Q1 2019

Cabot Credit Management Limited

Unaudited results for the period ended 31 March 2019

Contents

About Cabot

Cabot Credit Management ("CCM") is a market leader in credit management services including debt purchasing, contingency collections, business process outsourcing and litigation.

From its inception in 1998, CCM has invested circa £2.7 billion in acquiring portfolios with a face value in excess of £26.8 billion. CCM has a 120 month ERC (estimated remaining collections) of £2.7 billion. It manages in the region of £6.1 billion of assets on behalf of clients, collects on average £75 million per month on portfolios it either owns or services on behalf of clients, and has delivered a consistently strong financial performance, having grown its business in each of the last 19 years without exception.

The Group, which has purchased circa 10 million customer accounts, employs over 2,800 people with offices in Kings Hill, Worthing, London, Bolton, Saltcoats, Glasgow, Dublin, Madrid, Paris, Lyon and Marseille. The company prides itself on its ethical values, customer service and high standards. It has an impressive list of accolades including:

- Investors in People Gold and Champion awards
- Best Use of Technology and Best Law Firm 2018, Credit Excellence Awards
- Employee Engagement Strategy Award 2019, The Institute of Customer Service

Officers and Professional Advisors

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

Directors

K Stannard
C Buick

Secretary

S Whiteley (Appointed 29 March 2019)

Company Registration Number

05754978

Registered office

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

Auditors

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

Directors' Report

Business review and results

The accounts presented herein are for Cabot Credit Management Limited ("CCM") and its consolidated subsidiaries (the "Group"). Previously Cabot Financial Limited ("CFL"), a wholly-owned direct subsidiary of CCM, produced and released quarterly consolidated accounts for the purpose of reporting to holders of the Group's outstanding senior secured notes. Beginning with the nine months ended 30 September 2017, the Group's results were consolidated and reported at the CCM level as permitted under the reporting provisions of the bond indentures. The differences between the consolidated accounts of CFL and the consolidated accounts of CCM relate to the level of equity, intercompany loans and balances owed to holding companies of which CCM is a subsidiary, and the incurrence of some professional fees at the CCM level. CCM's consolidated equity as of 31 March 2019 was £264.8 million, compared to CFL's consolidated equity as of 31 March 2019 of £263.2 million as a result of capital contributions offset by operating expenses in CCM. CCM's consolidated liabilities as of 31 March 2019 were £1,569.2 million, compared to CFL's consolidated liabilities as of 31 March 2019 of £1,571.0 million as a result of non-recurring expenses in CCM. CCM's and CFL's consolidated recurring operating expenses as of 31 March 2019 were £54.9 million. Other than the line items described above, there are no material differences between CCM's consolidated accounts and CFL's consolidated accounts.

The Directors of the Group present their unaudited condensed interim financial statements on the activities and financial performance of the Group for the three months ended 31 March 2019 prepared in accordance with the Offering Memorandum for the 6.500% Senior Secured Loan Notes due 2021, the 5.875% Senior Secured Floating Loan Notes due 2021, and the 7.500% Senior Secured Loan Notes due 2023.

Directors' Report

CABOT CREDIT MANAGEMENT
an encore capital group company

Key indicators of performance

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

(£ in millions, except for percentages and ratios unless otherwise noted)	3 months to 31 March 2019	3 months to 31 March 2018	Change %
84-Month ERC at reporting date	**2,246.8**	1,988.0	+13.0
120-Month ERC at reporting date	**2,681.6**	2,380.0	+12.7
180-Month ERC at reporting date	**3,079.0**	2,743.0	+12.2
Loan portfolio purchases [a]	**64.8**	49.5	+30.9
Accounts (in thousands) [b]	**9,919**	9,304	+6.6
Number of owned loan portfolios (in thousands) [c]	**1.8**	1.7	+5.9
Net debt [d]	**1,423.0**	1,298.7	+9.6
Collections on owned loan portfolios [e]	**117.5**	109.1	+7.7
Commission on serviced portfolios [f]	**21.6**	19.8	+9.1
Costs to collect [g]	**24.3%**	27.4%	-11.3
Adjusted EBITDA [h] [i]	**90.1**	79.6	+13.2
Adjusted EBITDA margin [j]	**63.8%**	61.1%	+4.4

[a] *Aggregate amount payable for all portfolio purchases in the period.*
[b] *Total number of individual consumer debts that the Group owns.*
[c] *Number of individual portfolios of accounts that the Group owns.*
[d] *Refer to Note 12 of the Interim Consolidated Financial Statements.*
[e] *Amounts collected from accounts on owned loan portfolios.*
[f] *Fees and commissions receivable from the servicing of loans on behalf of third parties.*
[g] *Collections activity costs divided by revenue adjusted to add back the effects of current value movements on owned loan portfolios and the book value of assets sold.*
[h] *See page 35 of the Interim Consolidated Financial Statements.*
[i] *2018 as reported.*
[j] *Adjusted EBITDA divided by revenue adjusted to add back the effects of current value movements on owned loan portfolios and the book value of assets sold.*

Directors’ Report

Asset base and returns on portfolios purchased

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

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

The table below shows the actual collections to date plus the 120-Month ERC for each vintage as at 31 March 2019, where a vintage represents the year of portfolio purchase. This means that for the portfolios purchased in the year to 31 March 2019, the actual collections will only include a maximum of 3 months of collections, compared to a maximum of 120 months for the portfolios purchased in 2009. Therefore as the portfolios age further both the "total estimated collections" and "gross cash-on-cash multiple" statistics shown for the more recent portfolios should increase significantly.

