to 17 how it evaluates the nature and extent of risks arising from financial instruments.

16. Creditors: amounts falling due after more than one year

	Group 31 December 2014 £000	Group 31 December 2013 £000	**Company 31 December 2014 £000**	Company 31 December 2013 £000
Senior Secured Notes	**693,871**	352,111	-	-
Bank loans and overdrafts	**53,584**	-	-	-
	747,455	352,111	-	-
Analysis of loan repayments:				
In more than one year but less than 5 years	**53,584**	-	-	-
In more than 5 years	**693,871**	352,111	-	-

Cabot Financial (Luxembourg) S.A., a subsidiary of the Company incorporated on 3 September 2012, issued £265.0 million of Senior Secured Notes on 20 September 2012. The Notes are due for repayment on 1 October 2019 and have a fixed interest rate of 10.375%. A further Senior Secured Note due for repayment on 1 August 2020 of £100.0 million was issued on 2 August 2013 at a fixed interest rate of 8.375%. During the year, an additional Senior Secured Note due for repayment on 1 October 2021 of £175.0 million was issued on 27 March 2014 at a fixed interest rate of 6.500%.

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16. Creditors: amounts falling due after more than one year (continued)

The Group also acquired a Senior Secured Note due 1 August 2020 of £150.0 million at a fixed rate of interest of 10.500% following the purchase of Marlin Financial Group Limited.

Based on the Luxembourg Stock Exchange quoted price at the balance sheet date, the Directors believe the fair value of the senior secured loan notes to be £729.1 million (2013: £411.9 million). For all other items, the Directors believe the fair value of the liabilities is not materially different to the balance sheet value because the balances are readily converted to cash.

The Group has a senior committed revolving credit facility of £85.0 million. On 25 April 2013 the agreement supporting the senior committed revolving credit facility was amended to approve a change in control arising from the sale by Anacap Calcium, the former ultimate controlling party of the Company, to funds managed or advised by J.C. Flowers & Co LLP. As at 31 December 2014 this facility had a drawn down balance of £55.3 million (2013: £nil), which includes unamortised debt issue costs of £17.6 million (2013: £0.5 million which was presented within Other debtors and prepayments). Such costs are released to the profit and loss over the life of the facility.

The facility is due for renewal in September 2017 and interest on the facility is charged at LIBOR plus a maximum of 4% depending on the Loan to Value ("LTV") Ratio achieved after twelve months by the Group calculated as being the ratio of the net financial indebtedness (Net debt is as third-party indebtedness, less cash at bank and in hand (excluding cash held for clients), and excluding unamortised debt issue costs and accrued interest relating to the Group's third-party indebtedness) of the Group to 84-Month ERC at a balance sheet date. The Group is covenanted to ensure its LTV Ratio shall not exceed 0.75, and at 31 December 2014 the LTV Ratio was compliant at 0.56 (2013: 0.41). Please refer to note 30 for information regarding an increase in the size of the revolving credit facility post year end.

The Company and certain of its subsidiary companies have granted a fixed and floating charge over assets with a carrying value of at least £775.0 million at the balance sheet date (31st December 2013: £445.0 million) as security for the Senior Secured Notes due 2019/2020 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.

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16. Creditors: amounts falling due after more than one year (continued)

The following table sets out the contractual maturities (representing undiscounted contractual cash-flows) of financial liabilities as at 31 December 2014:

	Up to 3 months £000	Between 3 and 12 months £000	Between 1 and 2 years £000	Between 2 and 5 years £000	Over 5 years £000
Trade creditors	12,285	-	-	-	-
Other tax and social security	1,364	-	-	-	-
Amounts owed to parent undertakings	-	11,021	-	-	-
Other creditors	28,890	13,228			
Interest on Senior Secured Notes and Revolving Credit Facility	31,519	31,497	62,994	188,982	46,875
Accruals and deferred income	12,065	-	-	-	-
Senior Secured Notes	-	-	-	265,000	425,000
Bank loans and overdrafts [(a)]	-	-	-	55,335	-
	86,123	**55,746**	**62,994**	**509,317**	**471,875**

a) Drawn balance as at 31 December 2014 (£nil: 31 December 2013)

