

Company Registration No. 06145019

Marlin Europe II Limited

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

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Marlin Europe II Limited

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For the year ended 31 December 2018

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Marlin Europe II Limited

Officers and professional advisors

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

Directors

K Stannard
P Richardson
C Buick

Secretary

S Whiteley

Auditor

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

Bankers

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

Registered office

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

Marlin Europe II Limited

Strategic Report

For the year ended 31 December 2018

Overview

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

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

Business review and results

The loss before tax for the year amounts to £6,180,000 (2017 – profit of £9,786,000). The carrying value of the Company's purchased loan portfolios is £12,273,000 (2017 - £22,151,000), a decrease of 45.0%.

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

Principal risks and uncertainties

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

- Cash flow and credit risk;
- Price risk;
- Current value of loan portfolios; and
- Going concern and liquidity risk.

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

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

Principal financial instruments

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

- Cash and cash equivalents;
- Trade and other receivables;
- Purchased loan portfolios;
- Trade and other payables; and
- Borrowings.

Marlin Europe II Limited

Strategic Report

For the year ended 31 December 2018

Cash flow and credit risk

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

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

Capital risk

The Company monitors "adjusted capital" which comprises all components of equity i.e. share capital, capital contribution reserve and retained earnings.

The Company's objectives when maintaining capital are:

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

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

Price risk

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

Going concern and liquidity risk

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

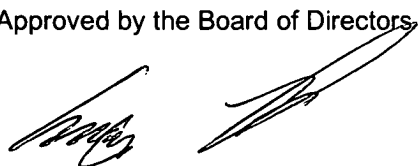
Marlin Europe II Limited
Strategic Report
For the year ended 31 December 2018

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

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

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

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



C Buick
Director

17 SCP 2019

Marlin Europe II Limited

Statement of Directors' responsibilities For the year ended 31 December 2018

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

Results and dividends

The audited financial statements and related notes for the year ended 31 December 2018 are set out on pages 10 to 22. The Company's result for the year after taxation was a loss of £5,038,000 (2017: profit of £8,302,000).

The Directors do not recommend the payment of a dividend in the year (2017: £ nil).

Directors

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

- K Stannard
- P Richardson
- C Buick

Qualifying third party indemnity provisions

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

Political donations

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

Future developments

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

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 Buick
Director

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Marlin Europe II Limited

Statement of Directors' responsibilities For the year ended 31 December 2018

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

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

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

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

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

Marlin Europe II Limited

Independent auditor's report to the members of Marlin Europe II Limited

Opinion

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

In our opinion, the financial statements:

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

Basis for opinion

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

Conclusions relating to going concern

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

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

Other information

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

Marlin Europe II Limited

Independent auditor's report to the members of Marlin Europe II Limited

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report and Director's Report.

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

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

Responsibilities of Directors

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

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

Marlin Europe II Limited

Independent auditor's report to the members of Marlin Europe II Limited

Auditor's responsibilities for the audit of the financial statements

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

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

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

Use of our report

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



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

17 September 2019

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

Marlin Europe II Limited

Statement of comprehensive income For the year ended 31 December 2018

	Notes	2018 £000	2017 £000
Revenue	4	(4,272)	13,760
Operating expenses		(1,317)	(2,161)
Operating (loss)/profit		(5,589)	11,599
Interest receivable and similar income	6	1,274	885
Interest payable and similar charges	7	(1,865)	(2,698)
(Loss)/profit on ordinary activities before taxation	5	(6,180)	9,786
Tax credit/(expense)	8	1,142	(1,484)
Total comprehensive (loss)/profit for the financial period		(5,038)	8,302

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

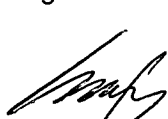
Marlin Europe II Limited

Statement of financial position As at 31 December 2018

	Notes	2018 £000	2017 £000
Current assets			
Purchased loan portfolios	9	12,273	22,151
Trade and other receivables	10	42,209	34,224
Cash in bank and on hand		10	26
		<u>54,492</u>	<u>56,401</u>
Creditors: amounts falling due within one year			
Trade and other payables	11	(7,232)	(5,685)
		<u>(7,232)</u>	<u>(5,685)</u>
Net current assets		<u>47,260</u>	<u>50,716</u>
Total assets less current liabilities		<u>47,260</u>	<u>50,716</u>
Creditors: amounts falling due after more than one year	12	(37,876)	(36,197)
Provisions	13	(529)	(626)
Net assets		<u>8,855</u>	<u>13,893</u>
Equity			
Called up share capital	14	-	-
Capital contribution reserve		11,631	11,631
Retained earnings		(2,776)	2,262
Total shareholders' funds		<u>8,855</u>	<u>13,893</u>

These financial statements of Marlin Europe II Limited, with registered number 06145019, were approved by the Board of Directors and authorised for issue on 17 SEP 2019.

Signed on behalf of the Board of Directors by:



C Buick
Director



Marlin Europe II Limited

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

	Share Capital	Capital contribution reserve	Retained earnings	Total
	£000	£000	£000	£000
As at 1 January 2017	-	11,631	(6,040)	5,591
<i>Comprehensive income for the period:</i>				
Profit for the period	-	-	8,302	8,302
Total comprehensive income	-	-	8,302	8,302
As at 31 December 2017	-	11,631	2,262	13,893
<i>Comprehensive income for the period:</i>				
Loss for the period	-	-	(5,038)	(5,038)
Total comprehensive income	-	-	(5,038)	(5,038)
As at 31 December 2018	-	11,631	(2,776)	8,855

Marlin Europe II Limited

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

1. General information

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

2. Basis of preparation and significant accounting policies

2.1. Basis of preparation

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

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

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

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

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

The results of Marlin Europe II Limited are included in the consolidated financial statements of Cabot Credit Management plc which are available from 1 Kings Hill Avenue, Kings Hill, West Malling, Kent, ME19 4UA.