Cumulative vintage analysis

(£ in millions, except for ratios)	Purchase Price [a]	Actual collection to date	120-Month ERC	Total estimated collections [b]	Gross cash-on-cash multiple [c]
Pre 2008	292	693	72	765	2.62
2008	81	190	39	229	2.83
2009	74	213	48	261	3.53
2010	70	154	39	193	2.76
2011	182	387	189	576	3.16
2012	149	274	182	456	3.06
2013	188	297	211	508	2.70
2014	227	292	241	533	2.35
2015	289	300	286	586	2.03
2016	196	191	281	472	2.41
2017	321	179	416	595	1.85
2018	333	60	560	620	1.86
2019	65	3	118	121	1.86
Total	**2,467**	**3,233**	**2,682**	**5,915**	**2.40**

[a] *Aggregate amount paid for all portfolio purchases.*
[b] *Actual collection to 31 March 2019 plus the 120-Month ERC.*
[c] *Total estimated collections / purchase price.*

Independent Review Report to Cabot Credit Management Limited

CABOT CREDIT MANAGEMENT
an encore capital group company

Introduction

We have been engaged by the company to review the condensed set of financial statements in the quarterly financial report for the three months ended 31 March 2019 which comprises the interim condensed consolidated statement of financial position, interim condensed consolidated statement of comprehensive income, interim condensed consolidated statement of changes in equity and interim condensed consolidated statement of cash flows.

We have read the other information contained in the quarterly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Directors' responsibilities

The quarterly financial report is the responsibility of and has been approved by the directors. The directors are responsible for preparing the quarterly financial are prepared in accordance with International Financial Reporting Standards (IFRSs). The condensed set of financial statements included in this quarterly financial report has been prepared in accordance with International Accounting Standard 34, ''Interim Financial Reporting''.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the quarterly financial report based on our review.

Our report has been prepared in accordance with the terms of our engagement to assist the company and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of our terms of engagement or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, ''Review of Interim Financial Information Performed by the Independent Auditor of the Entity'', issued by the Financial Reporting Council for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the quarterly financial report for the three months ended 31 March 2019 is not prepared, in all material respects, in accordance with International Accounting Standard 34.

BDO LLP

Chartered Accountants

London

United Kingdom

8 May 2019

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

Interim Consolidated Statement of Comprehensive Income
For the three month period ended 31 March 2019

	Note	3 months to 31 March 2019 (unaudited) £m	3 months to 31 March 2018 (restated) £m
Revenue			
Income from portfolio investments		**64.4**	59.3
Positive impairment of portfolio investments		**12.2**	8.1
Servicing revenue		**21.6**	19.8
Other income		**2.1**	1.2
Total Revenue	3	**100.3**	88.4
Operating expenses			
Collection activity costs		**(35.4)**	(35.6)
Recurring other operating expenses		**(19.5)**	(16.9)
Amortisation of acquired intangibles	4	**(1.2)**	(1.2)
Non-recurring other operating expenses	4	**(0.3)**	(2.3)
Total Operating expenses		**(56.4)**	(56.0)
Operating profit		**43.9**	32.4
Recurring finance income		**-**	0.1
Gain on derivative financial instruments	4	**-**	0.8
Total finance income		**-**	0.9
Recurring finance costs	5	**(22.5)**	(20.7)
Loss on derivative financial instruments	4	**(1.2)**	-
Total finance costs		**(23.7)**	(20.7)
Total profit before taxation		**20.2**	12.6
Total tax expense	6	**(3.9)**	(2.8)
Profit for the financial period		**16.3**	9.8
Other comprehensive income			
Other comprehensive income to be reclassified to profit and loss in subsequent periods:			
Exchange differences on translation of foreign operations		**0.3**	0.8
Total comprehensive income for the period		**16.6**	10.6
Underlying profit for the period	4	***18.6***	*12.4*

Interim Consolidated Statement of Comprehensive Income
For the three month period ended 31 March 2019

	3 months to 31 March 2019 (unaudited) £m	3 months to 31 March 2018 (restated) £m
Profit for the period attributable to:		
Equity holders of the parent	**16.2**	9.5
Non-controlling interest	**0.1**	0.3
	16.3	9.8
Other comprehensive income for the period attributable to:		
Equity holders of the parent	**0.3**	0.8
	0.3	0.8
Total comprehensive income for the period attributable to:		
Equity holders of the parent	**16.5**	10.3
Non-controlling interest	**0.1**	0.3
	16.6	10.6