The following table sets out the contractual maturities (representing undiscounted contractual cash-flows) of financial liabilities as at 31 December 2013:

	Up to 3 months £000	Between 3 and 12 months £000	Between 1 and 2 years £000	Between 2 and 5 years £000	Over 5 years £000
Trade creditors	5,601	-	-	-	-
Other tax and social security	1,040	-	-	-	-
Amounts owed to parent undertakings	-	6,358	-	-	-
Other creditors	1,817	771			
Interest on Senior Secured Notes and Revolving Credit Facility	17,934	17,934	35,868	107,606	44,244
Accruals and deferred income	7,717	-	-	-	-
Senior Secured Notes	-	-	-	-	365,000
	34,109	**25,063**	**35,868**	**107,606**	**409,244**

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17. Deferred Tax Liability

	Group 31 December 2014 £000	Group 31 December 2013 £000	**Company 31 December 2014 £000**	Company 31 December 2013 £000
Amounts provided for:				
FRS 26 loan portfolios	**317**	461	-	-
Marlin loan portfolios accounting policy alignment [a]	**5,749**	-	-	-
Carried forward	**6,066**	461	-	-

[a] The current year movement in respect of Marlin note portfolios accounting policy alignment is shown in the following table:

	Group 31 December 2014 £000
Brought forward	-
Charge arising from acquisition of Marlin	**4,073**
Charge to the profit and loss account in the period	**1,676**
Carried forward	**5,749**

The provision comprises of two elements; the first relating to the timing difference between the tax base and the carrying amount of the loan portfolio for accounting purposes at 1 November 2006 in respect of the cumulative effect on adoption of FRS 26 in respect of certain loan portfolios that were acquired as at that date. This element of the provision is anticipated to be released evenly to the profit and loss account over the period to 31 October 2016 as agreed with HMRC. 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 during the year, as part of the Marlin acquisition, are aligned with Cabot's accounting policy in the future, at an unspecified date, resulting in the recognition of additional taxable profits.

No discounting was applied to the above deferred tax liabilities.

The current year movement in the deferred tax liability relating to FRS 26: loan portfolios solely comprised a credit to the profit and loss account.

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17. Deferred Tax Liability (continued)

The current year movement in the deferred tax liability relating to the Marlin loan portfolios is set out in the note on the previous page and comprises (a) a charge arising on the acquisition of the business and (b) a charge to the profit and loss account in respect of the movement of the balance post acquisition.

The movements between the opening and closing deferred tax liability balances were not charged or credited directly in the statement of total recognised gains and losses for the period.

The Finance Act 2014, which reduced the main rate of UK corporation tax to 20% effective from 1 April 2015, was enacted on 17 July 2014. As this change in rate was substantively enacted prior to 31 December 2014 it has been reflected in the deferred tax assets and liabilities at 31 December 2014.

18. Deferred tax asset

	Group 31 December 2014 £000	Group 31 December 2013 £000	**Company 31 December 2014 £000**	Company 31 December 2013 £000
Amounts provided for:				
Capital allowances in excess of depreciation	**1,685**	258	**-**	-
Unutilised trading losses carried forward	**1,211**	1,504	**570**	-
Deferred tax asset provided for	**2,896**	1,762	**570**	-
Amounts not provided for:				
Unutilised trading losses carried forward	**6,660**	2,177	**1,493**	2,177
Deferred tax asset not provided for	**6,660**	2,177	**1,493**	**2,177**

Tax losses have not been recognised by the Group in respect of (a) certain losses arising on the historic financing structure of the Group and (b) certain losses arising in the current period, and inherent in certain companies acquired during the period as the timing of utilisation of these tax losses is uncertain. All other tax losses have been recognised by the Group at 31 December 2014 (2013: £1.5 million) as the Directors are confident of the recovery of the tax losses within the medium term based of forecasts prepared.