2.2. Going concern

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

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.

Marlin Europe II Limited

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

2.3. Summary of significant accounting policies

Revenue

Revenue represents income derived from purchased loan portfolios.

Income derived from purchased loan portfolios represents the return for credit risk, adjusted for changes in the current values of the loan portfolios arising from periodic changes in estimates of future cash flows.

Taxation

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

Current tax

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

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

Deferred tax

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

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

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

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

Finance income and costs

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

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

Dividends Payable

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

Marlin Europe II Limited

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

2.3. Summary of significant accounting policies (continued)

Financial instruments

IFRS 9

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

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

Financial assets

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

Fair value through profit or loss

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

Amortised cost

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

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

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

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

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

Marlin Europe II Limited

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

2.3. Summary of significant accounting policies (continued)

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

Financial liabilities

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

Fair value through profit or loss

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

Other financial liabilities

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

Borrowings

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

2.4. Changes in accounting policies and disclosures

IFRS 9 Financial Instruments

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

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

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

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

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

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

Marlin Europe II Limited

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

2.4. Changes in accounting policies and disclosures (continued)

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

IFRS 15 Revenue from Contracts with Customers

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

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

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

IFRS 16 Leases

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

3. Significant accounting judgements, estimates and assumptions

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

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

Purchased loan portfolios

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

Marlin Europe II Limited

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

Significant accounting judgements, estimates and assumptions (continued)

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

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

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

4. Revenue

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

	2018 £000	2017 £000
Income on owned portfolios	4,041	6,763
Amortisation on owned portfolios	(8,313)	6,973
Provisions against owned portfolios	-	24
	<u>(4,272)</u>	<u>13,760</u>

5. Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging auditor's remuneration of £nil (2017: £nil). Auditor's remuneration of £8,500 (2017: £5,800) with respect to the Company's audit fees for the year was borne by another group company.

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

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

6. Interest receivable and similar income

	2018 £000	2017 £000
Interest income from parent and other Group undertakings ^(a)	<u>1,274</u>	<u>885</u>

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

7. Interest payable and similar charges

	2018 £000	2017 £000
Interest expense due to parent and other Group undertakings ^(a)	<u>1,865</u>	<u>2,698</u>

^(a) Interest payable to parent and other Group undertakings is accrued but not paid at a rate of LIBOR plus 4% on trading balances and at a rate of between 7% and 9.85% on loans

8. Tax

The income tax expense comprises:

	2018 £000	2017 £000
Current tax		
Corporation tax	(1,046)	1,582
Prior period adjustments	-	-
Total current tax	<u>(1,046)</u>	<u>1,582</u>
Deferred tax		
Origination and reversal of timing differences	(96)	(98)
Utilisation of tax losses	-	-
Total income tax (credit)/expense	<u>(1,142)</u>	<u>1,484</u>

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

	2018 £000	2017 £000
(Loss)/profit before tax	<u>(6,180)</u>	<u>9,786</u>
Income tax (credit)/expense calculated at standard UK hybrid corporation tax rate of 19.00% (2017: 19.25%)	(1,174)	1,883
Effects of:		
Utilisation of tax losses	32	(403)
Deferred tax	-	4
Change in tax rates	-	-
Total income tax (credit)/expense	<u>(1,142)</u>	<u>1,484</u>

Marlin Europe II Limited

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

Tax (continued)

The Finance Act 2017, which reduced the main rate of UK corporation tax to 19% effective from 1 April 2017 and to 17% effective from 1 April 2020, was enacted on 6 September 2017. As this change in rate was substantively enacted prior to 31 December 2016 it has been reflected in the deferred tax assets and liabilities at 31 December 2017.

9. Purchased loan portfolios

	2018 £000	2017 £000
Expected falling due after one year		
Purchased loan portfolios	11,086	20,737
Expected falling due within one year		
Purchased loan portfolios	1,187	4,184
Total	12,273	22,151

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

	2018 £000	2017 £000
Current value at the beginning of the financial period	22,151	24,218
Movement in current value ^(a)	(4,272)	13,760
Gross collections on owned portfolios	(4,041)	(6,763)
Portfolios disposed of in the period	(1,656)	(9,061)
Pre-determination cash and balancing adjustments	92	(3)
Current value at the end of the financial period	12,273	22,151

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

10. Trade and other receivables

	2018 £000	2017 £000
Amounts owed by Group undertakings	42,231	34,224

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

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

Marlin Europe II Limited

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

11. Trade and other payables

	2018 £000	2017 £000
Amounts owed to Group undertakings	7,196	5,629
Other payables	36	56
	<u>7,232</u>	<u>5,685</u>

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

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

12. Borrowings

Current

2018 £000	2017 £000
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Non-current

Loans from parent undertakings	<u>37,876</u>	<u>36,197</u>
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Loans are repayable in more than one but less than 5 years and interest is charged on the loans at a rate of LIBOR plus 4%.

13. Provisions

Deferred tax £000

Brought forward as at 1 January 2018	626
Unwinding of discount and changes in the discount rate	(97)
As at 31 December 2018	<u>529</u>

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

14. Share capital

	2018 £	2017 £
Allotted, called up and fully paid:		
1 Ordinary shares of £1 each, subscription price of £1	<u>-</u>	<u>-</u>

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

15. Ultimate parent Company

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

16. Contingent liabilities

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

17. Events after the balance sheet date

There are no post balance sheet events to report.