Interim Consolidated Statement of Financial Position
As at 31 March 2019

	Note	31 March 2019 (unaudited) £m	31 December 2018 (restated) £m
Assets			
Non-current assets			
Goodwill		**326.1**	326.6
Intangible assets		**48.8**	51.1
Property, plant and equipment		**7.7**	7.8
Right-of-use asset	2.2	**16.2**	11.7
Deferred tax asset		**4.1**	4.1
		402.9	401.3
Current assets			
Cash and cash equivalents	7	**56.5**	64.8
Purchased loan portfolios	8	**1,320.5**	1,314.0
Inventory	9	**17.1**	14.7
Trade and other receivables	10	**36.1**	33.0
Current tax asset		**0.9**	0.8
		1,431.1	1,427.3
Total assets		**1,834.0**	1,828.6
Equity and liabilities			
Equity			
Share capital		**0.4**	0.4
Capital contribution reserve		**19.4**	19.7
Retranslation reserve		**(26.8)**	(27.1)
Accumulated profits		**270.4**	254.2
Equity attributable to owners of the parent		**263.4**	247.2
Non-controlling interest		**1.4**	1.3
Total equity		**264.8**	248.5

Interim Consolidated Statement of Financial Position
As at 31 March 2019

	Notes	31 March 2019 (unaudited) £m	31 December 2018 (restated) £m
Liabilities			
Non-current liabilities			
Borrowings	12	**1,445.3**	1,445.8
Lease liabilities	2.2	**17.6**	12.6
Deferred tax liability		**22.7**	23.2
Provisions	13	**3.3**	3.1
		1,488.9	1,484.7
Current liabilities			
Trade and other payables	11	**59.0**	65.7
Borrowings	12	**0.8**	11.8
Lease liabilities	2.2	**3.0**	3.4
Current tax liabilities		**7.7**	3.7
Provisions	13	**3.2**	4.1
Other financial liabilities		**6.6**	6.7
		80.3	95.4
Total liabilities		**1,569.2**	1,580.1
Total equity and liabilities		**1,834.0**	1,828.6

These financial statements of Cabot Credit Management Limited, with registered number 05754978, were approved by the Board of Directors and authorised for issue on 8 May 2019.

Signed on behalf of the Board of Directors by:

C Buick
Director

Cabot Credit Management Limited

Interim Consolidated Statement of Changes in Equity (unaudited)

	Share Capital	Capital contribution reserve	Retrans-lation reserve	Accum-ulated profit	Total attributable to parent	Non-Controlling interest	Total equity
	£m	£m	£m	£m	£m	£m	£m
As at 1 January 2018	0.4	16.1	(27.9)	200.2	188.8	0.7	189.5
IFRS 16 transitional adjustment	-	-	-	(4.1)	(4.1)	-	(4.1)
Restated as at 1 January 2018	0.4	16.1	(27.9)	196.1	184.7	0.7	185.4
Profit for the period	-	-	-	9.5	9.5	0.3	9.8
Other comprehensive income	-	-	0.8	-	0.8	-	0.8
Total comprehensive income	-	-	0.8	9.5	10.3	0.3	10.6
Capital contribution received	-	0.3	-	-	0.3	-	0.3
As at 31 March 2018	0.4	16.4	(27.1)	205.6	195.3	1.0	196.3
Profit for the period	-	-	-	48.6	48.6	0.3	48.9
Capital contribution received	-	3.3	-	-	3.3	-	3.3
As at 31 December 2018	0.4	19.7	(27.1)	254.2	247.2	1.3	248.5
Profit for the period	**-**	**-**	**-**	**16.2**	**16.2**	**0.1**	**16.3**
Other comprehensive income	**-**	**-**	**0.3**	**-**	**0.3**	**-**	**0.3**
Total comprehensive income	**-**	**-**	**0.3**	**16.2**	**16.5**	**0.1**	**16.6**
Capital contribution realised	**-**	**(0.3)**	**-**	**-**	**(0.3)**	**-**	**(0.3)**
As at 31 March 2019	**0.4**	**19.4**	**(26.8)**	**270.4**	**263.4**	**1.4**	**264.8**

Interim Consolidated Statement of Cash Flows
For the period ended 31 March 2019

	Notes	3 months to 31 March 2019 (unaudited) £m	3 Months to 31 March 2018 (restated) £m
Net cash generated in operating activities	14	**13.7**	20.0
Investing activities			
Purchases of property, plant and equipment & intangibles		**(2.3)**	(1.0)
Contingent consideration paid		**(0.1)**	-
Net cash used in investing activities		**(2.4)**	(1.0)
Financing activities			
Interest paid		**(31.6)**	(32.0)
Lease payments		**(0.8)**	(0.7)
Repayment of borrowings		**(41.6)**	(23.2)
Proceeds from borrowings		**54.7**	47.9
Cash flows on derivatives		**-**	(1.0)
Net cash used in financing activities		**(19.3)**	10.0
Net movement in cash and cash equivalents		**(8.0)**	10.0
Cash and cash equivalents at beginning of period		**64.8**	57.7
Effect of foreign exchange rate changes on cash and cash equivalents		**(0.3)**	0.3
Cash and cash equivalents at end of period		**56.5**	68.0

Notes to the interim consolidated financial statements
For the three months ended 31 March 2019

1. General information

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

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

2. Significant accounting policies

2.1. Basis of preparation

These interim consolidated financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*. They do not include all disclosures that would otherwise be required in a complete set of financial statements and should be read in conjunction with the Group's annual financial statements as at 31 December 2018.