No discounting was applied to the above deferred tax asset balances.

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18. Deferred tax asset (continued)

The current year movement in respect of each of the above recognised deferred tax assets were solely charged or credited to the profit and loss account. The movement between the opening and closing deferred tax asset balances were not charged or credited directly in the statement of total recognised gains and losses for the period, nor did the movements arise from the acquisition or disposal of businesses.

The Finance Act 2014, which reduced the main rate of UK corporation tax to 20% effective from 1 April 2015, was enacted on 17 July 2014. As this change in rate was substantively enacted prior to 31 December 2014 it has been reflected in the deferred tax assets and liabilities at 31 December 2014.

19. Share capital

	31 December 2014	31 December 2013
Called up, allotted and fully paid:	**£000**	£000
250,000 class "B" ordinary shares of £1 each, subscription price of £1.00	**250**	250

20. Profit and loss account

	Group 31 December 2014 £000	Group 31 December 2013 £000	**Company 31 December 2014 £000**	Company 31 December 2013 £000
Brought forward	**(37,208)**	(33,731)	**17,374**	16,044
Profit retained for the period	**13,710**	21,569	**6,691**	26,330
Dividend paid	**(2,725)**	(25,000)	**(2,725)**	(25,000)
Currency translation differences	**(317)**	(46)	**-**	-
Carried forward	**(26,540)**	(37,208)	**21,340**	17,374

During the quarter the Group mitigated its foreign currency exposures via asset and liability management.

The directors declared a dividend of £2.7 million during the year (2013: £25.0 million) payable to the direct parent of the Group, Cabot Credit Management Limited.

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21. Reconciliation of operating profit to net cash outflow from operating activities

	2014 £000	2013 £000
Operating profit	**80,377**	62,485
Depreciation of tangible fixed assets and profit on sale of tangible fixed assets	**3,865**	3,022
Amortisation of goodwill	**9,641**	1,328
Fair value movements in loan portfolios and other adjustments	**79,215**	55,476
Purchases of loan portfolios	**(192,317)**	(124,076)
(Increase) in debtors	**(10,441)**	(23,078)
Increase/ (Decrease) in creditors	**6,504**	(8,515)
	(23,156)	(33,358)

22. Analysis of cash flows

	2014 £000	2013 £000
Returns on investments and servicing of finance		
Interest received	**61**	187
Interest paid	**(354)**	(74)
Senior loan note interest paid	**(49,534)**	(28,480)
Facility fees and similar charges	**(3,561)**	(2,774)
Issue costs for Senior Secured Notes	**(5,123)**	(4,246)
Net cash outflow	**(58,511)**	(35,387)
Taxation		
UK corporation tax paid	**(1,704)**	(5,913)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	**(6,240)**	(1,987)
Sale of fixed assets	**218**	241
Purchase of intangible assets	**(1,626)**	-
Net cash outflow	**(7,648)**	(1,746)
Acquisitions and disposals		
Cost of investment in subsidiary	**(171,954)**	-
Cash and overdrafts acquired	**12,674**	-
Net cash outflow	**(159,280)**	(35,387)

Notes to the financial statements
For the year ended 31 December 2014

22. Analysis of cash flows (continued)

	2014 £000	2013 £000
Financing		
Funds received from senior committed revolving credit facility	**244,335**	65,000
Repayment of senior committed revolving credit facility	**(189,000)**	(75,000)
Bank loans repaid	**-**	-
Issue of senior secured notes	**175,000**	100,000
Net cash inflow	**230,335**	90,000

23. Analysis of changes in net debt

	31 December 2013 £000	Cash flow £000	Other non-cash changes £000	31 December 2014 £000
Cash in hand and at bank	36,700	(19,964)	-	**16,736**
Debt due within one year				
Debt due after one year	(352,111)	(395,265)	(79)	**(747,455)**
Total net debt	(315,411)	(415,229)	(79)	**(730,719)**