The preparation of interim consolidated financial statements in compliance with IAS 34 requires the use of certain critical accounting estimates. It also requires Group management to exercise judgement in applying the Group's accounting policies. There have been no material revisions to the nature and estimates of amounts reported in the annual financial statements for the year ended 31 December 2018.

The accounting policies adopted in the preparation of the interim condensed financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018. Other than the adoption of new standards as discussed in note 2.2, the Group has not adopted any other standard, interpretation or amendment that has been issued but is not effective.

These condensed consolidated interim financial statements do not comprise statutory financial statements within the meaning of Section 435 of the Companies Act 2006. Statutory financial statements for the year ended 31 December 2018 can be found on our website (www.cabotcm.com). The auditor's report on those financial statements:

(i) was unqualified;
(ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report; and
(iii) did not contain a statement under Section 498 (2) or (3) of the Companies Act 2006.

2.2. Changes in accounting policies and disclosures

IFRS 16 *Leases*

The Group adopted IFRS 16 *Leases* from 1 January 2019 on a fully retrospective basis, which replaced IAS 17 *Leases*.

IFRS 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for almost all leases, and therefore has resulted in the recognition of a right-of-use asset and lease liability in the Consolidated Statement of Financial Position of the Group from 1 January 2018. The 2018 comparatives included in these financial statements have been adjusted to reflect the adoption of IFRS 16. A summary of the changes made to the Consolidated Statement of Comprehensive Income and the Consolidated Statement of Financial Position have been included at the end of this note.

All leases are accounted for by recognising a right-of-use asset and a lease liability except for:

- Leases of low value assets; and
- Leases with a term of 12 months or less.

Right-of-use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for:

- lease payments made at or before commencement of the lease;
- initial direct costs incurred; and
- the amount of any provision recognised where the Group is contractually required to dismantle, remove or restore the leased asset, if material.

The Group leases properties, plant and equipment, which are either at a fixed rate over the lease term, or rates that are adjusted periodically for market changes.

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the minimum lease term, with the discount rate determined by reference to the rate inherent in the lease unless this is not readily determinable, in which case an appropriate alternative rate is used.

On initial recognition, the carrying value of the lease liability also includes:

- amounts expected to be payable under any residual value guarantee;
- the exercise price of any purchase option granted in favour of the Group if it is reasonable certain to assess that option, if material;
- any penalties payable for terminating the lease, if the term of the lease has been estimated on the basis of termination option being exercised, if material.

Subsequent to initial measurement, lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Right-of-use assets are amortised on a straight-line basis over the remaining term of the lease.

Notes to the interim consolidated financial statements
For the three months ended 31 March 2019

When the Group revises its estimate of the term of any lease, it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted using a revised discount rate. An equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortised over the remaining (revised) lease term.

The retrospective changes made to the 2018 financials are summarised in the tables below;

	3 months to 31 March 2018 (reported) £m	IFRS 16 adjustments £m	3 months to 31 March 2018 (restated) £m
Revenue			
Income from portfolio investments	59.3	-	59.3
Positive impairment of portfolio investments	8.1	-	8.1
Servicing revenue	19.8	-	19.8
Property sales income	1.2	-	1.2
Total Revenue	88.4	-	88.4
Operating expenses			
Collection activity costs	(35.6)	-	(35.6)
Recurring other operating expenses	(17.1)	0.2	(16.9)
Amortisation of acquired intangibles	(1.2)	-	(1.2)
Non-recurring other operating expenses	(2.3)	-	(2.3)
Total Operating expenses	(56.2)	0.2	(56.0)
Operating profit	32.2	0.2	32.4
Recurring finance income	0.1	-	0.1
Gain on derivative financial instruments	0.8	-	0.8
Total finance income	0.9	-	0.9
Recurring finance costs	(20.4)	(0.3)	(20.7)
Loss on derivative financial instruments	-	-	-
Total finance costs	(20.4)	(0.3)	(20.7)
Total profit before taxation	12.7	(0.1)	12.6
Total tax expense	(2.8)	-	(2.8)
Profit for the financial period	9.9	(0.1)	9.8

Notes to the interim consolidated financial statements
For the three months ended 31 March 2019