24. Reconciliation of net cash flow to movement in net debt

	2014 £000	2013 £000
(Decrease) / Increase in cash in the period	**(19,964)**	13,596
Other net changes in debt	**(395,344)**	(90,120)
Movement in net debt	**(415,308)**	(76,524)
Net debt at start of period	**(315,411)**	(238,887)
Net debt at end of period	**(730,719)**	(315,411)

Notes to the financial statements
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25. Reconciliation of movement in shareholder' (deficit)/funds

GROUP

	Profit and loss account £000	Called up share capital £000	Capital contribution reserve £000	Shareholder's funds £000
At 31 December 2013	(37,208)	250	136,157	99,199
Profit for the year	13,710	-	-	13,710
Dividend	(2,725)	-	-	(2,725)
Currency translation differences	(317)	-	-	(317)
At 31 December 2014	**(26,540)**	**250**	**136,157**	**109,867**

COMPANY

	Profit and loss account £000	Called up share capital £000	Capital contribution reserve £000	Shareholder's funds £000
At 31 December 2013	17,374	250	136,157	153,781
Profit for the year	6,691	-	-	6,691
Dividend	(2,725)	-	-	(2,725)
At 31 December 2014	**21,340**	**250**	**136,157**	**157,747**

26. Contingent liabilities

The Company and some of its subsidiaries are 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 and 2020. Amounts outstanding on such borrowings were £745.3 million at 31 December 2014 (2013: £365.0 million). The expectation is that any liability under these guarantees will not be crystallised in the foreseeable future.

27. Commitments

As at 31 December 2014 the Group entered into significant contracts with financial institutions for the purchase of additional portfolios for an expected price of £22.6 million (2013: £10.8 million).

28. Related party transactions

The Company has taken advantage of the exemption in paragraph 3(c) of FRS 8 not to disclose transactions with wholly owned group companies wherein any subsidiary undertaking which is a party to the transactions is wholly owned by a member of that Group.

During the year there were intercompany interest charges with companies outside of the Cabot Financial Limited Group but under common control that resulted in interest receivable of £0.1 million (2013: £0.5 million) and interest payable of £0.2 million (2013: £0.1 million). These amounts are included within the amounts owed by group undertakings of £3.1 million (2013: £1.1 million) and amounts owed to group undertakings of £11.0 million (2013: £6.4 million).

During the year to 31 December 2014 a fee of £nil (2013: £0.1 million) was charged to profit of ordinary activities before taxation in respect of monitoring services provided by AnaCap Calcium L.P. the former ultimate controlling party of the Company. The amount due in respect of these fees was £nil (2013: £nil).

In August 2012 an indirect subsidiary of AnaCap Credit Opportunities Fund II L.P. ("AOF") acquired a portfolio of defaulted consumer debt from a large UK financial services group (the "AOF Portfolio"). AOF is related party to the former ultimate parent undertaking of the Company, AnaCap Calcium L.P. Concurrently with the purchase of the AOF Portfolio, the Group acquired two portfolios of defaulted consumer debt from the same large UK financial services group, and also acts as master servicer for the AOF Portfolio for which it receives fees determined on an arms' length basis. The fees received by the Group in the year to 31 December 2014 were £nil (2013: £0.2 million). The amounts outstanding in respect of these fees was £nil (2013: £nil).

During the year to 31 December 2014, a fee of £0.7 million (2013: £0.2 million) was charged to profit of ordinary activities before taxation in respect of servicing fees payable to Midland Credit Management India Private Limited, a fellow subsidiary of Encore Capital Group Inc, the ultimate parent company as discussed in note 28. The amount due in respect of these fees as at 31 December 2014 was £0.1 million (2013: £0.2 million) which disclosed within other debtors.

During the year to 31 December 2014, fees of £0.4 million (31 December 2013: £nil) were recharged to Encore Capital Group Inc ("Encore"), the company's ultimate parent (note 29) for any fees incurred by the Cabot Financial Limited Group which solely relate to US GAAP and Sarbanes Oxley compliance. Amounts outstanding as at 31 December 2014 were £0.3 million (31 December 2013: £nil).