	31 December 2018 (reported) £m	IFRS 16 adjustments £m	31 December 2018 (restated) £m
Assets			
Non-current assets			
Goodwill	326.6	-	326.6
Intangible assets	51.1	-	51.1
Property, plant and equipment	7.8	-	7.8
Right-of-use asset	-	11.7	11.7
Deferred tax asset	4.1	-	4.1
	389.6	11.7	401.3
Current assets			
Cash and cash equivalents	64.8	-	64.8
Purchased loan portfolios	1,314.0	-	1,314.0
Inventory	14.7	-	14.7
Trade and other receivables	33.0	-	33.0
Current tax asset	0.8	-	0.8
	1,427.3	-	1,427.3
Total assets	1,816.9	11.7	1,828.6
Equity and liabilities			
Equity			
Share capital	0.4	-	0.4
Capital contribution reserve	19.7	-	19.7
Retranslation reserve	(27.1)	-	(27.1)
Accumulated profits	258.5	(4.3)	254.2
Equity attributable to owners of the parent	251.5	(4.3)	247.2
Non-controlling interest	1.3	-	1.3
Total equity	252.8	(4.3)	248.5

Notes to the interim consolidated financial statements
For the three months ended 31 March 2019

	31 December 2018 (reported) £m	IFRS 16 adjustments £m	31 December 2018 (restated) £m
Liabilities			
Non-current liabilities			
Borrowings	1,445.8	-	1,445.8
Lease liability	-	12.6	12.6
Deferred tax liability	23.2	-	23.2
Other financial liabilities	-	-	-
Provisions	3.1	-	3.1
	1,472.1	12.6	1,484.7
Current liabilities			
Trade and other payables	65.7	-	65.7
Borrowings	11.8	-	11.8
Lease liability	-	3.4	3.4
Current tax liabilities	3.7	-	3.7
Provisions	4.1	-	4.1
Other financial liabilities	6.7	-	6.7
	92.0	3.2	95.4
Total liabilities	1,564.1	15.8	1,580.1
Total equity and liabilities	1,816.9	11.7	1,828.6

2.3. Significant accounting judgements, estimates and assumptions

The key judgements and assumptions relate to the future cash receipts expected. A purchased loan portfolio is initially recognised at the price paid plus any attributable transaction costs. A yield is established at the initial recognition of a loan portfolio, based on the purchase price and the timing and size of the estimated future cash receipts.

At each reporting date expected cash receipts are revisited and updated if appropriate. Expected cash receipts for any future period comprise amounts that the Group anticipates recovering from the purchased loan portfolios. The forecast of expected future cash receipts is 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. An unbiased probability weighted forecast is produced to use in evaluating the cash flow forecast 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.

3. Revenue

An analysis of revenue by activity is as follows:	**3 months ended 31 March 2019 (unaudited) £m**	3 months ended 31 March 2018 (restated) £m
Income on owned portfolios	**64.4**	59.3
Positive impairment of portfolio investments	**12.2**	8.1
Servicing revenue	**21.6**	19.8
Other income	**2.1**	1.2
	100.3	88.4
Of which outside United Kingdom		
Income on owned portfolios	**12.4**	10.2
Positive impairment of portfolio investments	**5.5**	1.7
Servicing revenue	**3.8**	4.0
Other income	**2.1**	1.2
	23.8	17.1

Notes to the interim consolidated financial statements
For the three months ended 31 March 2019

4. Underlying Profit

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

	3 months ended 31 March 2019 (unaudited) £m	3 months ended 31 March 2018 (restated) £m
Profit after tax	**16.3**	**9.8**
Add back: Non-recurring other operating (income)/expenses		
Other non-recurring operating expenses	**0.3**	2.3
Total non-recurring other operating expenses	**0.3**	2.3
Net loss/(gain) on derivative instrument	**1.2**	(0.8)
Foreign exchange losses	**0.2**	-
Amortisation of acquired intangibles	**1.2**	1.2
Items excluded from underlying profit	**2.9**	2.7
Tax effect of above	**(0.6)**	(0.1)
Underlying profit after tax	**18.6**	12.4

Notes to the interim consolidated financial statements
For the three months ended 31 March 2019

5. Recurring finance costs

	3 months ended 31 March 2019 (unaudited) £m	3 months ended 31 March 2018 (restated) £m
Interest and fees on borrowings	**6.5**	4.8
Interest on Senior Secured Notes and related charges	**15.5**	15.5
Unwind of discount on deferred consideration	**-**	0.1
Unwind of discount on leases	**0.3**	0.3
Foreign exchange on borrowings	**0.2**	-
Total recurring finance cost	**22.5**	20.7

6. Tax

The applicable corporation tax rate for the period to 31 March 2019 was 19% (31 March 2018: 19%). The Group's effective consolidated tax rate for the period to 31 March 2019 was 19% (31 March 2018: 22%). The current period effective rate tax is reflective of the applicable corporate tax rate for the period and reconciling items.

7. Cash and cash equivalents

	31 March 2019 (unaudited) £m	31 December 2018 (restated) £m
Own cash balances	**36.7**	44.3
Client cash balances[a]	**19.8**	20.5
Total	**56.5**	64.8

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

Notes to the interim consolidated financial statements
For the three months ended 31 March 2019

8. Purchased loan portfolios

	31 March 2019 (unaudited) £m	31 December 2018 (restated) £m
Expected to fall due after 12 months		
Purchased loan portfolios	**1,157.8**	1,163.2
Expected to fall due within 12 months		
Purchased loan portfolios	**162.7**	150.8
Total	**1,320.5**	1,314.0

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

	31 March 2019 (unaudited) £m	31 December 2018 (restated) £m
Current value at the beginning of the financial period	**1,314.0**	1,143.0
Movement in current value [(a)]	**76.6**	299.0
Gross collections on owned portfolios	**(117.5)**	(453.5)
Portfolios acquired during the period, net of determination cash	**62.3**	327.3
Portfolios sold during the period	**-**	(3.1)
Transfer to inventory	**(0.9)**	(3.2)
Foreign exchange	**(14.0)**	4.5
Current value at the end of the financial period	**1,320.5**	1,314.0

[(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 3.*

Notes to the interim consolidated financial statements
For the three months ended 31 March 2019

9. Inventory

	31 March 2019 (unaudited) £m	31 December 2018 (restated) £m
Cost brought forward	**14.7**	10.0
Inventory acquired	**2.5**	6.1
Transfer from purchased loan portfolios	**0.9**	3.2
Cost of inventory sold in the period	**(1.1)**	(4.8)
Foreign exchange	**0.1**	0.2
Cost carried forward	**17.1**	14.7

10. Trade and other receivables

	31 March 2019 (unaudited) £m	31 December 2018 (restated) £m
Trade and other receivables	**28.1**	22.2
Amounts owed by parent undertakings	**1.1**	0.6
Prepayments, accrued income and other debtors	**6.5**	8.6
Other financial assets	**0.4**	1.6
	36.1	33.0

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

11. Trade and other payables

	31 March 2019 (unaudited) £m	31 December 2018 (restated) £m
Trade payables	**19.9**	21.9
Other tax and social security	**5.1**	3.2
Amounts owed to parent undertakings	**2.3**	2.3
Other payables	**12.3**	14.8
Accruals and deferred income	**19.4**	23.5
	59.0	65.7

The Group considers that the carrying amounts of financial liabilities included above are a reasonable approximation of a fair value due to their short term nature. Interest accrued on amounts owed to parent undertakings is at an arm's length basis and is accrued, not paid.

12. Borrowings

	31 March 2019 (unaudited) £m	31 December 2018 (restated) £m
Non-current		
Senior Secured Notes	**852.4**	864.5
Bank loans and overdrafts	**241.3**	229.6
Other loans	**351.6**	351.7
	1,445.3	1,445.8
Current		
Senior Secured Notes	**3.2**	14.2
Bank loans and overdrafts	**(1.6)**	(1.6)
Other loans	**(0.8)**	(0.8)
	0.8	11.8
Total borrowings	**1,446.1**	1,457.6
Analysis of loan repayments:		
Within one year	**0.8**	11.8
In more than one year but less than 5 years	**1,445.3**	1,445.8
	1,446.1	1,457.6

The following table analyses the Senior Secured Notes ("SSN") held by the Group, together with the Directors assessment of their fair value based on the Luxembourg Stock Exchange quoted price at the reporting date.

	31 March 2019 (unaudited) £m	31 December 2018 (restated) £m	**Maturity date**	**Interest rate**	**Fair value 31 March 2019 (unaudited) £m**	Fair value 31 December 2018 (restated) £m
2021 SSN	**80.0**	80.0	April 2021	6.500%	**79.4**	78.2
2021 Floating Rate SSN	**266.8**	279.5	November 2021	EURIBOR +5.875%	**265.8**	270.3
2023 SSN	**512.9**	512.9	October 2023	7.500%	**501.7**	465.5
	859.7	872.4			**846.9**	814.0
Asset backed lending facility	**300.0**	300.0	September 2023	LIBOR +2.85%	**300.0**	300.0
Asset backed lending facility	**50.0**	50.0	September 2023	LIBOR +4.075%	**50.0**	50.0
Revolving credit facility	**245.3**	233.9	September 2021/ March 2022		**245.3**	233.9
Other loans	**4.7**	5.0			**4.7**	5.0
Unamortised debt issue costs	**(16.9)**	(17.9)			**(16.9)**	(17.9)
Accrued interest	**3.3**	14.2			**-**	-
	1,446.1	1,457.6			**1,430.0**	1,385.0

Based on the Luxembourg Stock Exchange quoted price at the reporting date, the Directors believe the fair value of the senior secured loan notes to be £846.9 million (31 December 2018: £814.0 million). For all other items, the Directors believe the fair value of the liabilities is not materially different to the carrying value because the balances are readily converted to cash and because there has been no significant change in interest rates since the amounts were initially recognised.