On 10 February 2014, as part of the acquisition of the Marlin group by Cabot Financial Holdings Group Limited, Ken Stannard acquired 46,716 B shares in Cabot Holdings Sárl ("CHS") for £77,549; 130,153 C shares for £216,054; 479,710 D shares for £4,797; 1,291,599 B Preferred Equity Certificates ("PECs") for £1,291,599; and 3,417,868 C PECs for £3,417,868 in exchange for various equity and loan instruments previously held in Marlin.

On 14 February 2014, Chris Ross-Roberts and Stephen Mound each acquired 106,580 D shares in CHS for £1,066.

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28. Related party transactions (continued)

On 7 March 2014, Neil Clyne, a director during 2013, disposed of 132,330 B shares in CHS for £50,649; 210,000 C shares for £166,250; 207,670 D shares for £2,077; and 3,658,557 B PECs for £3,658,557 (excluding accrued interest).

On 8 April 2014, Ken Stannard was issued a further 30,120 C shares in CHS at a value of £49,999.

On 20 June 2014 Stephen Mound disposed of 63,960 B shares in CHS for £106,174; 180,000 C shares for £298,800; 412,620 D shares for £4,126; and 1,768,431 B PECs for £1,768,431 (excluding accrued interest).

On 8 August 2014, Ken Stannard acquired an additional 17,759 C shares in CHS for £32,677.

29. Ultimate parent company

The Company's immediate parent company is Cabot Credit Management Limited, a company incorporated in England & 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.

Up until 15 May 2013 the Company's ultimate controlling party was AnaCap Calcium L.P., a partnership incorporated in Guernsey.

On 13 April 2013 Calcium Holdings S.a.r.l, a company controlled by AnaCap Calcium L.P, the former ultimate controlling party of the Company, entered into a Sale and Purchase Agreement ("the Agreement"), together with the Cabot management shareholders, to sell their shares in Cabot Credit Management Limited to Cabot (Group Holdings) Limited.

Cabot management, together with J.C. Flowers & Co LLC ("JCF"), a company incorporated in the United States, have made a reinvestment into Cabot Holdings S.a.r.l which indirectly owns Cabot (Group Holdings) Limited.

The Agreement contained certain conditions prior to completion which were satisfied on 25 April 2013 at which time the Agreement became unconditional. Completion of the purchase occurred on 15 May 2013. At that point in time JCF became the ultimate controlling party.

On 30 May 2013 Encore announced its agreement to acquire 50.1% of the equity held by JCF. Prior to completion of the Encore acquisition, JCF transferred its ownership of Cabot Holdings S.a.r.l into Janus Holdings Luxembourg S.a.r.l ("Janus"), a company incorporated in Luxembourg. On 1 July 2013 JCF sold 50.1% of its stake in Janus to Encore.

Notes to the financial statements
For the year ended 31 December 2014

30. Subsequent Events

On 10 February 2015 the Group amended and re-issued its existing senior secured revolving credit facility agreement to, among other things, increase the size of the committed revolving facility from £85.0 million to £195.0 million. The amended facility agreement also included an uncommitted accordion facility which will allow the facility to be increased by an additional £55.0 million, subject to obtaining the requisite commitments and compliance with the terms of the Group's other indebtedness among other conditions precedent. The margin on the facility was also amended from LIBOR plus a maximum of 4.0% to a flat rate of 3.5% per annum over LIBOR (or EURIBOR, for any loan drawn in Euro).

Appendix

(Unaudited)

Reconciliation of adjusted EBITDA

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

	Note	2014 £000	2013 £000
Net cash inflow/(outflow) from operating activities[(a)]	21	**(23,156)**	(33,358)
Working capital (increase)/decrease in the period [(b)]		**(33,449)**	31,412
Encore/JCF acquisition costs[(c)]		-	4,779
Loan portfolio acquisitions [(d)]		**227,384**	124,076
Marlin acquisition costs [(e)]		**1,891**	-
Adjusted EBITDA		**172,670**	126,909

The following table provides a reconciliation of profit on ordinary activities after taxation to Adjusted EBITDA:

	Note	2014 £000	2013 £000
Profit for the financial period		**13,710**	21,569
Tax on profit on ordinary activities	4	**3,825**	6,928
Interest receivable and similar income	6	**(154)**	(639)
Interest payable and similar charges	7	**63,440**	34,627
Depreciation and goodwill amortisation	3	**13,464**	4,350
Amortisation of intangible assets		**59**	-
Profit of sale of tangible fixed assets		**(18)**	-
Fair value movement on loan portfolios [(f)]	13	**76,453**	55,295
Encore/JCF acquisition costs[(c)]		-	4,779
Marlin acquisition costs [(e)]		**1,891**	-
Adjusted EBITDA		**172,670**	126,909

(a) Net cash inflow/(outflow) from operating activities includes cash outflows relating to portfolio acquisitions which represent the cost of all loan portfolios purchased in the period. A reconciliation to operating profit is set out in note 21.

(b) Working capital adjustments are the net movement in debtors and creditors, excluding the bank loans and related unamortised issue costs; the shareholder loan notes and related accrued interest; and corporation tax debtors and creditors, and creditors or accruals arising from the purchase of tangible fixed assets.

(c) Encore/JCF acquisition costs reflect costs incurred in preparing the group for sale.

(d) Loan portfolio acquisitions represent the cost of all loan portfolios purchased in the period.

(e) Marlin acquisition costs relate to costs incurred in relation to the acquisition of Marlin including senior management changes. These costs do not reflect the ongoing cash generating operations.

(f) This amount reflects the change in fair value of the loan portfolio.

Definitions

The financial information included within this annual report includes certain measures which are not accounting measures within the scope of UK GAAP. The primary non-GAAP measures included are 84-Month ERC, 120-Month ERC and Adjusted EBITDA which are explained below. These measures and all 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 Company reported under UK GAAP.

Estimated Remaining Collections ("ERC")

84-Month ERC and 120-Month ERC means the estimated gross collections on loan portfolios owned by the Group over an 84 or 120 month period, including those loan portfolios relating to debts owed by customers in Ireland, 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 revaluation 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 (although the measure included in the new senior committed revolving credit facility may include portfolios not located in the United Kingdom) 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 balance sheet value of the loan portfolios. However as stated in note 12 the cash flows used in the discounted cash flow calculation only take into account the estimated collections over the period to which 80% of the 120 month projected collections are achieved, being the "forecast period". The weighted average forecast period as at December 2014 was 78 months (2013: 76 months).

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.

Definitions

Adjusted EBITDA

The directors define Adjusted EBITDA as net cash inflow/(outflow) from operating activities adjusted to exclude the effects of working capital adjustments, Encore/JCF and Marlin acquisition costs, loan portfolio acquisitions and non-cash retranslation adjustments. A reconciliation of net cash inflow/(outflow) from operating activities and profit/(loss) on ordinary activities after taxation to Adjusted EBITDA has been included on page 60.

In this regard Adjusted EBITDA represents profit/(loss) on ordinary activities after taxation adjusted to exclude the effects of tax on profit/(loss) on ordinary activities, interest receivable and similar income, interest payable and similar charges, depreciation and goodwill amortisation, fair value movements on loan portfolios, gain on settlement of loan notes and related interest liability, loss on sale of fixed asset investment, integration costs relating to the purchase of Apex, Encore/JCF acquisition costs and the impairment of goodwill. A reconciliation of profit/(loss) on ordinary activities after taxation to Adjusted EBITDA has also been included on page 60.

Adjusted EBITDA is not a measure calculated in accordance with UK GAAP 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 inflow/(outflow) from operating activities", "profit/(loss) on ordinary activities after taxation", "operating profit/(loss)" or any other performance measure derived in accordance with UK GAAP. 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 debt 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

Key contacts and calendar

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Finance Calendar

Details of future results releases are available on the website