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

	31 March 2019 (unaudited) £m	31 December 2018 (restated) £m
Borrowings	**1,446.1**	1,457.6
Cash (note 7)	**(56.5)**	(64.8)
Add back: unamortised facility fees and similar costs	**16.9**	17.9
Add back: client cash (note 7)	**19.8**	20.5
Deduct: accrued interest	**(3.3)**	(14.2)
	1,423.0	1,417.0

13. Provisions

	Decommissioning £m	**Restructuring £m**	**Other £m**	**Total £m**
Brought forward as at 1 January 2019	0.1	1.8	5.3	7.2
Reclassification	0.2	(0.2)	-	-
Utilisation	-	(0.7)	-	(0.7)
As at 31 March 2019	0.3	0.9	5.3	6.5
Current	-	0.9	2.3	3.2
Non-current	0.3	-	3.0	3.3

Decommissioning

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

Restructuring

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

In December 2017 the Group concluded a consultation process and announced a program impacting the servicing businesses operated from the site at Brackley. The programme was fully executed by the end of 2018. The remaining provision represents invoices that are yet to be received relating to the closure of the Brackley site.

Notes to the interim consolidated financial statements
For the three months ended 31 March 2019

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

14. Notes to the statement of cash flows

	31 March 2019 (unaudited) £m	31 March 2018 (restated) £m
Profit for the period	**16.3**	9.8
Adjustments for:		
Current value movement on owned loan portfolios	**(76.6)**	(67.4)
Non-recurring operating costs	**(0.8)**	-
Net finance costs	**23.3**	19.5
Income tax expense	**3.9**	2.8
Unwind of discount on leases	**0.3**	0.3
Non-recurring costs	**0.3**	2.0
Non cash expenses	**2.7**	4.2
Operating cash flows before movements in working capital	**(30.6)**	(28.8)
(Increase)/decrease in receivables	**(6.0)**	1.0
Decrease in inventory	**0.1**	0.7
Increase/(decrease) in payables and provisions	**(4.8)**	(9.4)
Net cash generated from operating activities before purchases	**(41.3)**	(36.5)
Collections on owned loan portfolios	**117.5**	109.1
Purchases of loan portfolios	**(62.1)**	(52.6)
Acquisitions of Inventory	**(2.5)**	-
Net proceeds on disposal of inventory	**2.1**	-
Net cash generated in operating activities	**13.7**	20.0

15. Financial Instruments

(a) Carrying amount of financial instruments

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

	31 March 2019 (unaudited) £m	31 December 2018 (restated) £m
Financial assets		
Financial assets at fair value through profit and loss		
Derivative assets (note 10)	**0.4**	1.6
Financial assets at amortised cost		
Cash and cash equivalents (note 7)	**56.5**	64.8
Loan portfolios (note 8)	**1,320.5**	1,314.0
Trade and other receivables (note 10)	**29.2**	22.8
Total	**1,406.6**	1,403.2
Financial liabilities		
Financial liabilities at fair value through profit and loss		
Other financial liabilities	**4.8**	4.9
Financial liabilities at amortised cost		
Trade and other payables (note 11)	**53.9**	62.5
Loans and borrowings (note 12)	**1,446.1**	1,457.6
Other financial liabilities	**1.8**	1.8
Total	**1,506.6**	1,526.8

(b) Carrying Amount versus Fair value

The following table compares the carrying amounts and fair values of the Group's financial assets and financial liabilities as at 31 March 2019. The Group considered that the carrying amount of the following financial assets and financial liabilities are a reasonable approximation of their fair value due to their short term nature:

- Trade and other receivables;
- Trade and other payables; and
- Cash and cash equivalents.

The carrying amount of other payables is considered to be equal to its fair value as there has been no significant change in interest rates since the payable was initially recognised.

Notes to the interim consolidated financial statements
For the three months ended 31 March 2019

	31 March 2019 (unaudited)		31 December 2018 (restated)	
	Carrying Amount £m	Fair Value £m	Carrying Amount £m	Fair Value £m
Financial Assets				
Cash and cash equivalents (note 7)	56.5	56.5	64.8	64.8
Loan portfolios (note 8)	1,320.5	1,320.5	1,314.0	1,314.0
Trade and other receivables (note 10)	29.2	29.2	22.8	22.8
Derivative financial assets	0.4	0.4	1.6	1.6
Total	**1,406.6**	**1,406.6**	1,403.2	1,403.2
Financial liabilities				
Trade and other payables (note 11)	53.9	53.9	62.5	62.5
Loans and borrowings (note 12)	1,446.1	1,430.0	1,457.6	1,385.0
Other payables	6.6	6.6	6.7	6.7
Total	**1,506.6**	**1,490.5**	1,526.8	1,454.2

(c) Fair value Hierarchy

The level in the fair value hierarchy within which the financial asset or financial liability is determined on the basis of the lowest level input that is significant to the fair value measurement.

Financial assets and liabilities are classified in their entirety into only one of the three levels. The fair value hierarchy has the following levels:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

For the Group, the fair value of the acquired portfolios is determined using a discounted cash flow model with unobservable inputs and are classified as level 3 measurements. Derivatives held by the Group are model-valued using interest and currency market rates as input data. Further information on the deferred contingent consideration and loans and borrowings can be found in notes 15 and 12 respectively. The remaining financial assets and liabilities carried have a fair value equal to their carrying value.

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The following table analyses financial instruments measured at fair value at the reporting date by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position.

	31 March 2019 (unaudited) £m	Level 1 £m	Level 2 £m	Level 3 £m
Financial instruments measured at fair value				
Derivative assets	0.4	-	0.4	-
Deferred contingent consideration	(4.8)	-	-	(4.8)
Total	(4.4)	-	0.4	(4.8)
Financial instruments at amortised cost				
Loan portfolios	1,320.5	-	-	1,320.5
Loans & borrowings	(1,446.1)	-	-	(1,446.1)
Total	(125.6)	-	-	(125.6)

	31 December 2018 (restated) £m	Level 1 £m	Level 2 £m	Level 3 £m
Financial instruments measured at fair value				
Derivative assets	1.6	-	1.6	-
Deferred contingent consideration	(4.9)	-	-	(4.9)
Total	(3.3)	-	1.6	(4.9)
Financial instruments at amortised cost				
Loan portfolios	1,314.0	-	-	1,314.0
Loans & borrowings	(1,457.6)	-	-	(1,457.6)
Total	(143.6)	-	-	(143.6)

(d) Transfers during the period

During the period ending 31 March 2019:

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

(e) Valuation techniques

(i) Deferred contingent consideration

Deferred contingent consideration is measured by calculating the current expectation of payment using the contractual terms relating to each individual liability, based on the latest view of future performance, discounted to present value (where this is considered material). The total deferred contingent consideration at 31 March 2019 relating to historic acquisitions amounts to £4.8 million (31 December 2018: £4.9 million).

During the year to date, payments of £0.1 million have been made. No adjustments for revaluation have been made. For the year to 31 December 2018, an aggregate downward revaluation of £4.2 million was recognised and payments of £0.2 million were made.

16. Related party transactions

During the three month period to 31 March 2019 there were intra-group interest charges with companies outside of the Group but under common control that resulted in interest income of £nil million (31 March 2018: £Nil million) and interest expenses of £Nil million (31 March 2018: £Nil million). These amounts are included within the amounts owed by parent undertakings of £1.1 million (31 December 2018: £0.6 million) and amounts owed to parent undertakings of £2.3 million (31 December 2018: £2.3 million).

During the three month period to 31 March 2019, fees of £0.1 million (31 March 2018: £0.2 million) were recharged to Encore Capital Group Inc ("Encore"), the Company's ultimate parent for any fees incurred by the Group which solely relate to US GAAP and Sarbanes Oxley compliance. Amounts outstanding as at 31 March 2019 were £2.2 million (31 December 2018: £1.2 million).

During the three month period to 31 March 2019, fees of £nil million (31 March 2018: £nil) were recharged to Encore Capital Group UK Limited, a company wholly owned by Encore, for work performed in relation to activities within the wider Encore Group but outside of the Cabot Credit Management Limited Group. Amounts outstanding as at 31 March 2019 were £1.7 million (31 December 2018: £1.7 million).

During the three month period to 31 March 2019, fees of £nil million (31 March 2018: £0.1 million) were recharged from Encore for costs that it incurred on behalf of the Group. Amounts due as at 31 March 2019 were £1.3 million (31 December 2018: £0.9 million).

During the three month period to 31 March 2019, a fee of £1.6 million (31 March 2018: £0.7 million) was charged to the statement of comprehensive income in respect of servicing fees payable to Grove Performance Management Limited, a fellow subsidiary of Encore. The amount due in respect of these fees as at 31 March 2019 was £0.6 million (31 December 2018: £0.2 million) which is included within other payables.

17. Events after the balance sheet date

On 29 April 2019, CCM entered into a binding agreement to purchase 100% of the share capital of Lucania Gestion, S.L, a Spanish credit management services business, for non cash consideration of approximately €9 million. The purchase is from a business under common control within Encore, and work is still being undertaken to conclude on the IFRS 3 calculations. The purchase will be funded via a contribution from Encore.

Appendix

(unreviewed)

Cabot Credit Management Limited

Reconciliation of Adjusted EBITDA

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

	Note	**3 months ending 31 March 2019 (unaudited) £m**	3 months ending 31 March 2018 (restated) £m
Net cash used in operating activities	14	**13.7**	20.0
Purchases of loan portfolios	8	**62.1**	52.6
Acquisition of Inventory		**2.5**	-
		78.3	72.6
Non-recurring operating costs		**0.8**	-
Other working capital movements		**11.0**	7.7
Adjusted EBITDA		**90.1**	80.3

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

	Note	**3 months ending 31 March 2019 (unaudited) £m**	3 months ending 31 March 2018 (restated) £m
Operating profit		**43.9**	32.4
Current value movements on owned portfolios	8	**40.9**	41.7
Depreciation on property, plant, equipment and leases & amortisation of intangible assets		**4.1**	3.9
Non-recurring costs	4	**0.3**	2.3
Book value of assets sold		**1.1**	-
Recurring share based payment		**(0.2)**	-
Adjusted EBITDA		**90.1**	80.3

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

Definitions

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

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

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

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

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

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

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